Perceptions of Corporate Annual Reports' Users toward Accounting Information and Voluntary Disclosure and its Determinants: The Case of Kuwait

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ABSTRACT

This study investigates four significant dimensions of the corporate annual reports (CARs) environment in one of the emerging markets in the Middle East, Kuwait: [1] the perceptions of major external users of annual reports regarding current voluntary disclosure practices, [2] the identification of voluntary items perceived as useful, [3] the assessment of voluntary disclosure levels and their evolvement over the period covered by the current study (2005-2008), [4] the impact of a comprehensive set of company characteristics and corporate governance attributes on explaining variations in the extent of disclosure. A questionnaire survey is used to test the first two dimensions, covering four user groups, while hand-collected data from a sample of 206 annual reports of non-financial companies and other complementary sources are used to test the other two. The study employs a theoretical framework (agency, signalling, legitimacy, and stakeholder theories) to explore the motivations of companies to release voluntary information.

The 143 received responses are analysed using Kruskal-Wallis and Mann-Whitney tests. The analysis brings to light the remarkable agreement among the participants on the importance of CARs, interim reports, and advice from specialists as sources of information for making judgments. Regarding the level of voluntary disclosure, respondents strongly agree that the annual reports of listed companies provide inadequate information to users. Participants also indicate their desire for more information to be required than companies currently provide, to improve decision making and the usefulness of CARs. The results suggest that most users believe that there is a necessity to develop sophisticated capital market infrastructure and comprehensive regulations to help foster confidence in the capital market and protect market participants.

Although multivariate analysis reveals that the actual level of voluntary disclosure is low, the overall level is gradually improving over time. The extent of voluntary disclosure tends to be significantly higher as the percentage of government ownership increases. Disclosure practices are also positively influenced by cross-listing and company size. Conversely, voluntary disclosure practices are negatively influenced by cross-directorships, board size, role duality, and company growth, while family members, ruling family on the board, and audit committees have no bearing on disclosure. Interestingly, the determinants of disclosure vary among the categories of information. No single explanatory variable explains the variation in the overall level of voluntary disclosure and the variations in the disclosure level of all categories of information.

Perceptions of Corporate Annual Reports' Users toward Accounting Information and Voluntary Disclosure and its Determinants: The Case of Kuwait

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LIST OF ABBREVIATIONS

Name of Item	Symbol
The Hawkamah Institute	HI
The Institute of International Finance	IIF
Corporate governance	CG
Company characteristics	CC
The Ministry of Commerce and Industry	MCI
The Central Bank of Kuwait	CBK
Kuwait Stock Exchange	KSE
Corporate annual report/s	CAR/s
Commercial Company Law	CCL
Voluntary disclosure	VD
The voluntary disclosure index	VDIND
Middle East and North Africa	MENA

DECLARATION

I hereby declare that the content of this thesis has been composed based on my own research and it has not been previously submitted for a degree in this or any other university.

STATEMENT OF COPYRIGHT

Abdullah Al Mutawaa

17/04/2013

Signed........................

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DEDICATION

To the soul of my brother (may Allah be merciful upon him) Al Shaheed Jassim AlMutawaa, my parents, my brother and sisters, my wife, my son Jassim and my daughter Noor:

Thank you for your support, encouragement and generous prayers for my success.

CHAPTER ONE: INTRODUCTION

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INTRODUCTION

1.1 BACKGROUND

The capital market plays a key role in a country's economy. Successful economic performance is linked to the stability and efficiency of a country's capital market. Moreover, a number of international bodies consider the capital market as one of the major indicators of the performance of a country's economy.

One source of conflict between outside parties and company managers arises from differences in their self-interest, since each party attempts to maximise its own interest in the company in question. Thus, it is reasonable to expect information asymmetry between these parties (Healy and Palepu, 1993). In addition, it can be assumed that company managers tend to partially release private information, which they own, concerning their companies (Lev and Penman, 1990; Samuels, 1990).

Corporate information is considered essential for market participants to make informed decisions; this information could be obtained through several sources such as corporate annual reports (CARs). As a result of globalization and rapid progress in information technology, users of information have the opportunity to choose from a number of available information sources. In the case of developed countries, there is a wide range of alternative sources such as information agencies that work to enhance the quantity and quality of corporate information provided to users. However, the sources of corporate information are relatively limited and insufficient in Kuwait, as is the case in most developing countries. The role of financial reports could be enhanced, therefore, as a more dominant source of information for external users in developing countries as compared with developed countries (Al-Yaqout, 2006). Additionally, companies use a number of channels or sources of information to communicate with their stakeholders such as media devices, annual reports, and interviews. However, the disclosure literature provides evidence that CARs are considered the most important source of information in economically advanced countries (e.g. Chang and Most, 1981) and less economically developed ones (Mirshekary and Saudagaran, 2005).

The regulators of capital markets should set out comprehensive regulations to organise the process of obtaining information on a timely basis as well to ensure users have equal access to information. This may provide appropriate protection for market participants and enhance the level of confidence in the capital market. In this regard, Claessens et al.

(1993) stated that investors may be discouraged from investing their savings in emerging capital markets, as users of information in those countries do not have equal access to corporate information and these market inefficiencies may increase insider information. Another barrier to investment of capital in emerging markets is information disclosure. Salter (1998) reported that the average level of financial information disclosed by companies in emerging capital markets is considered to be relatively low compared to other companies listed on developed markets. Thus, if emerging markets, such as Kuwait, intend to attract new investors, the foregoing factors need to be considered by market regulators (Al-Qenae, 2000).

Turning to corporate governance (CG), this concept has received a great deal of interest from regulator bodies in developed and developing nations equally, especially following corporate accounting scandals in the US (e.g. Enron, and WorldCom). One of main reasons for these corporate collapses was the failure in corporate governance practices by those companies (Salacuse, 2002). On the international level, some bodies (e.g. the Organization for Economic Co-operation and Development (OECD) and the International Institute of Finance (IIF)) have undertaken to establish and develop principles of CG best practice to match changing economy systems worldwide. These organizations work hard to contribute to stability in nations' economies and to an appropriate level of protection for investors, especially minority shareholders, through improving countries' legal frameworks and CG regimes (OECD 1999, 2004; IIF, 2002).

On the national level, a number of countries have set out laws and implemented modern mechanisms concerning codes of CG to guarantee an appropriate level of confidence in their capital markets among participants. These improved systems help provide an acceptable level of information transparency for stakeholders, assisting shareholders to make sound decisions. That is, however, not the case in many developing countries, where some elements exist that slow the improvement of CG practices. For example, in countries with a high level of company ownership concentration, company laws that aim at protecting the other shareholders are not applied; a considerable number of companies are controlled by the major shareholder and a relationship-based system that prevents the application of law when mismanagement is detected. This is the case in Kuwait (Al-Wasmi, 2011).

In the Gulf Co-operation Council (GCC) context, the regulators in these countries realized the importance of the CG concept and its mechanisms in achieving proper protection for shareholders and other stakeholders. For this reason they have introduced modern regulations such as a code of best practice on corporate governance, but Kuwait still has no such code (Koldertsova 2010; Saidi, 2011; Al-Wasmi, 2011). It is argued that there has been considerable progress in Kuwaiti commercial attitudes toward corporate disclosure over the last decade. However, there has been little comparable parallel development in, and attention to, broader CG issues in Kuwait (Alanezi, 2006).

The current study of corporate annual reports of listed companies in Kuwait falls into four broad areas. The first dimension is to explore the views amongst members of the Kuwaiti accounting community concerning current disclosure practices. The second is to explore the views and perceptions of target groups toward the usefulness of information proposed by the study in improving the quality of voluntary disclosure in corporate annual reports (CARs) of companies listed on the Kuwait Stock Exchange (KSE). The third is to address voluntary disclosure practices and their evolution in an emerging market, namely Kuwait over the study period, while the fourth dimension is to determine the causes of the variations in the extent of disclosure among the sample.

1.1.1 A Brief Background of Kuwait

Kuwait is an oil-rich country with an emerging capital market; it is an important oil supplier to Western world economies. Over the past few decades, instead of depending on a single income source, the Kuwaiti government has recognised the importance of diversifying and taken remarkable steps to prevent the adverse impact of volatile oil prices on the country’s economy. The government’s strategy toward diversifying its income sources took different dimensions. The first − the establishment of the Sovereign Wealth Fund in 1953 − makes Kuwait one of the leading, most experienced countries in this field with the fund’s assets estimated at $296 billion (The Sovereign Wealth Fund Institute, 2012). In the 1990s, the Kuwaiti government added another dimension to reducing governmental expenditure and to expanding investments and the contribution of individuals and the private sector, through the adoption of liberalisation and privatisation programmes. The removal of restrictions also gave strategic investors an opportunity to enter the market. To this end, it enacted several laws (see Chapter 4, Section 4.5.1.5). As a part of its strategy to diversify income sources and for economic growth, the government allows foreign investors to own and trade shares of companies listed on the KSE.

These efforts led to an increase in the number of companies listed on the KSE and in the quantity of shares traded. Among other Arab capital markets, the KSE, which, having been established in 1962, is the oldest capital market in the Gulf region, stands second, in terms of the number of listed companies and of the quantity of shares traded, after the markets of Oman and Saudi Arabia, respectively (KSE annual report, 2011). Currently, there are 225 companies listed on the KSE (KSE's website, 2012). Consequently, these developments in the market show a need for more detailed and accurate company information. This will positively assist in reducing the amount of information asymmetry and in ensuring the KSE becomes more open and transparent. Naser et al. (2003) declared that company information plays an important role in formulating decisions about companies on the KSE.

1.2 THE OBJECTIVES OF THE STUDY

The current study focuses on stakeholders' perception toward accounting information and voluntary disclosure in CARs of non-financial companies listed on the KSE, as an example of an emerging capital market over the period from 2005 to 2008. The objectives underlying this study are:

- To discover the major corporate information sources for user groups in Kuwait. To determine how annual reports stood among these sources, and to determine how user groups rate annual reports' sections.
- To investigate the extent to which information included in annual reports possesses qualitative criteria.
- To determine how different user groups evaluate the current level of corporate voluntary disclosure in Kuwait.
- To elicit users' perceptions on the usefulness of voluntary information disclosure, such as its vital role in making a comparison with other companies and making investment decisions.
- To determine the usefulness of a set of proposed information items to be disclosed.
- To draw a conclusion about the factors that may affect the degree of information transparency provided by Kuwaiti listed companies.
- To elicit users' perception of the importance of separation of 'overseeing' aspects from 'surveillance' and 'share trading' aspects amongst regulatory bodies.
- To measure the level of satisfaction of major user groups regarding the usefulness of a number of procedures that should be set out by the Kuwaiti government.

- To measure the level of consensus among major user groups about the degree of difficulty associated with the application of some issues related to corporate governance in the Kuwaiti business environment.
- To track changes in the level and categories of voluntary information disclosure during the study periods.
- To explore how the overall level of voluntary disclosure depends on the categories of information.
- To examine the hypothesized influence of company and corporate governance variables in explaining the variations in the extent of voluntary disclosure in the annual reports of non-financial companies.

1.3 RESEARCH QUESTIONS

To reach the objectives of the study, the following research questions have been formulated:

1. What is the attitude of user groups towards the importance, to their informed economic decisions, of CARs as a source of information and their sections?
2. What are the perceptions of the different user groups regarding the qualitative characteristics of information in the Kuwaiti CARs?
3. How do different user groups evaluate the current level of voluntary disclosure in Kuwaiti CARs?
4. What are the perceptions of different user groups toward the usefulness of voluntary disclosure?
5. How do different user groups rate the voluntary information items, and which of these items are preferred or recommended to be disclosed in the Kuwaiti CARs?
6. What are the most important factors that may affect the degree of transparency of information provided by Kuwaiti listed companies?
7. What are the perceptions of the various user groups in Kuwait regarding the importance of reducing overlap in the supervision and monitoring activities among regulatory bodies?
8. What type of regulations or procedures should be set or modified by the Kuwaiti legislator to foster levels of competition and investment in the KSE?
9. What types of issues related to corporate governance best practice are considered to be highly difficult to apply in the Kuwaiti business environment?
10. How does the overall level of voluntary disclosure in the annual reports of Kuwaiti companies change during the study period?

11. How do the four groups of information in the level of voluntary disclosure trend for Kuwaiti companies in the years 2005-2008?

12. How do the levels of voluntary disclosure for the four groups of information correlate with the overall level of voluntary disclosure in the annual reports of listed companies?

13. To what extent do corporate characteristics and corporate governance mechanisms contribute to explaining the variations in the overall level of voluntary disclosure in the annual reports?

The first nine research questions will be examined using ten hypotheses (Chapter 5-6). The next four research questions are the theme of discussions in Chapter 7 and will be examined by the remaining fifteen hypotheses.

1.4 THE IMPORTANCE OF THE STUDY

This study attempts to advance understanding of the types of information necessary to be disclosed in the CAR in the view of user groups and to enhance knowledge of the voluntary disclosure practices of emerging capital markets such as Kuwait in the following areas:

Firstly, the current study contributes to the research avenue (the disclosure literature and the corporate governance literature) by introducing up-to-date and additional evidence of the association that exists between voluntary disclosure behaviour and corporate governance within the context of Kuwait as a Middle Eastern country.

Most disclosure research has been conducted in the context of Western countries, namely: the USA, the UK, European countries, and Australia. Only a few studies have been conducted in developing countries, especially in Middle Eastern countries. Thus, it can be argued that there is little known about the perceptions and views of user groups concerning their information need as well as the level of voluntary disclosure and the factors (company characteristics and corporate governance attributes) influencing this phenomenon in this part of the world. To the best of my knowledge, this study is the first conducted in the Kuwaiti context to examine the influence of company characteristics (CC) and CG mechanisms on the disclosure practices for companies listed on the KSE. In addition, the present study provides further evidence of the relationship between these variables in a different environment such as Kuwait.

It must be noted that only two empirical studies were undertaken regarding the perception of user groups, in this respect, by Naser et al. (2003) and Al-Mutairi (2004). The current study goes further than these studies, and Section 3.10 provides justification for the first part of this study. With regard to the second part, two works on corporate governance in Kuwait have been conducted by Al-Shammari and Al-Sultan (2010) and Alanezi (2011). However, the current study goes beyond these studies, not only by employing a more comprehensive set of variables, but by employing a new relevant variable (e.g. cross-listing) which is also rarely used in disclosure studies conducted in the Middle East. This study is also distinguished by employing a new variable, "the presence of ruling family members on the board", and by utilizing panel data something rarely used in studies conducted in the Middle East and which will be discussed later.

Secondly, this study contributes to the arguments concerning the role of corporate governance mechanisms in improving the level of disclosure and information transparency. For example, it investigates whether or not the presence of family members on the board influences the extent of disclosure in Kuwaiti annual reports.

Thirdly, the study realizes the lack of use of a limited theoretical framework by employing a comprehensive one which can better explain disclosure practices and widen and deepen the scope of analysis as well. Thus, research hypotheses are mainly related to agency, signalling, legitimacy, stakeholders, and political costs theories.

Fourthly, the present study responds to those previous studies that call for more research to examine factors contributing to the change in corporate voluntary disclosure over time (e.g. Huafang and Jianguo, 2007; Samaha, 2010). The study uses panel data analysis since it is infrequently used in the disclosure literature (Hassan et al., 2006). In this respect, Cheung et al. (2010:261) stated that *"...the use of a fixed effects regression model for panel data minimizes the endogeneity problem found in cross sectional studies based on a single year's data".* Moreover, *"Panel data give more informative data, more variability, less collinearity among variables, more degree of freedom and more efficiency"* (Gujarati, 2003:637). Consequently, this type of study gives more opportunity to track the trends and improvements in disclosure practices over time.

Fifthly, the study expands the methods of previous studies (e.g. Meek et al., 1995; Haniffa and Cooke, 2002), which are broadly used in the literature, by investigating wider groups. This helps to provide a rich description of disclosure practices and their variation over the study period, so this analysis is more appropriate with longitudinal studies. It also contributes to the identification of strengths and weaknesses in corporate disclosure.

Lastly, it has been argued that corporate governance practices in Kuwait do not reach international and regional guidelines on good practices in this area. It can also be stated that the concept of CG and its importance is not widely known in Kuwait. This may be due to the fact that the challenges Kuwait faces in embracing corporate governance are multifaceted; these include human resource problems, social objections and the lack of a proper legal infrastructure (Al-Wasmi, 2011). Consequently, this study has several implications. Firstly, the study benchmarks the disclosure practices of listed companies in Kuwait in opposition to the international corporate governance regime. This has significant implications for regulatory bodies seeking to attract local and international funds and for shareholders seeking to improve their protection, enhancing participants' confidence in the capital market. This also helps to achieve the Kuwaiti government's desire for the KSE to be an international financial centre among emerging capital markets. The outcomes are useful for policy makers in setting out the disclosure requirements related to listed companies. Lastly, the findings are valuable for preparers of CARs in drawing up their public disclosure strategy.

1.5 RESEARCH DESIGN

Studies are classified as either exploratory in nature or descriptive, or they may be carried out to test research hypotheses. Thus, it can be stated that the nature of a study depends on the stage to which knowledge about the research topic has advanced. Hypotheses-testing studies are undertaken to explain the nature of certain associations or to establish the differences among groups (Sekaran, 2003), such as the current study. Moreover, the deductive approach followed in this research requires the development of hypotheses and expectations upon a theory.

One of the main objectives in this study is to gain an insight into respondents' perceptions of the usefulness of a set of information to be disclosed in corporate annual reports (CARs), in order to improve the quality of voluntary disclosure in Kuwait. To this end, a questionnaire survey, a quantitative approach, was employed in this part of the study. The other main objective is to examine the relationship between a set of explanatory variables and the extent of voluntary disclosure. This objective can be reached through the formulation of a set of testable hypotheses which were statistically tested by using secondary data. It is noteworthy that the process of selecting variables was based on either the theoretical considerations (e.g. agency theory and signalling theory; cf. Chapter 2) or as a result of potential causal associations to disclosure practices.

The current study is considered to be a single country study, which aims to evaluate the voluntary disclosure practices in the annual reports of Kuwaiti non-financial companies listed on the Kuwait Stock Exchange (KSE). Furthermore, it is a longitudinal study, since it evaluates the voluntary disclosure phenomenon over a period of four years (2005-2008), the most recent period when the study was conducted. The rationale behind this selection will be discussed in depth in Chapter 5. Following a longitudinal design, it is a combination of cross-sectional and time-series analyses employed as a good measurement to test the changes occurring over four years.

In that sense, Bryman and Bell (2007:60) stated that "*longitudinal design can allow some insight into the time order of variables and therefore may be more able to allow causal inferences to be made"*. For example, it allows companies' annual reports to be examined and a decision to be made as to whether or not the overall levels and types of voluntary disclosure differ over years.

The outcomes of this study will hopefully aid policy makers in attracting more investment to the capital market, and this may be achieved through improving information transparency and disclosure level in annual reports.

Beyond that, if the results of this study indicate that the level of voluntary disclosure is low, this may imply the need for more financial reporting and disclosure requirements. For instance, the research would produce a detailed picture about the items voluntarily disclosed in corporate annual reports, which in turn could improve the mandatory reporting requirements (Dye, 1986). On the international level, this type of analysis is desirable and useful to all bodies that are interested in corporate annual reports in emerging capital markets and the levels of disclosure in those reports.

1.6 THE RESEARCH METHODS

This section outlines the main methods employed in the current study to achieve the objectives of research identified earlier in this chapter. In general, the study employed more than one quantitative method. Firstly, a self-administered questionnaire was constructed to collect the primary data for the study. This was distributed to users of corporate annual reports (CARs) in Kuwait to elicit their perceptions and views regarding the crucial topics related to CARs, accounting reporting practices, and regulations in Kuwait. In other words, the data was employed to achieve the first nine objectives (see Section 1.2). Selected to participate in the questionnaire survey were four user groups, representing the key users of annual reports and accounting information in Kuwait, as follows: financial advisors (FA), external auditors (EA), market regulators (MR), and accounting academics (AC). Most participants are professionally qualified and sufficiently well educated to properly answer the issues addressed by the questionnaire.

Secondly, an un-weighted disclosure index was used as a research instrument to evaluate the voluntary disclosure level for non-financial companies, which represent the research population in the present study. More specifically, this was employed to realize the last three objectives of the research (see Section 1.2). To achieve that, secondary data was collected from the annual reports of 52 companies, which consisted of the final sample with 206 company-year observations, listed on the KSE over the period of four years.

1.7 STRUCTURE OF THE THESIS

Following the introduction, the thesis is divided into seven chapters. Chapter 2 addresses four theories that can be used to explain the voluntary disclosure practices: agency theory, signalling theory, legitimacy theory, and stakeholder theory.

Chapter 3 reviews the academic literature about the perceptions of various user groups regarding the usefulness of corporate annual reports (CARs). The review also includes those related empirical studies that examined the information needs of different user groups of CARs in different parts of the world. Having reviewed the perception of users of annual reports, the chapter then moves on to discuss empirical studies focused on voluntary disclosure that were conducted in developed and developing countries. The review of voluntary disclosure literature takes two main streams: firstly, studies that employ company characteristics, some of which are suggested by the theories (e.g. agency and signalling theories), to explain the variation in the extent of voluntary disclosure. The second stream concerns 'company characteristics and corporate governance attributes' and their effect on disclosure practices.

Chapter 4 provides a brief history of Kuwait and its economic environment as well as a detailed review of the Kuwait Stock Exchange (KSE). It highlights the impact of the legal system and auditing profession on disclosure and CG practices. Then a brief description of the emergence of the Capital Markets Authority (CMA) is provided. The status of CG in Kuwait is discussed in detail, and the chapter closes with a detailed comparison of Kuwait's CG practices and international CG guidelines, such as those produced by the Institute of International Finance (IIF), with GCC countries and other developed countries.

Chapter 5 discusses the different methods for gathering data in researches and their advantages and disadvantages. It also presents the research method used to collect the data, which is a questionnaire survey, and the rationale for choosing it. Moreover, it introduces the design of the questionnaire and the research hypotheses, and defines the user groups who participated in the survey. The part concerning the first empirical study ends with a discussion of the statistical techniques employed in the analysis of questionnaire data. The chapter then introduces and describes the methodology employed in the second part of this study to achieve its objectives regarding 'assessing the voluntary disclosure and determining the variables contributing to the explanation of the variations in the voluntary disclosure'. This includes the necessary steps employed in the construction of the data collection instrument, namely a 'voluntary disclosure checklist'. The chapter identifies the research hypotheses and addresses the motivations for each, as well as the definitions and measurements of the independent variables. A discussion of the statistical approaches employed to conduct the empirical work related to the second empirical study closes the chapter.

Chapter 6 reports the results and analysis of the questionnaire survey and draws a comparison with other previous studies conducted in this research area.

Chapter 7 evaluates the extent of the voluntary disclosure made in the corporate annual reports. It deals with the analysis of voluntary disclosure at three levels: firstly, at overall level of disclosure, then at item-by-item level of disclosure, and finally at group-of-information level of disclosure. In addition, it examines the associations between the overall voluntary disclosure index and several explanatory variables as well as associations between categories of disclosure information and the explanatory variables. The chapter tests the hypotheses developed in Chapter 5.

The final chapter presents a summary of the main conclusions of the study. It suggests a number of realistic recommendations for regulatory bodies and parties interested in the status of corporate annual reporting of listed companies and disclosure practices. In addition, it presents the limitations of the study and suggests future research.

CHAPTER TWO: THEORETICAL FRAMEWORK TO VOLUNTARY DISCLOSURE

CHAPTER TWO

THEORETICAL FRAMEWORK TO VOLUNTARY DISCLOSURE

2.1 INTRODUCTION

Theory is considered the framework of accounting research. Remarkably, the empirical accounting literature employs different theories as a guide to understanding companies' disclosure practices. Although many studies in this field have been conducted in both developed and developing countries to assess the level of disclosure and to identify the determinants of disclosure practices, as yet there is no comprehensive or common theory of disclosure, but merely a suggestion that more work needs to be done on this issue (e.g. Hopwood, 2000; Healy and Palepu, 2001; Verrecchia, 2001).

This chapter aims to provide a review of those main theories which attempt to explore and explain the incentives that motivate companies to voluntarily release more information. These theories are: agency theory, signalling theory, political economic theory, legitimacy theory, and stakeholder theory. Following a definition of disclosure and its motivations, subsequent sections attempt to explain companies' disclosure behaviour within the perspective of each theory and to provide an overview of each theory. This assists the formation of the research expectation and hypotheses. Finally, a summary and conclusion are presented.

2.2 CONCEPTS OF COMPANY DISCLOSURE

The concept of company information disclosure has received wide attention over several decades from researchers interested in financial reporting and disclosure issues. There are many views on the importance of disclosure. Some researchers stress its importance for investors, some emphasise its role in helping users to predict the ability of an economic entity to create profits in the long term, while others see it as a way of helping to make an accurate judgement of a company's ability to pay its liabilities (Hendriksen and Van Breda, 1982).

According to Choi (1973), financial reporting disclosure is the process of announcing economic information, quantitative or otherwise, by an enterprise, which helps investors to make investment decisions. Overall, the author concentrates on the link between the degree of disclosure and the level of user uncertainty about the information disclosed, on the one hand, and the outcomes of future economic events, on the other. However, this definition focuses on specific groups of annual report users, such as shareholders and creditors, and ignores the other possible stakeholders who are also interested in company disclosure. For instance, a company's reported profits may be affected by the management's choice of whether to purchase or lease an asset; employees and labour unions would find this information useful in wage negotiations.

Wallace (1987:133) defines disclosure as *"the publication by a profit-seeking enterprise of any information relating to its activities with the hope of influencing the judgments and decisions of the users of such information"*. This definition is more comprehensive than Choi's since it includes more groups of people who are interested in information about a company's operations. Gibbins et al. (1992:5) characterise disclosure as *"the release outside the organization of information concerning the economic performance, position or prospects of the organization, particularly as measured in financial terms"*.

On the other hand, the process of determining what information is to be disclosed by companies in their annual reports depends on many factors. One of these which should be considered by preparers of these reports is the usefulness to users of information for making their decisions. In this regard, Kieso and Weygandt (2010:46) define the full disclosure principle thus:

> *"It recognises that the natural and amount of information included in financial reports reflects a series of judgments trade-offs. These trade-offs strive for (1) sufficient details to disclose matters that make a difference to users, yet (2) sufficient condensation to make the information understandable, keeping in mind costs of preparing and using it. Information about financial position, income, cash flows, and investments can be found in one of three places: (1) within the main body of financial statements, (2) in the notes to those statements, or (3) as supplementary information".*

Thus, there is no generally accepted definition of the concept of company disclosure. The variations could be due to the points of view and judgments of the authors in their own studies.

To sum up, determining the goals of the financial report could improve its effectiveness as an instrument for communicating information to its 'users'. It is evident that the degree of credibility and usefulness for decision making of the information released in a company's reports about its financial position and performance depends on the qualitative characteristics of the accounting information, such as relevance, reliability, comparability, understandability, and consistency. In this respect, proper disclosure means that financial reports should include a full set of financial statements and all the information necessary to fairly represent the financial position of the business entity, its results, and its cash flows. On the other hand, the preparers of financial reports should not include the kind of unnecessary detailed information that can lead to difficulty in understanding or to misleading conclusions among users, and which, in any case, increases the cost of production.

2.3 MOTIVATIONS AND THEORIES OF VOLUNTARY DISCLOSURE

Many disclosure studies conducted in different parts of the world have employed a number of theories (e.g. agency, signalling, stakeholder theories) to help identify and explain the incentives that lead companies to disclose information voluntarily. This study identifies five theories which attempt to explore the motivations for companies to disclose more information than is required by law. These theories must be seen in the context of a capital market where information disclosure can play a crucial role in helping companies to achieve their goals. For instance, disclosure can be used by a high quality company to distinguish itself from lower quality companies or its competitors in the capital market, or to obtain additional funds to finance expansion or special projects. Consequently, voluntary disclosure can be viewed as a communication device, sometimes called “signalling”. It can also be seen as a way to reduce motivational problems that can result from the different interests of a firm’s managers and owners. From a company’s point of view, the voluntary disclosure of information can improve its reputation with investors in the capital market (Gray and Roberts, 1989) and thus increase its value.

Recently, there has been an improvement in the voluntary disclosure of environmental and social issues provided in a CAR. This may partially be attributed to the emergence of interest and pressure groups, such as Amnesty International and Greenpeace, whose role is to draw attention to the incongruity between organizational actions and the values of society (Arnold and Hammond, 1994). Cultural factors, as well as the powerful role of “green political” groups, could also help to explain this improvement in some countries. It has been argued that the increase in public and political statements being made by organizations on environmental and social accounting issues is directly related to more intensive social and political pressures being applied by interest groups (Millstone and Watts, 1992; Neu et al., 1998; Darrell and Schwartz, 1997; Williams, 1999).

Therefore, to improve the quality and quantity of voluntary information included in a CAR, it is important not only to focus on assessing the extent of voluntary disclosure and its trend over the financial years, but also to investigate the factors which affect it. Hence, there are five main theories that have been employed in literature to explain the incentives behind the voluntary disclosure of information by companies; these are discussed in the following sections.

2.3.1 Agency Theory

Agency theory has been employed not only in accounting studies but also in economics, finance, marketing; political science, organizational behaviour, and sociology research (for example see Eisenhardt, 1989). It is also considered one of the most essential theoretical approaches to have been employed in accounting literature during the last 20 years (Lambert, 2001). It attempts to explain the problems that may appear as a result of the separation between the interests of the owners (the principal) and those of the management (the agent). Jensen and Meckling (1976:308) define the agency relationship as:

> *"...a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent".*

Shapiro (2005:266) states that:

> *"Agency relationships are contracts, and the incentives, monitoring devices, bonding, and other forms of social control undertaken to minimize agency costs constitute the elements of the contract".*

Thus, the agency relationship arises because, although the owners or principal of a company, often numerous shareholders, supply its capital, they are unable to run its day-to-day operations and need to employ managers as their agents to do this work. In other words, these two parties are in a contract relationship that involves the shareholders delegating some decisions and thus places authority in the hands of the managers (Jensen and Meckling, 1976).

Obviously, in return, the shareholders need financial and non-financial information to assess the company's performance and the value of their own stake in it. The possible difference of interests between the two parties in this relationship could create the problem of information asymmetry if the managers provide financial information in a way that serves their own interests and not those of the shareholders. As Shapiro (2005:271) says:

> *"The goals of principals and agents may conflict and, because of asymmetries of information, principals cannot be sure that agents are carrying out their will".*

Consequently, there is an assumption in the agency theory that owners and managers exhibit "opportunistic behaviour" to maximize their own wealth. As a result, two kinds of conflict arise: firstly, between shareholders and managers, and secondly, among managers, shareholders and bondholders (Jensen and Meckling, 1976; Watts, 1977).

These conflicts create 'agency costs', which are categorised into three groups as follows:

1. the monitoring expenditures by the principal to control the agent's behaviour;
2. the bonding expenditures by the agent to ensure that s/he will not take actions to harm the principal's interest; and
3. the residual loss which embodies or defines divergence in actions taken by the agent and the principal (Jensen and Meckling, 1976; Watts, 1977).

Regarding the factors that create agency costs, Shapiro (2005:281) states that:

> *"...Agency costs arise from many sources: the costs of recruitment, adverse selection, specifying and discerning preferences, providing incentives, moral hazard, shirking, stealing, self-dealing, corruption, monitoring and policing..."*

Thus, the principal could set up control mechanisms to evaluate and monitor the agent's behaviour and the company's performance and to align managers' benefits with the interests of the principal, but such activities would incur agency costs (Shapiro, 2005). However, the principal has a great incentive to reduce these costs (Morris, 1987). In some cases, where multiple principals and multiple agents exist, this could have the negative effect of increasing the information asymmetries and the difficulties of monitoring. On the other hand, multiple parties could help to align the imbalance of information when information is leaked to selected principals by agents to dominate other agents (Waterman and Meier, 1998).

2.3.1.1 Empirical Tests of Agency Theory

A wide set of accounting literature has used agency theory to explain disclosure practices theoretically. Therefore, many hypotheses have been tested and developed such as company size, ownership diffusion and financial leverage. Empirical evidence in this area suggests that there is the probability of conflicts of interest between owners and managers and that this conflict may be greater in companies with a widespread ownership structure. Consequently, such companies need to reveal more information to the public to achieve the two goals of reducing the agency costs and reducing the information asymmetry (Jensen and Meckling, 1976). Hence, the greater the size of the company, the greater the agency costs and information asymmetry are likely to be. Certainly, agency theory suggests that there is a positive association between disclosure and a set of explanatory variables that includes company size and leverage.

To assess the influence of agency theory, several company characteristics were empirically tested in many disclosure studies in different countries, and these characteristics were found to influence the level of disclosure. Large companies, with highly diffused ownership, seem to have more potential for conflicts between different elements, such as owners or shareholders (compensation contracts), creditors (debt contracts), and agents, and, to solve these conflicts and reduce agency costs and information asymmetries, companies work to disclose more information. DeAngelo (1981) suggests that the larger audit firms may employ the information disclosed by their clients as signalling to prove the quality of their audit services. In addition, selecting the larger audit firms may enable clients to send signals to the market that their annual reports are audited by highly professional firms, which may enhance their reputation. Since companies audited by the Big 4 audit firms are usually larger and face more agency costs, they tend to disclose more information than other companies.

Agency costs connected to equity arise in two cases: firstly, when shareholders believe that managers are not pursuing the shareholders' interest, particularly in not choosing profitable projects, and so the company's share price and value declines; secondly, when extra costs of monitoring and bonding managers are incurred to ensure that they do pursue the shareholders' interest (Morris, 1987).

In order to obtain some economic benefits, as a motivation, companies voluntarily reveal information to the market (Lambert, 2001). However, in some cases, managers as agents have significant motives to withhold adverse information from the public or to artificially boost the company's reported results to maximize their own short-term interests (Vlachos, 2001; Ghazali, 2004). Conversely, managers could have strong incentives to release more information to distinguish themselves from more poorly managed companies (Demski, 1974). Therefore disclosure plays an important role as a mechanism to control managers' performance (Oliveira et al., 2005).

2.3.2 Signalling Theory

The signalling model theory was developed in economics studies (Akerlof, 1970; Spence, 1973, 1976a, 1976b; Riley, 1975) to deal with imperfect knowledge among potential buyers about the quality of products or services and the influence of this on market performance. In the case of information asymmetry, signalling theory proposes that companies with superior company performance employ information specifically related to their financial positions to give a signal to the market (Spence, 1973; Ross, 1977). Information asymmetry links with two perspectives (Spence, 1976b). The first relates to cases where high quality sellers withdraw their products from a market because they cannot distinguish them from lower quality products, and thus their products have to be priced at a lower level. The second perspective relates to efforts by sellers to notify the market about the quality of their products to change the initial asymmetric information structure of the market. These sellers are motivated to employ more resources and effort to notify buyers about the superiority of their products. In other words, company managers could have great incentives to voluntarily divulge private information in order to provide a signal about the high quality of their company performance and their products, thus helping to reduce the problem of asymmetric information.

Referring to this communication process as “signalling”, Spence (1973) employs this theory to clarify the behaviour of labour markets and the role of voluntary disclosure. He gives a famous example of how signalling theory is employed in the labour market when the productivity of persons applying for jobs is unknown by the employer. In some cases, after employing an individual, the employer gains improved knowledge about his or her productive abilities, and this may help to revise the employer’s expectations. The author argues that employers tend to utilise education as a signal of potential productivity and base their pay structure on this. Hence, workers sometimes attempt to obtain a higher level of education as a signal to potential employers that they should be paid more. In short, employers’ signals about pay lead individuals to obtain a higher level of education.

Signalling theory deals with problems that could occur as a result of the existence of information asymmetry in the market. In other words, signalling is considered a reaction to the information asymmetry which arises because companies have information that their stakeholder groups, such as investors, do not have. These asymmetries can be reduced when the party that holds the information signals it to the other interested parties. A number of studies have employed this approach to illustrate the disclosure policies and practices followed by companies, as represented by their managers.

2.3.2.1 Empirical Tests of Signalling Theory

Bhattacharya and Ritter (1983) developed a signalling approach to examine a set of companies seeking to attract external capital to finance their research and development activities. Signalling the necessary technological information to the capital markets inevitably also discloses it to their competitors, who might benefit from it. Consequently, such companies face a trade-off between raising finance at better terms and reducing the value of their information advantage.

Several empirical studies explore managers' motivations to exercise discretion in the disclosure of information (e.g., Verrecchia, 1983, 1990). Verrecchia (1983) reveals that managers' decisions to release or withhold such signals depend upon the impact that the release of the information is likely to have on the price of the asset. He concludes that there is a threshold level for disclosure: managers are motivated to withhold information if reported performance is below traders' expectations, and to release information if results are better than expected. So, managers exercise discretion by choosing the threshold, and the level of disclosure depends on its impact on the proprietary cost. Managers decide to withhold certain information when the cost of disclosure is higher than that of withholding it.

In another study, Verrecchia (1990) examines how the quality of information influences the threshold level of disclosure. He concludes that there is a negative association between information quality and the threshold level of disclosure. Thus, the higher the quality of the information, the lower the threshold level of disclosure is likely to be and the greater the probability of disclosure.

This result explains the association between the level of disclosure and proprietary cost. Managers do not exercise discretion in the disclosure of voluntary information when a proprietary cost does not exist. Moreover, companies in less competitive industries might not incur any costs in disclosing information to the public.

Farrell and Gibbons (1989) argue that a company's communication can be influenced by the presence of two kinds of audiences: the capital market and a rival company. When a company's priority is its relationship with the stock market rather than potential new entrants to its market, it communicates truthfully even if a rival company gets some benefits from such a disclosure. On the contrary, when a company focuses its attention on preventing potential rivals entering its market, it adopts “cheap talk”, and credible communications and disclosures are impossible.

Newman and Sansing (1993), similarly, investigate the use of signalling and disclosure policies and decisions with three different parties: the incumbent (existing market player), the stockholders, and a new entrant (potential competitor). Based on the hypothesis that the existing market player works to maximize the wealth of its shareholders, the authors argue that disclosure works as a good instrument to help stakeholders to make informed decisions regarding investments. However, if the company’s main purpose is to deter market entry, then disclosures are likely to be inexact or noisy. They suggest that if this analysis is expanded to involve more kinds of users, such as government or lobby groups, then a company’s communication problems are even more complicated.

Watson et al. (2002) investigated whether the voluntary disclosure of ratios in CARs could be explained by agency theory. The same study also tested the ability of signalling theory to explain the same phenomena. Drawing on both agency and signalling theories, they conclude that there is limited evidence to support the view that either signalling theory or agency theory perspectives can explain the voluntary disclosure of ratios. It could be that disclosure decisions are based on personal considerations and so can never be fully explained by company characteristics.

As discussed above, voluntary disclosures can be used by managers of a higher quality company to differentiate it from average or lower quality companies. However, of crucial importance here is that if managers want to signal quality successfully, the signals must be reliable. Reliability is achieved if the signal quality is subsequently confirmed; the opposite is true if managers send misleading signals and, when this is discovered, subsequent disclosures will be perceived as unreliable (Watson et al., 2002).

A brief look at signalling theory may conclude that it does not explain disclosure of ratios because this information is generally available in other sources; hence, it can be deemed “old information” and as not providing extra information. On the contrary, the disclosure of ratios could indicate best disclosure practice by the company compared to rival companies, and such disclosure should be considered as a good signal about the quality of CAR. Specifically, signalling theory supports the disclosure of particular types of ratio, such as those related to investment, profitability and efficiency, all of which shed some light on a company's performance (Watson et al., 2002).

2.3.3. Political Economy Theory

One theory widely employed in accounting literature, specifically in studies on disclosure, is the political economy theory, which is defined as an attempt to understand and assess accounting functions within the economic, political, and social structures of the society in which they operate (Cooper and Sherer, 1984). Gray et al. (1996:47) describe it as *"the social, political, and economic framework within which human life takes place"*.

Political economy theory can be categorised into two broad branches: the classical and the bourgeois. Classical political economic theory concentrates on the sectional interests and structural conflicts in society. As Deegan and Unerman (2006:270) state:

> *"Classical political economic theory tends to perceive accounting reports and disclosures as a means of maintaining the favoured position (for example the wealth and power) of those who control scarce resources (capital), and as a means of undermining the position of those without scarce capital".*

Therefore, according to this approach, accounting studies should consider conflict and power within society; moreover, they should concentrate on the impacts of financial reports on the distribution of income and dimensions of wealth and power in society (Cooper and Sherer, 1984). On the other hand, Cooke and Wallace (1990) argue that the financial reports published in any country are influenced by the surrounding environment.

The second branch emphasises the interaction of parties within a pluralistic world (Gray et al., 1996). Within this perspective, there are a number of stakeholder groups in society who have the power to influence different decisions by companies and government. In this regard, Lowe and Tinker (1977) argued that power is widely diffused and that society is composed of individuals who all make their own social choices, but no individual is able to consistently influence the society or the accounting functions performed therein.

Based on the bourgeois political economy theory, Williams (1999) argues that companies voluntarily disclose environmental and social information about their operations to protect their interests from the pressures of the social, political, and economic systems in which they operate. These disclosures also focus on the needs of the community and the expectations of government bodies. Consequently, he concludes that the significant variation in the level and type of voluntary environmental and social disclosures in different countries is a result of their different social-political and economic systems. Guthrie and Parker (1990:171-172) had previously come to the same conclusion, stating that environmental and social accounting disclosures:

> *"...appeared to reflect public social priorities, respond to government pressure, accommodate environmental pressures and sectional interests and protect corporate prerogatives and projected corporate images".*

While institutional theory can be applicable within either the classical or the bourgeois theoretical frameworks, it is noteworthy that both the legitimacy and stakeholder theories stem from the bourgeois concepts of political economy, which, according to Gray et al. (1996), is because it is wider and deeper than the classical theory.

Bourgeois political economy theory can be divided into three theories: namely, legitimacy theory, stakeholder theory, and institutional theory. Based on these theories, disclosure policies can be considered as a strategy by companies to help to manage their relationships with other entities, such as government, professional bodies, the public, and other institutions. In recent studies, legitimacy theory and stakeholder theory are employed as essential instruments to explain why companies voluntarily disclose such items as social and environmental information in their annual reports.

From the perspective of political economy theory, there is a link between social, political, and economic factors. Economic issues cannot be investigated fully without consideration of the social and political environments in which companies operate. Political economy theory does not focus on agent and principal only; other groups within society also have a legitimate interest in a company's activities. Most of the rest of this chapter discusses the perspectives of legitimacy and stakeholder theories.

2.3.3.1 Legitimacy Theory

Legitimacy theory is considered the same as systems theory, which studies the relationships between systems in general. It presumes that organisations are influenced by the society in which they operate and that a company's disclosure practices and policies should reflect the perceptions of external groups that affect and are affected by the company. The link between legitimacy theory and political economic theory is the hypothesis that society, politics, and economics cannot be separated from each other. Moreover, investigating and explaining economic issues must involve considerations of the political, social, and institutional frameworks of the country being studied. The logic behind this theory is that an organisation should operate with respect for the morals, bounds, and norms of the society in which it operates; organisations have an obligation to the wider society based upon a "social contract". As Schotter put it:

> *"Political and economic processes cannot be separated in this context. The New Institutional Economics is therefore closely related to the new political economics (public choice and constitutional economics) and political science proper".*

From the perspective of legitimacy theory, the existence and survival of an organisation as a "going concern" would be threatened if the society perceived that it was breaching its social contract (Milne and Patten, 2002; Guthrie et al., 2004).

Moreover, based on the legitimacy theory perspective, the phenomenon of information disclosure is considered an effective mechanism for companies to ensure their operation and activities appear to match the norms and value systems of their respective societies, thus presenting a vision of their social responsibility in order to obtain social legitimacy (Patten, 2002). Therefore, society would not allow an organisation to continue its operations if it did not meet the expectations and values of society. As Lindblom (1994:2) states, legitimacy is

> *"...a condition or status, which exists when an entity's value system is congruent with the value system of the larger social system of which the entity is a part. When a disparity, actual or potential, exists between the two value systems, there is a threat to the entity's legitimacy".*

Deegan and Unerman (2006) express a similar point of view in arguing that, in a society that values a clean environment, companies with a poor social and environmental performance could face difficulties in financing their operations or in obtaining the resources necessary to secure their existence. Hence, legitimacy theory directly depends on social concepts, and, as morals and norms change over time, organisations must adapt accordingly. Furthermore, it assumes that successful managers are those who react rapidly to changes in society's interests and priorities. The continued existence of an organisation could be conditional upon the public's view of its actions and whether or not they fall within the societal values and expectations (Rizk, 2006). As a result, this perspective explains how organisations work to guarantee their existence by complying with legal and societal frames (Patten, 1991; Mathews, 1993; Reich, 1998; Deegan, 2002). In other words, the perspective of legitimacy theory is that the public keeps an eye on organisations' activities. Guthrie and Parker (1990:166) encapsulate the essence of legitimacy, as viewed through the political economy perspective, in saying that it

> *"...perceives accounting reports as social, political, and economic documents. They serve as a tool for constructing, sustaining, and legitimizing economic and political arrangements, institutions, and ideological themes, which contribute to the corporation's private interests. Disclosures have the capacity to transmit social, political, and economic meanings for a pluralistic set of report recipients".*

In essence, legitimacy is considered a vital resource which organisations need to survive. When a company's managers consider legitimacy, and hence survival, to be in danger, they follow strategies to effect the provision of information to ensure survival (Deegan, 2002). These strategies are likely to include targeted disclosure to groups considered powerful in conferring legitimacy (Fiedler and Deegan, 2002).

2.3.3.1.1 Empirical Tests of Legitimacy Theory

A number of accounting researchers have invoked legitimacy theory to explain voluntary social accounting disclosure practices and attitudes in different countries (e.g. Patten, 1991; Mathews, 1993; Reich, 1998), while others have looked at environmental and social information provision in different countries (see for example Gray et al., 1995a, 1995b; Hackston and Milne, 1996; Patten, 2002). Since the main perspective of legitimacy theory concerns the link between society's demands and organisational activities, there are many studies investigating the level and types of social and environmental information appearing in CARs. Brown and Deegan (1998) argue that management employs the annual report as an effective tool to legitimise the ongoing actions of the organisation. Many other disclosure studies provide evidence that disclosure patterns reflect the legitimacy approach (e.g. Patten, 1992; Deegan and Gordon, 1996; Deegan et al., 2002; O'Donovan, 2002; Milne and Patten, 2002). However, despite the widespread use of legitimacy theory to explain the variation in social and environmental disclosures, a number of studies conclude that it is not an adequate primary explanation of social reporting practices (Guthrie and Parker, 1989; O'Dwyer, 2002; Deegan, 2002), and they recommend further research on company social disclosure.

Hogner (1982) investigates social disclosures in US steel company annual reports over a period of 80 years and whether they are derived from a company's need to legitimise its activities and operations. He concludes that the extent of social information disclosure variations over the years could be explained by the community's changing expectations of company behaviour. Thus, this study provides empirical evidence supporting legitimacy theory for social responsibility information reporting. Further evidence is provided by Patten (1992) and Patten and Nance (1998), who examine the impacts of the 1989 Alaska Exxon Valdez oil spill on the other petroleum companies regarding environmental responsibility information in their annual reports. They reveal a significant change in the level and amount of environmental disclosure in the annual reports of companies across the petroleum industry after the Alaska disaster. Again, the results of these studies support legitimacy theory.

In the context of corporate environmental responsibility, Deegan and Rankin (1996) assess the environmental disclosure practices in annual reports of Australian companies that have bad news to report in subsequent years and whether the information disclosed relates to their environmental misdemeanours. They argue that, in the absence of disclosure regulations and requirements related to environmental issues, companies either only disclosed environmental information favourable to their company image or chose to disclose environmental information in a "self-laudatory manner". They conclude that there is a positive association between companies prosecuted by the Australian state for environmental lapses and the increasing level of environmental disclosures in their annual reports. In fact, the prosecuted companies disclose more environmental information in the year of prosecution than in other years, and this result is consistent with legitimacy theory's perspective on motivations. Only two of the prosecuted companies in the sample provided information related to their environmental offences in their annual reports.

It has been argued that companies may adopt four strategies to legitimise their operations.

Firstly, they can inform and educate the relevant interested parties about actual changes in the firm's activities. Secondly, they can attempt to change the perceptions of the relevant parties while not changing the organisation's actual behaviour. Thirdly, they can try to manipulate perception by deflecting attention from the real issue of concern to other issues, such as how the company complies with the expectations and values of the community in other dimensions of its operations. Lastly, they can attempt to change the external expectations of the company's activities by arguing that particular societal expectations are not reasonable (Lindblom, 1994). In this sense, Watson et al. (2002) state that the first and third of Lindblom's strategies could be relevant to the disclosure of accounting ratios in two ways. Firstly, the disclosure of ratios could be beneficial in helping to educate and inform report users about the changes in the company's performance, and, secondly, such disclosure might help to deflect attention away from information that is unfavourable to the company.

It is noteworthy that disclosure may play a vital role in Lindblom's strategies, but, in addition to companies voluntarily disclosing information which could have a positive impact on stakeholders and society and thus legitimise company performance and activities, managers may have another incentive: to legitimise their own positions and reputations.

There are, in fact, many possible incentives which may affect managers' decisions concerning the voluntary disclosure of information on corporate environmental policies and social responsibilities, but legitimacy of the organisation's operations is considered a major one. Moreover, the major factor behind legitimising a company's activities is to align them with society's value systems and expectations. Deegan and Unerman (2006) declare that there are four other incentives, found in previous studies: namely, to confirm compliance with laws and regulations; to attract capital resources; to show a company's conviction in its accountability or responsibility to report; and to manage or improve communication with particular stakeholder groups.

According to Dowling and Pfeffer (1975) and Lindblom (1994), the information which is publicly disclosed by organizations in their annual reports could be a result of their implementing all of the above strategies. For instance, organisations may provide information to counteract parallel negative news which is available to the public. On the other hand, their main aim might be to provide interested parties with information of which they have little knowledge or which was formerly unknown. They may also attempt to draw attention to strengths, such as environmental awards won or safety initiatives taken, as well as ignoring or understating negative news about pollution or workplace accidents. Such strategies could help organisations to manage and control news about the direct and indirect societal impacts of their activities or help them to avoid or mitigate penalties. All the above conclusions are consistent with Hurst (1970), who argues that one of the most important functions of accounting, and accounting reports, is to legitimatise the position and actions of entities to guarantee their existence by enhancing public confidence in them.

It is noteworthy that the value system of the society in which the company exists has two side effects: firstly on how a company practises its activities, and secondly on its approach to disclosing information related to its performance. Values can, however, be society-specific, and Adams et al. (1998:2) cite Douglas & Wildavsky (1982), Muller-Rommel (1989) and McCormick (1991) in saying that *"Cultural factors may also help to explain differences in environmental concerns, the strength of green politics and demands for corporations to act in socially responsible ways"*.

Rizk (2006) shows some conservatism in her opinion concerning the applicability of legitimacy theory in investigating the level of social disclosure by companies in developing countries, which tends to be low. This discussion indicates that the perspective of legitimacy alone appears to be insufficient to explain the motivations for voluntary disclosure of items such as corporate social and environmental information.

2.3.3.2 Stakeholder Theory

Freeman (1984:46) defines stakeholders as *"any group or individual who is affected by or can affect the achievement of an organisation's objectives"*. While focusing on the ability of stakeholder groups to influence the company's direction and decisions, Freeman's definition also indicates that stakeholder theory is a more comprehensive approach than agency theory in terms of company relationships, since it concentrates not just on the association between managers and shareholders but also on the company's relationship with all its stakeholder groups, including shareholders, employees, creditors, the community in which it operates, and governmental bodies. Freeman (1984) classifies customers, suppliers and special interest groups as stakeholders, while Crowther and Jatana (2005) define stakeholders as all individuals who have the right to benefit from the business, based on their involvement.

Freeman (1983) suggests that a stakeholder approach requires a company to manage its social responsibilities as well as its planning and business policy. Thus, stakeholder theory includes moral and managerial branches. The moral perspective requires an organisation to deal fairly with all stakeholders and not to violate their rights. Also, the actual power of each stakeholder is not the only consideration; all stakeholders have an essential right to receive information about the company and especially about how its operations and results affect them. From the managerial perspective of stakeholder theory, it is part of the manager's job to provide accurate information about the financial and social activities of the organisation and to manage relationships with the stakeholders in order to gain their support and endorsement, and to mitigate opposition.

Another classification of stakeholders categorises them as primary and secondary stakeholders. Primary stakeholders are defined as those who are necessary to the continuation of the corporation as a going concern, such as employees, shareholders, investors, suppliers, customers, together with what is defined as the public stakeholder group. The latter is made up, according to Clarkson (1995), of the government bodies and communities that provide infrastructures and markets, whose laws and regulations must be obeyed, and to whom taxes and other obligations may be due.

There is a high level of interdependence between the corporation and its primary stakeholders. If any primary stakeholder group, such as customers or suppliers, becomes dissatisfied and withdraws from the corporate relationship, in whole or in part, the corporation will be seriously damaged or unable to continue as a going concern. From this perspective, the corporation can be defined as a complex set of relationships between and among interest groups with different rights, objectives, expectations, and responsibilities. The corporation's survival and continuing success depend upon its ability, represented by its managers, to create sufficient wealth, value or satisfaction for those who belong to each stakeholder group, so that each group continues as a part of the corporation's stakeholder system (Clarkson, 1995).

Secondary stakeholders are defined as those who have an effect on the firm, and who may be affected by it, but who are not involved in the firm's transactions and are not vital for its survival. Under this definition, the media and various groups who have a special interest in organisations, such as lobbyists, are secondary stakeholders. Though a company does not depend on secondary stakeholders' support for its continuance and survival, it could still be damaged by them, so managers cannot ignore such forces.

Within the managerial perspective of stakeholder theory, managers are likely to focus on the expectations of the most powerful stakeholder groups, but they must evaluate the importance of meeting the demands of all stakeholders and "influence groups" to achieve the strategic objectives of the company (Freeman, 1984). An important part of managing relationships with all stakeholders is "public reporting". Moreover, organisations have the incentive to disclose information regarding their programmes and plans to the respective stakeholder groups to show that they meet with those groups' expectations and views. Watson et al. (2002) suggest that voluntary disclosure, in particular, can be used as an instrument by managers to gain the support of stakeholders and enhance their level of confidence in the company. However, different stakeholders have different needs and priorities, and organisations must consider balancing their different expectations (Wolfe and Putler, 2002). In this regard, Rowley (1997:906-907) states that: *"Firms do not respond to each stakeholder individually but instead must answer the simultaneous demands of multiple stakeholders"*.

Mitchell et al. (1999) also point out that organisations, in deciding on their reporting policies, should take other factors into account, such as information costs, degree of competition in the market in which they operate and the power of stakeholders to influence the disclosure practices. Further, Unerman and Bennett (2004) argue that stakeholder expectations could change over time; hence organisations may need to adapt their operating and reporting practices to these circumstances.

Stakeholder theory provides important and valuable insights into company environmental and social reporting including, for instance, issues relating to occupational health and safety, recruitment policies and procedures related to fairness and discrimination, and participation in government national and social campaigns. From a society point of view, the significance of these issues is indicated by relevant legislation and regulations but, in a company's view, their importance lies in relationships with stakeholder groups, such as employees and governmental bodies. In a similar vein, social issues regarding product quality and safety, or creditability and truth in advertising, may be subject to legislation and regulation, but, from a company's perspective, they are mainly stakeholder issues in that they relate to obligations and responsibilities towards customers and governmental bodies.

The ultimate question is: "Are organisations and their managers accountable to all parties in society?" This suggests the necessity of thinking about developing a systematic approach to determining what should and what should not be considered social and environmental issues for a company. Moreover, there are various stakeholder groups in the society in which a company operates, and the information needs of each group is likely to be different, and it is not always easy for a company to assess what information each group requires. At the same time, stakeholder groups have power differentials, and, thus, they could have different effects on the company. Therefore, a wise company might adopt a strategy of disclosing all the information that it can reasonably be expected to divulge, even if some of it is of no particular interest to every stakeholder. In this regard, Gray et al. (1996:45) state that:

> *"Here, the stakeholders are identified by the organisation of concern, by reference to the extent to which the organisation believes the interplay with each group needs to be managed in order to further the interests of the organisation. The interests of the organisation need not be restricted to the conventional profit-seeking assumption. The more important the stakeholder to the organisation, the more effort will be exerted in managing the relationship. Information is a major element that can be employed by the organisation to manage or manipulate the stakeholder in order to gain their support and approval, or to distract their opposition and disapproval".*

Stakeholder theory can be seen as recognising that various groups have legitimate rights in relation to the company (Freeman, 1984; Pearce, 1982). There is an exchange relationship between the company and its stakeholder groups. Every stakeholder group can be viewed as providing essential resources for the company (March and Simon, 1958), but each wants something in return. For example, stockholders supply the company with capital, but they expect the company to work to maximize their investment (Hill and Jones, 1992). Moreover, regardless of its size and power, every stakeholder group has an implicit and/or explicit contractual relationship with the company (Hill and Jones, 1992). The authors construct and develop a paradigm of both the agency and stakeholder theories that they named the stakeholder-agency approach. They argue that the stakeholder theory can be considered as an extension of the agency approach, though it concentrates on the relationship between managers and all stakeholders rather than focusing on the relationship between managers and shareholders only. In this context, managers can be seen as the agents of all stakeholders.

Of course, managers have to evaluate the power and importance of the different stakeholder groups and to judge what information to disclose to gain their approval and support. In fact, managers have the key role as a result of their position in the framework of the contractual relationships, and they are also the only stakeholder group that is involved in the nexus of contracts with every stakeholder. Moreover, they are the only stakeholder to directly control the process of making decisions in the company (Hill and Jones, 1992).

Accordingly, Hill and Jones (1992) argue that:

> *"It is incumbent upon managers to make strategic decisions and allocate resources in the manner most consistent with the claims of the other stakeholder groups".*

From the stakeholder theory point of view, it is necessary for managers to decide on disclosure practices based on an evaluation of the relative importance assigned to each stakeholder group. This kind of evaluation is difficult, and it is also likely to differ for companies of different size and complexity and for different industrial sectors. Hill and Jones (1992:133) state that *"The magnitude of an individual actor's stake is a function of the extent to which that actor's exchange relationship with the firm is supported by investments in specific assets".* The authors define these assets as those that *"cannot be redeployed to alternative use without a loss of value".* They give the example of employees with general-purpose skills and knowledge who, in the company's view, have a low stake because they can leave the company and be replaced with relative ease. In contrast, employees with uniquely tailored skills have a higher stake because their loss to the company would cause substantial exit costs to both company and employee. This supports the argument about complexity, in that companies in different industrial sectors are likely to attach different weights not only to each of their stakeholder groups but also to different segments within each group. Nevertheless, there are some environmental issues, such as pollution, overfishing, and nuclear power, that are important priorities nationally and internationally and that all companies must address, regardless of their particular activities.

2.3.3.2.1 Empirical Tests of Stakeholder Theory

Stakeholder theory has been used to test the capability of stakeholder groups to affect companies' disclosure decisions and practices relating to their environmental and social responsibilities. Roberts (1992) employs the stakeholder framework presented by Ullman (1985) and finds that the association between measures of stakeholder power and their related information needs may provide evidence about the levels and types of social disclosures provided by companies.

In a Canadian study, Neu et al. (1998) reveal that specific stakeholder groups could be more powerful and effective than others in demanding environmental disclosures in CARs and in affecting company disclosure policies. Their results also indicate that when companies face a conflict of interests or expectations among stakeholder groups, they choose to provide information of a legitimising nature to their core stakeholders, since these are important to their survival. They show less care to stakeholder groups that they consider less important.

The essence of the stakeholder theory is that, while managers should evaluate the importance of each group of stakeholders in deciding on their disclosure policies, they should attempt to maximise the benefit for all their stakeholders. This helps the company to achieve its objectives and to prosper, and, in the long term, shareowners get the benefits. However, this theory has some critics.

As an advocate of agency theory, Sternberg (1997) claims that stakeholder theory is incompatible with business since it precludes its main purpose, which is maximising long-term owner value. She also points out that balancing benefits among stakeholders is an unworkable objective, and she asks what should be considered as a benefit. Stakeholder theory, she says, provides no guidance in the selection of the appropriate individuals or groups with which managers have to deal. Turning to corporate governance issues, Sternberg (1997) argues that, if organisations are held accountable to all their stakeholder groups, this encourages company managers to violate their prior obligations to owners. Thus, stakeholder theory undermines the basic principles of private property. Regarding the application of stakeholder theory in the emerging countries, Rizk (2006) suggests that stakeholder theory could be relevant and more applicable to developing countries which have transitional economies and highly regulated industries.

To sum up, although stakeholder theory does not provide instructions about what information should be disclosed, it is a useful framework to help company management consider disclosing information that will help it to continue its operations and to avoid criticism and penalties. However, it does not answer the ultimate questions of who are the most powerful stakeholders, and what type of information they demand.

Based on the above discussion, it is evident that no single theory can fully explain the variation in voluntary disclosure. However, using the perspective of theories could help to explain why companies make disclosures for specific types of information or why companies should reveal information regarding particular events. For instance, agency theory is applicable when there is separation of ownership from control. In other words, companies with broadly held ownership are more likely to release more voluntary information than those with less diffused ownership. The demand for financial reporting is associated with both the presence of asymmetric information problems and agency conflicts between managers and providers of capital (Healy and Palepu, 2001). Therefore, in the current study, agency theory can be employed to explore the effects of government ownership on the disclosure practices. Signalling theory can also be employed, since managers of profitable companies are more likely to be motivated to disclose information voluntarily as signals of the quality of their management, thereby maintaining their positions and their compensations, and increasing their companies' investors.

According to legitimacy theory, society, politics and economic factors are associated and inseparable from one another. Therefore, to ensure their existence, companies should comply with the value system of the society in which they operate. Managers could employ voluntary disclosures as an effective instrument to defer or mitigate legal action in the form of greater regulation against their companies and also to boost the community's confidence in their companies. As mentioned earlier, both legitimacy and stakeholder theories stem from the perspective of political economic theory; therefore they are employed here to explore disclosure behaviour, particularly regarding corporate social responsibility and environmental protection. The next section addresses specific explanatory variables, derived from the preceding theoretical approaches, to explain variations in voluntary disclosure in Kuwaiti annual reports.

2.4 APPLICATION OF THE PRECEDING THEORETICAL APPROACHES TO DISCLOSURE

As previously stated, a large body of academic studies has employed the above-mentioned theoretical approaches to explain voluntary disclosure in the CARs. So, this section sheds light on some specific company characteristics, which represent examples of commonly applied explanatory variables in a number of accounting disclosure studies as well as being employed in the current study. The variables stem from these approaches to explain variation in the level of voluntary disclosure among companies, and help to explore the factors that lead companies to provide more information than required by regulations such as the International Financial Reporting Standards (IFRSs) and/or national disclosure requirements.

2.4.1. Theoretical Approaches Used to Derive Variables that Explain Disclosure Behaviour

1. Company size. There is a general argument that larger firms tend to have a higher amount of outside capital and higher agency costs (Jensen and Meckling, 1976). According to this overview, voluntary corporate disclosure could be

employed, such as of accounting information, to reduce information symmetry. Thus, a positive association between company size and voluntary disclosure is expected.

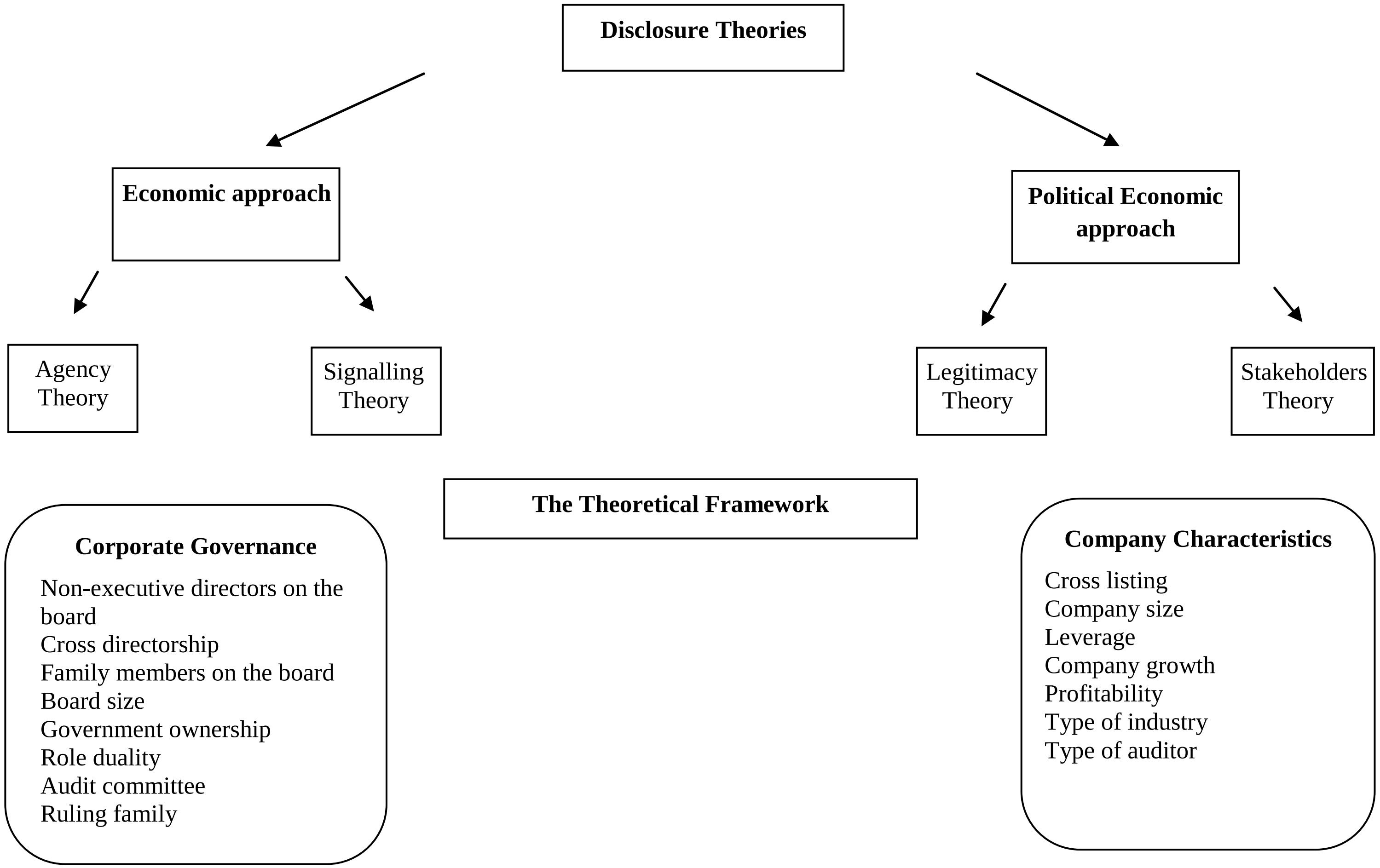
2. Financial leverage. This explanatory variable may be illustrated by agency and signalling theories. Jensen and Meckling (1976) and Smith and Warner (1979) state that agency costs are higher where companies have a higher rate of financial leverage. This could be explained as a result of the potential size of wealth transfers from debt holders to shareholders increasing because of the increase in the percentage of assets financed by debt. Thus, it could be concluded that companies with higher financial leverage have a stronger motivation to make voluntary corporate disclosures to reduce agency costs and the problem of information asymmetry. This suggests a positive association is predicated between voluntary disclosure and financial leverage.
3. Profitability. This is considered an indicator of good management (Cerf, 1961) and good company performance, so it implies a promising opportunity of investment for investors in the capital market. Agency theory suggests that information disclosure is used as an effective mechanism to control managers' performance, and they are likely to reveal more accounting information to maintain their positions and benefits (Oliveira et al., 2005). Also, consistent with signalling theory, managers of highly profitable companies have more incentive to boost the voluntary disclosure of detailed information, more specifically good news, to prevent undervaluation of their companies' share prices (Oliveira et al., 2005). Thus, a positive association between profitability and voluntary disclosure could be expected.
4. Type of industry. This independent variable could be explained by two theoretical approaches (i.e. political costs and signalling theory). There is common agreement that the type of industry, e.g. sensitive industries such as oil and gas etc., to which the company belongs, or in which it operates, has a great impact on the amount of discretionary information that is disclosed by the economic entity (e.g. Patten, 1991, 2002). Thus it can be argued that industries face greater concerns and pressure regarding general public visibility to disclose more information related to corporate environmental and social responsibilities. Therefore disclosure practices are used as a legitimating instrument to reduce or avoid public pressures from the negative effect of actual company performance regarding environmental issues such as pollution. In this context, the current

study employs the legitimacy framework to investigate companies' incentives to disclose social and environmental information. These companies can belong to any industrial sector; an association between type of industry and voluntary disclosure is therefore expected.

After discussion the most common theories which are employed in the disclosure research to explain the disclosure practices by companies, the following diagram presents the theoretical framework used in the present study. As can been seen from diagram (2.1), the disclosure theories, which are discussed previously in this chapter, can be divided into two divisions. While the first division is concerned with economic approach, the second one is referred to political economic approach. The former includes two theories which are termed: agency theory and signalling theory, while the latter involves two theories also and are termed: legitimacy theory and stakeholder theory.

It is noteworthy to mention to what extent these theories can aid our understanding. For example, Fama and Jensen (1983) suggested that the board's composition plays an important mechanism in diffusing the agency conflicts within company. Moreover, it contributes in promoting board effectiveness through providing the important checks and required balance of power on management. Thus, this theoretical framework could be helpful to explore the potential association between a comprehensive set of CC and CG characteristics and voluntary disclosure phenomenon. In addition, it can be argued that companies employ the social and environmental information to legitimise their attitudes and their existence in society and to affect the perception of stakeholder groups. Therefore, the theoretical frameworks of stakeholder and legitimacy theories, as complementary theories, are adopted to explore why companies disclose social and environmental responsibility information.

Diagram 2.1: The Theoretical Framework



2.5 SUMMARY AND CONCLUSION

This chapter reviewed five theories, employed by previous studies to explain the reasons behind companies' voluntary disclosure behaviour. In this regard, Oliveira et al. (2005:3) state that *"There are many reasons why firms provide information beyond that which is mandated by regulation. Some theories try to explain those reasons within a coherent theoretical framework".* However, as also previously addressed in this chapter, there is no single or common theory that completely explains the phenomenon of disclosure (Leventis and Weetman, 2000; Deegan, 2002). In addition, there is a degree of overlap in the attributes of a number of the theories, and some researchers use more than one theory to provide an explanation for particular managerial actions (Fiedler and Deegan, 2002). This view is supported by Gray et al. (1995a:52) who state that:

> *"The essential problem in the literature arises from treating each as competing theories of reporting behaviour, when stakeholder theory and legitimacy theory are better seen as two (overlapping) perspectives on the issue which are set within a framework of assumptions about political economy…Therefore the differences are in levels of resolution of perception rather than arguments for and against competing theories as such".*

As stated in Chapter 1, one of main objectives of the current study is to assess the level of voluntary disclosure in the annual reports of companies listed on the KSE and also to discover variations in disclosure among the companies over the financial years. Therefore, the current study will employ all the previous theories to limit the deficiencies of each and utilise their collective insights into companies' motivations for releasing voluntary information in general. Also they are relevant to the objectives of the current study. In other words, because of the limitations associated with each of the theories discussed in this chapter, and because decisions about voluntary disclosure inevitably involve individual decisions by managers and companies and depend on company characteristics, no single theory is therefore used in this study to try to explain and illustrate the practices of the voluntary disclosure phenomenon. But neither is any theory ignored or rejected. Each will be revisited in the light of the results obtained in the empirical research. The next chapter reviews the relevant studies relating to users of annual report information. It also focuses on related empirical studies that explain variation in voluntary disclosure practices by company characteristics and corporate governance attributes.

CHAPTER THREE: LITERATURE REVIEW

CHAPTER THREE
LITERATURE REVIEW

3.1 INTRODUCTION

The corporate report disclosure area receives a great deal of attention in empirical studies and is currently growing widely (Beattie, 2005). Researchers are interested in predicting the level of disclosure, the types of information that meet users' needs and also significantly affect their decisions, and the variables that influence corporate disclosure practices. Disclosure is considered as an important indicator for accounting quality (Marston and Robson, 1997). Murray (1976) states that the quality of corporate disclosure affects the ability of the capital markets to assess the value of a company. In addition, the quality of disclosure has a great impact on the ability of investors to make sound investment decisions (Singhvi and Desai, 1971).

In order to categorise the corporate disclosure literature, Ball and Foster (1982) classified this field of research into four different topic areas, namely: (1) content of disclosures and disclosure indexes, (2) variables associated with differential content of disclosure, (3) timing of corporate disclosures, and (4) responses to interviews or questionnaires. Indeed, it is not practical to cover all prior studies of these categories. The central theme of this chapter is to highlight those studies that investigate the user perceptions of CARs regarding the importance of sources of information and the utility of information items to be included in CARs. Additionally, the studies examine the association of selected company characteristics and CG mechanisms with variation in the extent of voluntary disclosure in CARs. Thus, it is useful to determine the relevant theoretical approaches and some suggested variables that could explain disclosure practices. This will help to build the research hypotheses and methodology. Moreover, it will aid in determining the limitations and the nature of the gap in the existing literature, providing a good opportunity to contribute to the filling of this gap.

The chapter is structured in the following manner: The first part (Sections 3.2-3.5) deals with the empirical studies that examined the perceptions and attitudes of users of CARs toward sources of disclosure information and the usefulness of accounting information. The second part (Sections 3.6-3.9) introduces previous studies that assess the association between company characteristics and the extent of voluntary disclosure and its categories. Empirical studies related to the association between some CG elements and the extent of disclosure are presented in the third part. Finally, the gap in the literature is presented in Section 3.10.

3.2 THE USEFULNESS OF SOURCES OF DISCLOSURE INFORMATION

It is logical to expect companies to use a number of channels and devices to communicate with stakeholders. Conversely, investors and other interested parties use many sources of information to make their decisions. Different sources of information are used to disseminate information to the public: CARs, newspapers and magazines, websites, periodic bulletins, special publications, and direct contact with the company. Thus, several studies have undertaken to determine which source/s users depend on to make their decisions, and to what extent.

In the developed countries, a wide set of studies have explored the perceptions and views of users toward the relative importance of various sources of information and the usefulness of CARs. Some of these concentrated on one particular group of users, such as individual investors (e.g. Baker and Haslem, 1973; Lee and Tweedie, 1975; Anderson and Epstein, 1995; Bartlett and Chandler, 1997); financial analysts (Arnold and Moizer, 1984; Streuly, 1994); and investment analysts (Day, 1986; Bauman, 1989). Other studies explored the perception of more than one user groups and tested the possible variations among these groups toward the usefulness or the importance of information disclosed in CARs for making decisions. These involved such user groups as individual investors, institutional investors, financial analysts, investment analysts, creditors, executives/managers, government officials, and academics. Among them are the studies of Firth (1978), Chang et al. (1983), Chang and Most (1985), Wallace (1988), Abu-Nasser and Rutherford (1996), Mirshekary and Saudagaran (2005), Zoysa and Rudkin (2010), and Nassirzadeh (2011).

It can be argued that conflict exists in the results of research conducted in this area, even though a number of studies were conducted to identify the users' perceptions toward the importance of sources of information. Some studies in developed countries found stockbrokers as a more important source of information (see for example Baker and Haslem (1973) and Epstein (1975) in the US; Anderson (1979) and Anderson and Epstein (1995) in Australia). The findings of other studies differed from those which found financial press reports the most important resource for the majority of external users (see for example Lee and Tweedie (1975) in Australia; and Bartlett and Chandler (1997) in the UK). In contrast, Epstein and Pava (1993) revealed that shareholders' own analysis as a source of information plays a significant role in providing US users with the required information for making decisions. In New Zealand, Chang and Most (1985) found newspapers and magazines to be an important source. These differences could be attributed to the fact that user groups vary in their objectives, which may lead them to use different types of information sources.

Among these, CARs stood as the main information source and the most frequently used in the process of decision making by different types of users. This is proved by a wide set of studies (see for example Anderson (1981) in Australia; Chang and Most (1981) and Chang et al. (1983) in the US, UK, and New Zealand; Vergoossen (1993) in the Netherlands). Taken overall, most of these studies indicated that financial statements are ranked/rated as the most important section of a CAR.

Turning to developing countries, limited empirical studies have been conducted, and more specifically within the Arab context, to examine the relative importance of different sources of information in the decision-making process. In comparison with other sources, the CARs are considered the major source of information regarding companies (see for example Al-Mahmoud (2000) in Saudi Arabia; Naser et al. (2003), Al-Hajji (2003) and Al-Yaqout (2006) in Kuwait; Mirshekary and Saudagaran (2005) and Nassirzadeh (2011) in Iran; Al-Ajmi (2009) in Bahrain; Zoysa and Rudkin (2010) in Sri Lanka). The reported results are consistent with the argument of Ahmad (1988), who stated that, as a source of information, CARs play a more affirmative role in emerging markets than in developed ones. The CAR is also an essential legal document for company communications (Gray et al., 1995b). This could be attributed to another argument presented by Foster (1986) that annual report contents are deemed to be "a more reliable and timely source". Moreover, the other sources are expected to be very limited in those countries (Haddad, 2005).

In addition, visits to the company and communication with management, government publications, company quarterly reports, and stockbroker's/specialist's advice were identified as important sources by the respondents (see for example Abu-Nasser and Rutherford (1996) in Jordan; Abdul Rahman (2001) and Ismail (2003) in Malaysia; Stainbank and Peebles (2006) in South Africa; Al-Attar and Al-Khater (2007) in Qatar; Al-Abdulqader et al. (2007) in Saudi Arabia). Taken overall, financial statements (such as financial position and income statements) were ranked/rated as the most important section of the CAR (see for example the prior studies: Al-Razeen and Karbhari (2004) and (2007) in Saudi Arabia; Alzarouni et al. (2011) in the Emirates).

A general conclusion can be drawn from a review of previous studies: although there are clear differences among developed and developing countries in terms of the socio-economic environment, the user groups shared similar views regarding the perceived importance of CARs as a source.

3.3 THE USEFULNESS OF ACCOUNTING INFORMATION IN THE DEVELOPED COUNTRIES

Two types of information are commonly disclosed in CARs, namely: voluntary disclosure and mandatory disclosure. "*Voluntary disclosure can be defined as disclosure in excess of requirements, representing free choice on the part of company management to provide accounting and other information deemed relevant to the decision needs of users of their annual reports*" (Meek et al., 1995:555). Mandatory disclosure refers to compliance with compulsory standards. If a disclosure item is mandatory, the assumption often made is that the information item will definitely be disclosed; otherwise, the company will receive a qualified audit report or some other regulatory sanctions. The early studies in this area of research have been conducted in developed countries.

Chandra (1974) surveyed users and preparers (security analysts and public accountants) to explore how they rate the importance of various information items and assess the adequacy of disclosure in CARs. The study's main conclusion was a lack of consensus between subject groups regarding the importance of items, implying that types of information disclosed by preparers do not meet the information needs of users for making decisions. On a different point, Benjamin and Stanga (1977), who compared the perceptions of bank loan officers and financial analysts to determine whether external users of CARs are homogeneous in their information needs, provided further empirical evidence that the information needs of subject groups show great differences. The authors argued that differences in information needs result from differences in the nature of decision types (lending and investment decisions). Baker and Haslem (1973) also found that the information needed by professional users "financial analysts" differs significantly from that of non-sophisticated users "individual investors" in the US. In a comparative international study, Chang et al. (1983) investigated the perceptions of individual investors, institutional investors, and financial analysts about the utility of annual reports in three developed countries (the UK, New Zealand, and the USA) using a questionnaire. They documented that the individual investor groups are somewhat less homogenous in their information needs as a result of the existence of cultural and social variations among countries in this field.

In the same line, using a wider range of multi-user groups, Firth (1978) questioned financial directors, auditors, financial analysts, and bank loan officers in the UK to examine the consensus on the perceived importance of a set of information items that could be disclosed in CARs. He found substantial agreement in the opinions of financial directors and auditors on the one hand and substantial agreement in the opinions of financial analysts and bank loan officers on the other. In addition, a higher level of agreement existed among the latter groups concerning the importance of releasing most of the individual information items included in the questionnaire. In another empirical study to examine whether the accounting information needs of loan officers from small and large banks are the same, Stanga and Tiller (1983) revealed that the target user groups have considerably similar views regarding rating the relative importance of the selected information items. Generally, these two studies reached conclusions which contradicted those of the previous four studies regarding the information needed by users. This may be due to a number of factors such as diversity in decisions and the cultural and social impact. It is consistent with the views of Benjamin and Stanga (1977) and Chang et al. (1983).

An extension of previous studies conducted in the US (e.g. Cerf, 1961; Singhvi and Desai, 1971; Chandra, 1974) and in the UK (e.g. Firth, 1978), McNally et al. (1982) examined the importance of a set of discretionary information to the financial editors and stock exchange members in New Zealand who represent the sample of professional external users. The interesting finding was a high level of agreement among user groups surveyed in three different developed countries regarding the relative importance of disclosing certain selected information items. However, there is considerable variation in the amount of information disclosed by companies and user preferences reported in these surveys. The result is consistent with evidence provided by Chandra (1974) and Benjamin and Stanga (1977).

Another interesting finding was that information related to future dividends and dividend policies is considered the most desired items in the view of users. This is consistent with a study conducted by Buzby (1974) in the US, who declared that the users highly ranked the items related to future prospects. Similar results were also documented by Baker and Haslem (1973), Lee and Tweedie (1975), and Anderson (1979). On the other side, the study found corporate social responsibilities were placed as the least important information items. In contrast, Epstein and Freedman (1994) revealed that most shareholders surveyed desired US companies to disclose more information about different aspects of social activities in their annual reports. This may reflect the changes in information needs of user groups over the years, a view reflecting community orientations.

Regarding additional disclosure in the annual reports, Anderson (1979) surveyed Australian investors and found that respondents desire more information to be disclosed in CARs such as company products and the practical experience and academic qualifications of board members. Similar results were documented by Anderson (1981) in Australia that institutional investors favoured additional information about directorships and company products. Another study by Anderson and Epstein (1995) argued that Australian individual investors want more information such as pending litigation and change of auditor to be released in the CARs. Similar results were obtained from Epstein and Pava's (1993) study, which declared that US shareholders require disclosure on pending litigation and unasserted legal claims. However, an earlier study by Epstein (1975) revealed that US investors prefer disclosure on a budgeted income statement. This may confirm the result of Chang and Most's (1985) study, which claimed that individual investors did not believe that information provided in the CARs met their needs.

In Hong Kong, a famous international financial centre, Ho and Wong (2004) conducted an empirical study to explore the perception and beliefs of investment analysts regarding the usefulness of a set of voluntary disclosure items that may appear in CARs. The questionnaire results revealed that predictive types of voluntary disclosure items in annual reports appeared to be the most important in analysts' view. However, they believed that the amount of information released in CARs remained inadequate to meet their requirements. Thus, there is a need to maintain improvement in this area for Hong Kong to remain competitive among international financial centres.

The main conclusion stems from a comprehensive review of previous studies conducted in the developed countries that provide contradictory results about the types of information user groups require to be disclosed in the CARs, as well as the level of consensus among examined user groups regarding the perceived importance of voluntary items.

3.4 THE USEFULNESS OF ACCOUNTING INFORMATION IN NON-GULF DEVELOPING COUNTRIES

In the non-Gulf developing countries, a few studies have been undertaken to explore users' perceptions toward the usefulness of information disclosed in CARs (e.g. Wallace, 1988; Ibrahim and Kim, 1994; Mirshekary and Saudagaran, 2005; Dahawy and Samaha, 2010; Binh, 2012).

In Nigeria, a study conducted by Wallace (1988), to assess the consensus of six different user groups about the importance of a set of items presumed to be disclosed in the CARs, documented the lack of consensus between accountants on the one hand and other professionals, managers, and investors on the other. Also, Wallace's (1988:255) study indicated that *"the perceived needs of Nigerian users are not entirely identical with the perceived needs of the Board members of the International Accounting Standards Committee (IASC) and that Nigerian users do not perceive the same set of information items as very important as do users in some developed countries*". On the same track, Ibrahim and Kim (1994) surveyed a set of user groups: accountants, shareholders, managers, and financial analysts in Egypt. This study suggested a low level of agreement among the examined groups about the importance attached to several items. The most important conclusion to be drawn from the previous African studies is consistency regarding the low consensus among users on the importance of disclosure items in published annual reports.

As a result of the increasing interest in corporate social responsibility and the ambition to cover possible limitations in the literature, and more specifically in the Arab world, Naser and Abu-Baker (1999), in an extension of Abu-Baker and Abdel-Karim's (1998) work, examined the perceptions and views of four groups of stakeholders (preparers and users) toward the notion and disclosure of social information in Jordan. The results of a survey indicated that respondents appear to accept the inclusion of such information in the CARs. As part of their responsibility toward the community, companies should disclose information related to their social role.

Mirshekary and Saudagaran (2005) explored seven different users groups of CARs in Iran and found a high level of consensus between stockbrokers and institutional investors, while there was a low level of consensus between the auditors and bank loan officers pairing and the auditors and the tax officers pairing. This suggests that the general information sets included in the questionnaire (which stems directly from CARs) may not meet the demands of users or not fully satisfy varied user needs. This result is consistent with previous African studies. Following a research instrument previously applied by Mirshekary and Saudagaran (2005) in Iran, Dahawy and Samaha (2010) examined the perceptions of external users as a sample of the accounting community in Egypt. In overall rank, they found the top information items to be from the financial position statement, with the respondents rating historical information as being of slight importance. The study found a high degree of agreement between the institutional investors' group and the auditor group with regard to the perceived importance of information items. However, consensus between the stockbrokers' group and the academics' group and the bank loan officers' group and academics' group was significantly low regarding examined items. In comparison with Mirshekary and Saudagaran (2005), the study indicated that the ranking reported by users in both countries is extremely different with regard to individual items of CARs.

In a more recent study, examining the gap between the views of financial analysts and financial managers regarding voluntary disclosure information in Vietnam, Binh (2012) found high agreement between both groups about the importance level of voluntary items. However, there is a series gap between the views of target groups regarding the ability of available information in CARs to meet the requirements of information users. The study showed the existence of agreement in the importance that respondents place on financial and forward-looking information. Thus, the results of the recent study indicate a move in the same direction as previous studies in the developing countries. Consequently, preparers and policy makers in emerging markets have a long way to go to reach user groups' requirements regarding voluntary information disclosure.

3.5 THE USEFULNESS OF ACCOUNTING INFORMATION IN GULF DEVELOPING COUNTRIES

A few studies have been conducted in this part of the world to explore the usefulness of accounting information contained in the CARs for making economic decisions (e.g. Abdelsalam, 1990; Naser et al., 2003; Al-Khater and Naser, 2003; Al-Ajmi, 2008, 2009). Based on a questionnaire sent to Saudi individual investors, Abdelsalam (1990) revealed that the respondents rated profit and owners' equity as the most important items in the CARs (in that order). On the other hand, they want listed companies to release more information to support their investment decisions. This includes information on management and directors of the company, and potential profits. Later, through a questionnaire survey, Al-Mubarak (1997) examined the usefulness of additional disclosure to Saudi investment analysts. He revealed that respondents preferred more information to be disclosed regarding the expected sales and expected amount of sales. These results are similar to those reached by Abdelsalam (1990) in the earlier study. Surprisingly, however, the study indicated that users do not pay great attention to directors and senior management information, which was ranked as the least useful item. These results reflect users' low level of awareness regarding the importance of CG mechanisms in improving company performance and ensuring a healthy relationship between owners and management in the organisation.

Two years later, Al Razeen (1999), based on a survey of five major user groups in Saudi Arabia, found earnings and details of revenue sources to be considered important among a list of 18 items. This is similar to the results of Abdelsalam (1990). Creditors rated the importance of these items more highly than individual investors and government officials. This may be due to the fact that this group is more sophisticated and more aware of their importance in performance measures. Among the 15 voluntary items, dividend policy and description of major types of products are considered important in the view of respondents and recommended to be disclosed in the CARs. Interestingly, the users did not pay great attention to items related to social activities (e.g. donations and human resources), ranking them the least important. This may be an indication of the low level of public interest in a corporate role in social activities and awareness regarding corporate social responsibility. This lends support to Al-Mubarak's (1997) study. Respondents also perceived a description of pension policy and percentage of total wages paid to employees who are Saudi citizens to be the least important items. However, among user groups, creditors attached more importance to these items. On the other hand, users assigned low importance to the demand concerning the disclosure of the names of major shareholders, which may be due to the ability to obtain this information from other sources. Another interesting finding is that the government officials' group gives the lowest rate of importance regarding the disclosure of most proposed voluntary items.

In another Gulf country, Bahrain, Al-Ajmi (2008) investigated the view of credit and financial analysts regarding the perceived usefulness of financial ratios and elements of CG for making lending and investment decisions. The survey results indicated that user groups are somewhat lacking in homogeneity in their rating of specific indicators. For example, financial analysts pay greater attention to CG mechanisms than credit analysts. Later, Al-Ajmi (2009) surveyed individual investors in Bahrain to identify the types of information they needed for their decisions. He concluded that Bahraini investors considered accounting information more important than non-accounting information. Surprisingly, respondents preferred companies to disclose information about the volume of business between the company and its board of directors, and the number of shares owned by board directors, since this type of information plays a significant role in investment decisions. Given the results of previous studies, it can be concluded that Bahraini investors are aware of the importance of CG mechanisms in enhancing company performance and the level of information transparency.

Within the investment context, Al-Attar and Al-Khater (2007) provided evidence of a high level of agreement among user groups regarding the usefulness of accounting information appearing in the CARs of listed companies in Qatar for making sound investment decisions. This may indicate that Qatari investors are satisfied with the amount of information disclosed in CARs. In the same country, Al-Khatar and Naser (2003), in an extension of Naser and Abu-Baker's (1999) study, attempted to provide empirical evidence about the perception of four different target user groups towards various aspects of companies' social responsibility disclosure and accountability principle. The study indicated that respondents prefer companies to disclose information about corporate social responsibility in a different manner. This possibly reflects the awareness of the Qatari accounting community regarding this type of disclosure and corporate accountability toward society.

In another GCC country, Kuwait, Naser et al. (2003), assessing the information needs of eight different user groups, found non-financial information to be less credible and important. This is consistent with results documented by Al-Ajmi (2009) and may be attributable to the capability of some target groups to utilise only quantitative information in making their financial analysis. In addition, a high rating was attached to the list of voluntary disclosure items included in the questionnaire such as earnings. This is similar to the results documented by Abdelsalam (1990) and Al Razeen (1999) for Saudi Arabia. However, respondents attached low importance to some items related to social activities such as recruitment policies and donations. Similar results were reached by Al-Mubarak (1997) and Al Razeen (1999). One possible reason for this result is "*these issues are unlikely to be of any concern to a rich country like Kuwait*".

In a more recent Kuwaiti study, Al-Mutairi (2004) examined the usefulness of accounting information to nine user groups. With regard to historical information, respondents attached more importance to the past percentage growth of earnings and dividend and its growth over the past years. Concerning current items disclosed in CARs, the financial strength of the company, quality management, the company's social standing, and human resources' accounting were perceived as important items. The results of the last two items are similar to findings reported by Naser et al. (2003) for Kuwait; however, they are not ranked at the bottom of the list based on their mean scores (although they have received higher weight by respondents). These results may suggest a growing awareness in the Kuwaiti accounting community of their part in society as a whole concerning this type of disclosure. On the other hand, user groups prefer companies to disclose more information regarding the company's future. For instance, the expected growth in earnings and price of shares received the highest attention from users among proposed items. In addition, Al-Mutairi (2004) revealed that composition of top management and structure of board were ranked the least important items by respondents, which is inconsistent with Naser et al. (2003), who declared that Kuwaiti user groups placed considerable importance on these items.

In the Emirates, a recent study by Alzarouni et al. (2011) explored whether current disclosure practices meet the users' needs of CARs. The survey results indicated that almost 56% of respondents perceived the amount of disclosure to be inadequate and thus the need for information by most external major users was not met yet. The main groups expressing their dissatisfaction regarding the insufficient information provided in the CARs were as follows: institutional investors, bank credit officers, and fund managers.

Despite tireless efforts by researchers in the developing countries represented to involve more user groups, a large number of respondents, and/or more information items, a number of these studies point to there being no general consensus among user groups with regard to their need for information. This could be interpreted as users of information having different objectives. However, most of these studies indicate that the current information provided in the CARs is not sufficient for the users.

With regard to the problems attached to CARs in developing countries, a number of survey studies indicated participants having great concerns in some areas. These include delays in publishing CARs, lack of credibility or lack of adequate disclosure (e.g. Abu-Nasser and Rutherford, 1996; Mirshekary and Saudagaran, 2005; Zoysa and Rudkin, 2010; Dahawy and Samaha, 2010; Alzarouni et al., 2011). In this sense, Naser et al. (2003) revealed that the timeliness of corporate reporting is considered an important feature that influences users' perception about the quality of accounting information. However, Al-Mutairi (2004) studied users' perception in Kuwait and realised that reliability is the most important qualitative characteristic that affects Kuwaiti users' perception about the quality of information. Therefore, the accounting authorities and regulators in developing countries must pay more attention to setting out solutions that help to overcome those restrictions, while at the same time focusing on improving an adequate disclosure of information.

3.6 OVERALL VOLUNTARY DISCLOSURE

The corporate disclosure phenomenon elicits great interest from researchers in disclosure literature. This research area stretches from studying the extent of mandatory disclosure to studying total voluntary disclosure and/or specific voluntary accounting information types such as environmental and social responsibilities' disclosure. The following sections review previous studies in this research area: studies are divided into those conducted in developed and developing countries.

3.6.1 Developed Countries

Several studies have investigated the association between company characteristics and overall level of voluntary disclosure. Firth (1979a) empirically investigates the relationship between the extent of corporate financial disclosure and some company characteristics in the annual reports of 180 UK companies. The company characteristics were company size, stock market listing, and auditor type. The author used a weighted disclosure index containing 48 items of information. Firth (1979a) found the level of voluntary disclosure in annual reports of the tested sample to be very low, with only eight of the 48 information items being disclosed by more than 50% of British companies.

Using data from New Zealand, McNally et al. (1982) empirically tested the association between the extent of disclosure and selected company attributes: company size, profitability, growth, audit firm, and type of industry; their study included 103 listed manufacturing companies. Study findings showed the level of disclosure was low, with 50% of 41 items included in the checklist disclosed by only 10 companies. Company size had significant power to explain the variation in disclosure among companies. The authors' key argument was that improvement in disclosure practices among companies could be achieved through an extension of disclosure requirements.

Cooke (1989a) expanded the work of the prior studies by using three new types of groups: 38 unlisted, 33 single listed on the Stockholm Stock Exchange (SSE), and 19 multiple listed. The study employed four explanatory variables: company size, quotation status, parent company relation, and industry type. Based on an index of 146 voluntary items, it revealed a significant positive association between level of disclosure and quotation status and company size. In addition, multiple listed companies release more information than companies listed only on the SSE; however, those single listed have a higher level of disclosure than unlisted ones. Also, the study found that trading companies disclose less information than those in manufacturing, services and conglomerates.

In the context of Japan, Cooke (1991) examined the association between the levels of voluntary disclosure by a sample of 48 companies, using similar methodology to that used by Cooke (1989a). Classifying the selected sample into three groups, 13 unlisted, 25 single listed on the Tokyo Stock Exchange (TSE), and 10 multiple listed, Cooke (1991) found significant association between level of voluntary disclosure and company size. Also, he found a significantly positive association between extent of disclosure and listing status, consistent with Cooke (1989a). In addition, companies classified under a manufacturing sector are expected to disclose more voluntary information than others (trading and service companies). This result is consistent with Cooke (1989a).

McNally et al.'s (1982) methodology was also employed by Hossain et al. (1995), who examined the association between company characteristics and extent of voluntary disclosure. The five specific company characteristics were as follows: company size, foreign listing status, leverage, assets-in-place, and type of auditor. Hossain et al. constructed an index of disclosure consisting of 95 items of information, applied to a sample of 55 companies publicly listed on the New Zealand Stock Exchange (NZSE). The study showed that company size, foreign listing status, and leverage were the only significant explanatory variables for the amount of information disclosed in CARs.

Raffournier (1995) examined determinants that could explain the variation in voluntary disclosure of a sample of 161 Swiss listed companies. To accomplish that, he used an an index consisting of 30 information items, derived from the Fourth and Seventh EC Directives and expected to be disclosed in annual reports. The independent variables tested included company size, leverage, profitability, auditor's size, industry type, and internationality. Finding a strong association between the level of voluntary disclosure and company size, Raffournier (1995) suggested that the forces of outside markets play a vital role in making disclosure policies for Swiss listed companies. In addition, the author stated that the level of disclosure in the company annual report "*is not used as a means of solving monitoring problems between shareholders and managers*".

In the French environment, Depoers (2000), who depended strongly on the perspective of agency theory and limitations imposed by information costs, examined the impact of some economic determinants (company size, foreign activity, ownership structure, leverage, auditor size, and proprietary costs) on the extent of voluntary disclosure in the annual reports of 102 non-financial companies listed on the Paris capital market. Among these variables, company size, foreign activity and proprietary costs were the most important variables in explaining the variation in the disclosure. Possible future research recommended by Depoers is to examine the interaction between voluntary disclosure and other non-financial agency cost determinants such as CG tools.

Company characteristics have remained important forces of the disclosure phenomenon and still receive a lot of attention in literature. Gruning (2007) explored the influence of some driving factors (company size, cross listing, industry, and home country) on corporate disclosure practices which are viewed as an interrelated network. The results confirmed the hypothesis that these forces are considered interrelated. An interesting result is that company size has indirect influence on the corporate disclosure phenomenon; however, it plays a mediated role by cross listing.

Based on the review, it can be concluded that there is general consensus among the results of studies that company size is the most important variable in explaining the variations in disclosure policies and practices followed by listed companies in the developed capital markets. However, regarding the influence of listing status variable on disclosure, behaviour is mixed.

3.6.2 Developing Countries

While the previous studies were conducted in economically developed countries, in which corporate accounting plays an affirmative role by providing investors with relevant information for decision making (Scott, 1968 as cited in Suwaidan, 1997), a few similar studies have been done in developing countries. Chow and Wong-Boren (1987) investigated the voluntary financial disclosure practices of 52 Mexican publicly listed companies. They employed a disclosure index composed of 29 items of information to investigate association between level of voluntary disclosure and specific company characteristics: company size, leverage and proportion of assets-in-place. They revealed that voluntary disclosure varied widely among the sample companies and was significantly related to company size only.

Following the methodology of the Chow and Wong-Boren (1987) and Gray et al. (1992) studies, Hossain et al. (1994) empirically investigated the practice of voluntary disclosure in a sample of 67 non-financial companies listed on the Kuala Lumpur Stock Exchange (KLSE). Based on an index comprised of 78 voluntary items, they revealed that company size, ownership structure, and foreign listing status are statistically related to level of information voluntarily released in CARs. However, assets-in-place, leverage, and audit size are found to be insignificant variables.

Leventis (2001) attempted to examine the voluntary disclosure practice in the annual reports of 87 non-financial companies listed on the Athens Stock Exchange (ASE). Using a disclosure index of 72 unweighted information items, the study revealed that voluntary disclosure practice in Greece is significantly related to company size, type of report, listing status, industry, and share yield. However, leverage and profitability do not appear to be significant explanatory variables. Consequently, it can be concluded that company size and listing status are significant variables in explaining the variations in disclosure practices in developing countries.

3.7 PREVIOUS STUDIES FOCUSED ON SPECIFIC VOLUNTARY DISCLOSURE CATEGORIES

While the above studies concentrated on the relation between a set of specific company characteristics and total voluntary disclosure, some studies tend to be more specific, concentrating on exploring the association between those characteristics and different disclosure categories. Gray et al. (1995) conducted an international study to examine whether internationally listed US and UK multinational companies voluntarily disclose more information than those listed on single domestic capital markets. A total of 116 US and 64 UK companies were examined using a checklist of 128 items of information categorised into 12 different groups. Gray et al. found significant variations in disclosure practices among international listed companies and domestic listed companies. Moreover, international listed companies significantly disclose more information than companies listed only in their own countries. This is consistent with the findings provided by Cooke (1989a, 1991) for developed countries. Those companies also tend to disclose more information related to their strategies.

In a more comprehensive study, Meek et al. (1995) examined the impact of international market pressure on the voluntary disclosure practices of USA, UK, and Continental Europe (CE). The current study extends that of Gray et al. (1993), who examined the effect of international listing status on voluntary disclosures in the annual reports of US, UK and Continental European multinational corporations (MNCs). A sample consisting of 226 companies was chosen, with a checklist composed of 85 items divided into three main groups of information, namely: strategic, non-financial, and financial. Variables employed were as follows: country, company size, leverage, international listing status, multi-nationality, profitability, and industry type. Reporting that company size, country, listing status, and industry type were the most important factors that influenced overall level of voluntary disclosure, they stated that the factors explaining the extent of voluntary disclosures differed by the three main types of disclosure. For example, listing status was considered to be a significant variable in explaining voluntary information related to strategic and financial. This is consistent with Gray et al.'s (1995) results, which concluded that the international listing variable appears to affect the disclosure of strategic and financial information. The largest companies appear to disclose more financial and non-financial information; also, the type of industry, specifically oil and chemical companies, has a noticeable effect on the release of these two types of information. The significant association of industry type and company size over disclosure can be interpreted by the facts that larger companies are more likely to be sensitive to political costs than small ones (Watts and Zimmerman, 1986) and the perspective of agency theory, which suggests large companies have higher agency costs (Jensen and Meckling, 1976).

Ferguson et al. (2002) examined the effect of international stock market pressures on the extent of voluntary disclosure in the annual reports issued by 142 non-financial companies listed on the Hong Kong Stock Market (SEHK). A disclosure index of 102 items, selected from prior studies (Gray et al., 1995; Hossain et al., 1995; Meek et al., 1995), was used. Five variables were studies: company size, company type, leverage, industry type, and listing status. The study concluded that company size is significantly and positively related to the level of overall disclosure and to each of three disclosure categories. However, the influence of the other variables varied with the categories of the disclosure. It is noteworthy that the findings of the study by Meek et al. (1995), discussed earlier, are consistent with that.

In Greece, Leventis and Weetman (2004) carried out research to assess the relationship between the extents of voluntary disclosure in the annual reports of 87 non-financial companies listed on the ASE. Consistent with the methodology of Meek et al. (1995), the authors developed a self-constructed checklist of 72 information items classified into three categories: corporate environment, social responsibility and finance-related disclosures. Following disclosure literature (e.g. Lang and Lundholm, 1993), the authors classified company-specific-variables into three sets: (1) structure-related variables (company size and leverage), (2) performance-related variables (profitability and liquidity), and (3) market-related variables (industry type, share return, and listing status). They reported that the overall level of voluntary disclosure among listed companies is 37.57%, which is considered relatively low. Leventis and Weetman's results indicate that only company size is most closely associated with total voluntary disclosure and with each of the three categories of voluntary disclosure, while industry type, share return, and listing status effects varied among voluntary disclosure categories. The outcomes of the study are close to those reported by Gray et al. (2001), who studied the relationship between corporate social and environmental disclosure and company characteristics in the UK.

Agca and Onder (2007) studied the annual reports of 51 Turkish non-financial companies listed on the Istanbul Stock Market (ISE). Following the same classification of Meek et al. (1995), they used a checklist of 87 information items to evaluate the level of disclosure and to determine which of the factors could affect disclosure practice: company size, leverage, auditor type, profitability, and multinationality. Regression results declared that company size, profitability, and type of auditor are significantly associated with overall level of voluntary disclosure. Similar results were reported by Ghazali and Weetman (2006), who examined factories associated with voluntary disclosure in Malaysia, that company size and profitability have a positive association with the overall level of disclosure, but these studies reach contradictory conclusions concerning type of auditor. In terms of the categories, it can been seen that company size and profitability are significantly related to strategic information, while company size and type of auditor are significantly related to financial information, and leverage is significantly related to non-financial information.

In Kuwait, Al-Shammari (2008) addressed voluntary disclosure practices in the annual reports of 82 non-financial companies whose shares traded on the KSE for the year 2005. To achieve this objective, a number of variables were employed: company size, leverage, type of auditor, type of industry, complexity, company age, profitability, assets-in-place, and internationality. Following Meek et al.'s, (1995) approach, the researcher employed a disclosure index consisting of 76 information items which were categorised into three groups: corporate environment information, social responsibility information, and financial information. Al-Shammari (2008) stated that the overall level of voluntary disclosure was low (15%), and, when comparing this result with those of prior studies in emerging capital markets (e.g. Leventis and Weetman, 2004; Ghazali and Weetman, 2006), it is considered very low. Among these variables, only company size was an important variable in effecting the overall level of disclosure in each of three categories of disclosure. In addition, other variables (leverage, auditor type, industry type, complexity, and company age) varied in their impacts among the categories of voluntary disclosure. For example, the result of auditor type is consistent with the result provided by Agca and Onder (2007). However, the results of those studies are inconsistent regarding company size and profitability. The findings showed that Kuwaiti companies disclose significantly more corporate environment and financial information than corporate social responsibility information.

In the Chinese information environment, Wang et al. (2008) studied variables proposed to be relevant to the extent of disclosure in advanced market economies: company performance, audit type, company size, and leverage. Wang et al. (2008) employed a disclosure index composed of 79 discretionary items of information, an expansion of Meek et al.'s (1995) model, to examine the impact of those variables on voluntary disclosure in the annual reports of 109 Chinese non-financial listed companies. The overall level of disclosure was 18%, slightly higher than documented by Al-Shammari (2008). The study showed a positive and significant association between level of voluntary disclosure and companies' performance and type of auditor. On the other hand, the results showed that type of auditor and company's performance affect the extent of overall disclosure. Company size is positively and significantly associated with overall disclosure and all disclosure measures, which is consistent with the findings of Ferguson et al. (2002) and Al-Shammari (2008).

3.8 PREVIOUS STUDIES FOCUSED ON THE MIDDLE EAST COUNTRIES

Research topics in the area of voluntary disclosure extend from studying the amount of disclosure to studying specific types of disclosure in depth. Naser and Al-Khatib (2000) conducted a study to empirically examine the depth of disclosure in the statement of the board of directors of a sample of 84 Jordanian non-financial companies listed on the Amman Financial Market (AFM). The authors adopted a number of previous studies' methodologies (such as Chow and Wong-Boren, 1987; Cooke, 1989a) to construct and develop a disclosure index of 30 information items. The average level of disclosure was 54%; some of the variables employed in this study were: size, profitability, leverage, government ownership. The results revealed that company size, profitability, and leverage alone have a positive and significant influence on the level of disclosure.

In the Jordanian context, Suwaidan et al. (2004) examined the influence of certain company characteristics (company size, profitability, and risk) on corporate social disclosure (CSD) practices in CARs. A disclosure index containing 37 items was used to assess the extent of CSD in the annual reports of 65 industrial companies. The results indicated that company size, profitability, and risk provide an explanation of the social disclosure variation in the Qatar environment, consistent with Naser and Al-Khatib's (2000) findings. On average, the listed companies disclosed approximately 13% of items contained in the checklist. This gives an indication that the sample companies are not extensively reporting such information in their reports. Although different types of social responsibility information was disclosed in CARs, such as human resources and community involvement information, the listed companies only released a small amount of environmental and goods/services information to customers. In a similar study, Naser et al. (2006) tested the effect of company size, growth, business risk, and dividends paid on the CSD of 22 companies listed on the Doha Stock Exchange (DSE). Using an index of 34 items, they found three variables were significant in explaining the variation in the CSD: companies and company size, leverage, and corporate growth. The authors also reported that the average CSD index is 33%, which is higher than that reported by Suwaidan et al. (2004). They argued that the low level of CSD could be attributed to the weakness of pressure groups within society to demand that companies discuss their responsibilities toward society. Taken overall, the study's outcomes lend partial support to agency theory, political economy theory, legitimacy theory, and stakeholder theory as well as to the accountability approach. In this sense, Naser et al. (2006:19) concluded that:

> *"the support or otherwise to various theories advanced in the literature to explain why companies voluntarily disclose information that reflects their involvement in the society is related to the stage of economic development reached by the country under study. The theories would gain support in developed economies more than in emerging economies".*

Alsaeed (2006) empirically assessed the extent of disclosure of non-financial Saudi companies in an emerging capital market. The author also examines the influence of several company attributes on disclosure behaviour: company size, leverage, company age, liquidity, type of auditor, type of industry, and profitability. Following the previous studies (e.g. Lang and Lundholm, 1993), the author categorised those attributes into three groups: (1) structure-related variables, (2) performance-related variables, and (3) market-related variables. The study covered the financial year of 2003 with a sample size of 40 companies, which represented 56% of the total companies listed on the Saudi Stock Market (SSM). A disclosure checklist included 20 voluntary disclosure items, and an unweighted disclosure index approach was employed to achieve the objectives of study. On average, companies released 33% of items included in the index. This low level of disclosure could be related to the nature of the information and being left to management's discretion, since no regulation by professional bodies or system exists governing the disclosure of such information by companies. Among variables used to explore the variation in the disclosure, only company size was identified as a significant explanatory variable.

Aljifiri (2008) examine the extent of disclosure in the annual reports of 31 listed companies in the United Arab Emirates (UAE) and related these to the following factors: company size, debt equity ratio, industry type, and profitability. Disclosure practices in the UAE were affected by the type of industry. The banking sector discloses more information than other industrial sectors (insurance, service, and industry), which may be due to the significant role of the central bank in monitoring financial institutions. However, there are no statistical differences among other sectors, since they have weak legal and institutional enforcement. In the author's view, the extent of disclosure could be enhanced by improving legal and enforcement frameworks and activating the role of governmental bodies. The author revealed that the extent of disclosure in the UAE is driven more by regulations than by market. This finding is consistent with Abu-Baker and Naser (2000), who documented that the companies' disclosure of social information is affected by applied provisions in Jordan.

In another specialised study, conducted by Rizk et al. (2008) to assess the corporate social and environmental reporting practices of 60 Egyptian industrial companies, a disclosure index comprising 34 information items was constructed. The results showed a low level of corporate social responsibility disclosure in the nine segments, with differences among them. Moreover, the nature of disclosure was found to be overwhelmingly descriptive. The results suggested that type of industry is a statistically significant predictor of category of disclosure. Similar results were reported by Aljifiri (2008). Overall results lend support to the predictions suggested by legitimacy theory. Rizk et al.'s (2008) reference to increased amounts of environmental disclosure by private companies could be explained as a result of a strategy employed by Egyptian organisations to ensure their organisational legitimacy and perhaps even to prevent additional regulations. Although Rizk et al.'s (2008) study is considered to be the first exploratory study about corporate social responsibility in an Egyptian context, it can be criticized on two bases. Firstly, the investigated sample suffers some shortages since it does not include more economic sectors. Secondly, the study does not involve more explanatory variables (company characteristics) to explain the variations in social disclosure practices.

In 2009, Hossain and Hammami explored the determinants of voluntary disclosure in annual reports for 25 companies, representing 86% of companies listed on the Doha Securities Market (DSM). The level of average voluntary disclosure is 37%, higher than that reported by Alsaeed (2006). The study revealed that age, size, complexity, and assets-in-place are significantly associated with the extent of voluntary disclosure.

A recent study, conducted by Khasharmeh and Suwaidan (2010) to evaluate the extent of CSD in the annual reports of 60 manufacturing companies listed on the GCC stock exchanges, employed a checklist including 45 items and a regression analysis to determine the effect of a number of company characteristics (audit size, company size, profitability, government ownership, and risk) on this disclosure. There is a remarkable variation in the disclosure of social responsibility information among the sample companies. Company size and auditing firm are the main variables explaining variation in CSD among a test sample. Moreover, the listed companies disclosed approximately 26 % of the index items, higher than reported in previous studies in other Middle East countries (e.g. Suwaidan et al., 2004). On the other hand, surveyed companies disclosed less information related to environmental and community involvement in their annual reports. The findings, stemming from studies conducted in the Arab world, support the argument that social and economic development is an important cause for the variation in this type of disclosure among countries (Xiao et al., 2005).

In a more recent study, Al-Janadi et al. (2012) assessed and compared the level of voluntary disclosure in Saudi Arabia and the UAE. To this end, they used the unweighted approach and the annual reports of 150 financial and non-financial listed companies for the years 2006 and 2007. On average, the overall level is around 36%, which is considered low. This result is a little higher than that reported by Alsaeed (2006) in Saudi Arabia, but it is similar to the result documented by Hossain and Hammami (2009) in Qatar. Also, they revealed that, in both countries, companies released very limited information on their social and environmental responsibilities. It must be noted that caution needs to be exercised when making comparisons among studies for two reasons: (1) the difference in the time frame of the studies and disclosure may change over years; (2) each study used a different checklist so this reduces the comparability. The following sections will focus on different aspects related to corporate governance (CG).

3.9 CORPORATE GOVERNANCE AND VOLUNTARY DISCLOSURE

3.9.1 The Concept and Importance of Corporate Governance

Overall, there is no single accepted definition of CG, and there are noticeable differences in the definition based on the point of view of the nature of CG. However, the existing definitions of CG fall into one of two streams. The first is "narrow views" which concentrates on the association between a company and its shareholders. In other words, this approach is restricted to the relationship between a concept of corporate accountability toward shareholders which appears to derive from the perspective of "agency theory". In a narrow agency perception of CG, the Cadbury Report (1992) defined CG as *"The system by which companies are directed and controlled.* Further, the Walker Review (2009:23) defines CG thus:

> *"The role of CG is to protect and advance the interests of shareholders through setting the strategic directions of a company and appointing and monitoring capable management to achieve this".*

The second stream is "broad views", which relates to corporate responsibility, taking into account other stakeholders (e.g. suppliers, customers), rather than only concentrating on shareholders; this viewpoint derives from "stakeholder theory". There are some definitions have adapted this perspective, for instance, Tricker (1984:6) stated that:

> *"The governance role is not concerned with the running of the business of the company per se, but with giving overall direction to the enterprise, with overseeing and controlling the executive actions of management and with satisfying legitimate expectations of accountability and regulation by interests beyond the corporate boundaries".*

In this context, Solomon (2007:14) defined CG as:

> *"The system of checks and balances, both internal and external to companies, which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity".*

Based on the above discussion, it can be concluded that definitions of CG are varied, based on the concentration of different groups of stakeholders. However, the differences in CG definitions seem to be governed by corporate accountability: some are restricted to the function of accountability toward a company's owners only, and others have a broad range, involving all a company's stakeholders.

CG is the system by which corporations are directed and controlled. The framework of CG identifies rights and duties among different corporate participants and more specifically describes the required rules and procedures for making decisions on corporate affairs. Moreover, CG works on providing the same opportunity for all major stakeholders to get reliable information about: its activities, policies, and the value of the firm. They also have the same access to information so the concept of CG grants a great amount of transparency and fairness. On the other side, a CG system motivates a company's managers to work on maximizing firm value as a crucial task instead of working for their personal benefit (Luo, 2005). Thus, the main evolution and ideology of this framework is toward the perspective of stakeholder protection.

The Association of Chartered Certified Accountants (ACCA) report (2008) stated that there are three complementary main purposes of CG, namely:

1. To ensure the board, as representatives of the organisation's owners, protects resources and allocates them to make planned progress toward the organisation's defined purpose;

2. To ensure those governing and managing an organisation account appropriately to its stakeholders; and
3. To ensure shareholders and, where appropriate, other stakeholders can and do hold boards to account.

Under the heading of CG institutions, Mueller (2006) stated that some institutions are common to all companies in a country, such as law and legal institutions, and others differ from company to company within a country regarding the required minimum or maximum number of directors and percentage of outsiders on the board. Tricker (1984) proposed that CG could be categorised into four groups as follows: ownership power, corporate director's power, management power, and institutional power.

Luo (2005) stated that the concept of CG works through three mechanisms, namely: (1) market-based mechanisms (e.g. board composition, board size, market discipline, board chairmanship, executive compensation, and interlocking directorate); (2) culture-based mechanisms (e.g. governance culture and corporate integrity); and (3) discipline-based mechanisms (e.g. executive penalty, internal auditing, conduct codes, and ethics programmes). While Imhoff (2003) stated that accounting and auditing are components of the broader system of CG, and cannot be fixed in any lasting way without substantive changes in overall governance process, Gul and Leung (2004) argued that the recent trend in the accounting literature proposes that the role of corporate governance is best examined in the context of a "package" of corporate governance mechanisms such as the role of two or more corporate governance attributes (e.g. Kosnik, 1987; Singh and Harianto, 1989; Rediker and Seth, 1995).

However, it can be stated that the effect of CG mechanisms has elicited strong attention among researchers, and the accounting literature pays more attention to the first mechanism of Luo's classification "a market-based mechanism" than to the others. It has been argued that the concept of CG continues to expand (Anand, 2005). Thus, a more appropriate definition of the corporate governance concept should include additional elements such as disclosure of board composition, including the number of independent directors on the board; composition of various committees of the board; and separation of chair of the board and Chief Executive Officer (CEO).

CG is considered a mechanism that has an effect on the board of directors which controls the process of information disclosure in CARs (Gibbins et al., 1990). Also, good CG plays a significant role in the process of building strong capital markets. It can raise public confidence in the capital markets and create confidence among all stakeholders of the organisation, so it has a positive impact on providing the required investments for existing corporations and also for tomorrow's new ones (investment report by Middle East and North Africa (MENA)-OECD Working Group 5 (2005)). In the investment community, the survey conducted by McKinsey and Company revealed that investors pay great attention to investing in companies which have good corporate governance practices. The McKinsey and Company survey (2000) defined good CG in a corporation as:

- Having a majority of outside directors on the board with no management ties;
- Holding formal evaluations of directors;
- Being responsive to investor requests for information on governance issues; and
- Directors holding a significant stockholding in the company and a large proportion of directors' pay in the form of stock options.

In this sense, Colley et al. (2005) give an important definition regarding the governance model of a successful corporation typically including a number of characteristics such as:

- An effective board of directors that carries out its responsibilities with integrity and competence.
- A competent CEO hired by the board and given the authority to run the business.
- Selection by the CEO of a good business in which to operate with the board's advice and consent.
- A valid business concept created by the CEO and his/her management team, and, again with the board's advice and consent.

However, it is important to bear in mind that the way in which a CG regime progresses is affected by some aspects such as company law, the reliability of the courts, audit and legal professions, the powers of the regulatory bodies, and overall the traditions of the country and the expectations of its people (Tricker, 2012).

After a brief discussion of the concept of CG and its importance, it is necessary to provide an overview of the empirical research on CG; this is the task of the next section.

3.9.2 Previous Studies on Corporate Governance and Voluntary Disclosure

Researchers in accounting literature seem to be more interested in exploring the determinants which lead companies to disclose information on a voluntary basis to their stakeholders, by involving further factors based on the suggestion of previous studies (see for example Meek et al., 1995). In this context, Haniffa and Cooke (2002) argued that it is important to study the effect of CG attributes and cultural factors to explore their influence on the disclosure behaviour since the research studies failed to address these issues. As an extension to the disclosure literature, an increasing number of studies focus on those attributes in advanced and less developed nations. Empirical researches in this area are varied and take different avenues. For example, some research studies concentrate on particular types of disclosure such as the quality of share option disclosure (e.g. Forker, 1992), while other studies discuss social accounting disclosure (Haniffa and Cooke, 2005) and comprehensive financial disclosures (Chen and Jaggi, 2000).

The characteristics of a company's board have been used in prior studies. Some have captured board leadership and board composition (see for example UK: Forker, 1992; United States: Abbott et al., 2000; Hong Kong: Ho and Wong, 2001; Gul and Leung, 2004; Chen and Jaggi, 2000; Leung and Horwitz, 2004; Malaysia: Haniffa and Cooke, 2002; Singapore: Eng and Mak, 2003; Cheng and Courtenay, 2006; France: Lakhal, 2005; Australia: Lim et al., 2007; China: Yuan and Xiao, 2007; and Kuwait: Alanezi, 2011). However, other studies have considered the relationship between audit committee and extent of voluntary disclosure (see for example Malaysia: Abdullah and Nasir, 2004; Kenya: Barako et al., 2006; Kuwait: Al-Shammari and Al-Sultan, 2010; and Bangladesh: Rouf, 2010).

Even though ownership structure has been examined as an explanatory variable in the disclosure literature (e.g. Switzerland: Raffournier, 1995; and France: Depoers, 2000), this variable has been included in the CG literature to explore its influence on the process of a company's decisions such as voluntary disclosure behaviour. Lemmon and Lins (2003:1463) provided evidence that *"ownership structure plays an important role in determining whether insiders expropriate minority shareholders"*. Several types of ownership have been addressed, such as managerial ownership (e.g. Singapore: Eng and

Mak, 2003; China: Yuan and Xiao, 2007; and Huafang and Jianguo, 2007; Taiwan: Guan et al., 2007), institutional ownership (e.g. Malaysia: Haniffa and Cooke, 2002; Kenya: Barako et. al., 2006), outside ownership (e.g. Hong Kong: Chen and Jaggi, 2000), governmental ownership (e.g. Singapore: Mak and Li, 2001; Jordan: Naser et al., 2002), and block-holder ownership (e.g. Singapore: Eng and Mak, 2003: Tsamenyi et al., 2007; and Egypt: Samaha and Dahawy, 2010). However, prior research yields mixed results. The following sections shed light on common CG mechanisms used in the literature.

3.9.3 Board Characteristics

It has been argued that the corporate governance mechanisms followed by companies have a significant effect on the composition and independence of the board as well as the establishment of board committees and their composition besides the other benefits such as board effectiveness. Company boards of directors, as natural persons, are not only agents of a company, but also act as trustees (Crowther and Jatana, 2005). The next section addresses some studies testing the influence of role duality on disclosure.

3.9.3.1 Board Leadership (Role Duality)

The duties and responsibilities of the chairman as a function are typically varied: to chair the board, run board meetings, and monitor the process of hiring, firing, evaluating, and compensating the CEO (Jensen, 1993). In the board chairman context, Jensen argues that chairmen should be independent in order to objectively perform the chair's functions. It has been argued that the combing the two positions reduces board independence since there is no individual powerful enough on the board to face the CEO and this may lead to increased CEO entrenchment (Goergen, 2012). Separating the titles may reduce agency costs and improve company performance (Brickley et al., 1997). It is possible that the CEO may not properly carry out leadership tasks apart from his/her personal interest, so this leads to the creation of a conflict of interests in this case, which represents the perspective of agency theory. The IIF policies for best practice and transparency in emerging markets (2002) recognised this and recommended that the board chairman should be independent from company management. Therefore, separating the positions of chairman and CEO could be crucial for the effectiveness of monitoring the function of the board and improving the reporting quality (Forker, 1992). Also, separating the functions could help in mitigating the control of company management over the board (Van den Berghe and Levrau, 2004). In the US, Imhoff (2003) considers this and suggests that the US Security and Exchange Commission (SEC) must prohibit the CEO or any other past or current top manager of the corporation from acting as a chairman of the board of directors, from being involved in any way in the nomination of directors, or from being responsible for setting the board's agenda and meeting its requirements at the same time.

Regarding the separation of the role of CEO and chairman, the OECD principles of CG (2004:63-64) stated that: *"Separation of the two posts may be regarded as good practice, as it can help to achieve an appropriate balance of power, increase accountability and improve the board's capacity for decision making independent of management".* The UK Combined Code (Financial Reporting Council, 2006:4) also recommended the separation notion and declared that: *"There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision".*

Gul and Leung (2004) studied the effect of role duality and the percentage of expert non-executive directors on voluntary corporate disclosures in Hong Kong and realised that there is a negative correlation between the role duality and the extent of voluntary disclosure, which supports the view that the role of chairman and CEO should be spilt. This is consistent with Haniffa and Cooke (2002), who studied the determinants of voluntary disclosure in Malaysia. The findings also support the literature showing that the extent of corporate governance disclosure is lower for Egyptian listed companies with duality in position (Samaha et al., 2012). However, the result is inconsistent with Donnelly and Mulcahy (2008), who investigated the association between some CG mechanisms and the extent of disclosure in Ireland and reported a positive association between those variables. In the Hong Kong context, Chau and Gray (2010) reported that the existence of an independent chairman has a positive role in mitigating the impact of independent non-executive directors and family ownership levels on voluntary disclosures. Further evidence from Hong Kong, the results of Chau and Leung's (2006) study, provided some important insights that the positive association between independent non-executive directors is stronger in companies with an independent chairman.

In an extension of previous studies, Rouf (2010) studied the influence of role duality on the extent of voluntary disclosure in the annual reports of 120 non-financial companies in Bangladesh. He found that the increase in voluntary disclosure was positively related to board leadership. This is consistent with Rouf (2011), who conducted a similar study in the same country, but contrary to results documented by Huafang and Jianguo (2007) in China, who found that role duality was negatively associated with corporate disclosure. This is consistent with Cheung et al. (2010), who studied the effect of some CG elements on the extent of voluntary disclosure (VD) for major Chinese listed companies during 2004-2007. However, Cheng and Courtenay (2006) found that it had no effect on the disclosure practices of listed companies in Singapore.

In Kuwait, a recent study testing the impact of CG mechanisms (proportion of non-executive directors, proportion of family members on corporate board, role duality, and a voluntary audit committee) on the extent of voluntary disclosure was undertaken by Al-Shammari and Al-Sultan (2010). Using 76 items of information derived from previous studies (Cooke, 1989b; Meek et al., 1995; Ghazali and Weetman, 2006; Al-Shammari, 2008), a disclosure index was constructed and applied to the annual reports of 170 non-financial and financial companies listed on the KSE in 2007. The results revealed that companies with role duality were not associated with voluntary disclosure. This finding is strongly consistent with those of Ho and Wong (2001) in Hong Kong, Cheng and Courtenay (2006) in Singapore and Ghazali and Weetman (2006) in Malaysia.

The previous study can be criticised for the methodological approach used. In Kuwait, the financial companies (banks, investment companies) should create an audit committee upon the Central Bank of Kuwait (CBK) regulation in 2004 (see Chapter 4). Hence, the authors should use an audit committee terminology instead of “voluntary audit committee”. Another possible approach they could make is a comparison in terms of the existence of an audit committee mandatory and voluntary to explore which group discloses more information.

In a more recent Kuwaiti study, Alanezi (2011) attempted to explore the CG characteristics that are most closely associated with the extent of voluntary disclosure in the annual reports of non-financial companies. The selected variables were: cross-directorships, CEO duality, and board size. A checklist including 51 items was applied to the CARs of 119 companies listed on the KSE at the end of 2007. Among variables used in interpreting variation in disclosure practices, cross-directorship was found to be the only explanatory variable. The result of duality in position is consistent with the results obtained from emerging markets (see for example, Barako et al., 2006; Al-Shammari and Al-Sultan, 2010; Ghazali, 2010), that stated that this variable has no impact on voluntary disclosure, unlike the results reported for developed countries, such as those of Gul and Leung (2004), Lim et al. (2007), and Chau and Gray (2010). With regard to the association between board size and the amount of voluntary disclosure, the study result is inconsistent with other recent studies on the CG such as and Lim et al. (2007) in Australia, and Rouf (2010) in Bangladesh.

A general conclusion which can stem from an overview of the literature is that the relationship between role duality and voluntary disclosure is mixed. Companies with duality disclose less voluntary information (e.g. United Kingdom: Forker, 1992; United States: Abbott et al., 2000; Hong Kong: Gul and Leung, 2004; France: Lakhal, 2005; China: Huafang and Jianguo, 2007). However, some studies reveal that there is no association between role duality and voluntary disclosure (e.g. Hong Kong: Ho and Wong, 2001; Spain: Arcay and Vazquez, 2005 (audit reference); Singapore: Cheng and Courtenay, 2006; Malaysia: Ghazali and Weetman, 2006). The following section addresses the board composition factor.

3.9.3.2 Board Composition (Non-Executive Directors)

It is important for a corporation to have an effective board of directors in order to fulfil its responsibilities and goals. It is suggested that board composition is significantly associated with the incidence of corporate fraud (Uzun et al., 2004). Also, it is argued that the presence and involvement of non-executive directors (NED) on the board is an essential characteristic for an effective board. In this respect, NEDs on US boards, considered one vital approach, have been employed to control the agency problem (Agrawal and Knoeber, 1996). The main roles of NEDs are rooted in: preventing the undue exercise of power by executive directors, safeguarding shareholders' interests in the board's decision-making, contributing to strategic decision-making, and ensuring competitive performance (Pye, 2001). In this sense, the UK Combined Code on CG (Financial Reporting Council, 2006:3) stated that:

> *"Non-executive directors should constructively challenge and help develop proposals on strategy. Non-executive directors should scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. They should satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible. They are responsible for determining appropriate levels of remuneration of executive directors and have a prime role in appointing, and where necessary removing, executive directors, and in succession planning."*

However, the role of NEDs is not simple, and they need appropriate knowledge of the markets in which the company operates, skills, experience, and time to help them acquire a full understanding of the company's activities or environment. Also, some important needs should be available for NEDs such as appropriate guidance and training to help them discharge their responsibilities, therefore effectively practising to contribute to and support the board's performance (Ezzamel and Watson, 2005). In the United Kingdom, The Higgs report (2003:97) spotlighted the role, skills, and effectiveness of NEDs and affirmed that:

> *"To be effective, non-executive directors need to be well-informed about the company and the external environment in which it operates, with a strong command of issues relevant to the business. A non-executive director should insist on a comprehensive, formal and tailored induction. An effective induction need not be restricted to the boardroom, so consideration should be given to visiting sites and meeting senior and middle management. Once in post, an effective non-executive director should seek continually to develop and refresh their knowledge and skills to ensure that their contribution to the board remains informed and relevant."*

The report also concentrated on some of the personal attributes needed by NEDs: integrity and high ethical standards (as a prerequisite for all directors of the board), sound judgment, the ability and willingness to challenge and probe, and strong interpersonal skills. In this sense, the process of selection of ideal NEDs should consider *"no crooks, no cronies, no cowards"* (The Tyson Report, 2003:5).

It is evident that an appropriate structure of the board is needed to promote its effectiveness and performance. This can be achieved by a balance between the number of executive and NEDs who sit on the board, since both groups of directors bring different but essential skills to the boardroom (Solomon, 2010). Also, the structure of a corporate board should reflect diversity and complementary perspectives. It should comprise of a mix of directors with different personalities and educational, occupational and functional backgrounds, but they must also be complementary. Moreover, a corporate board of directors that appoints "clones" does not work and is even dangerous (Van den Berghe and Levrau, 2004).

In a study of independence of NEDs, Clifford and Evans (1997) classified board composition into three classes, namely: insider, grey area, and outsiders. They found evidence that 35 % of NEDs were engaged in transactions with their companies (i.e. grey area directors), which constitute a potential threat to their independence. Moreover, compliance with the Australian recommendations through involving NEDs on the board does not mean that the company will not be governed by internal management. A similar conclusion can be applied to the combination of the audit committee.

In this context, Crowther and Jatana (2005) focused on the internecine nature of NEDs' appointments. They reported that these people know each other as they know the directors of the organisation itself before appointment. So, it can be concluded that the independence of NEDs is subject to question in this case. One argument is that NEDs who sit on the same board long-term are likely to establish personal relationships with the managers of the company (or the dominant shareholder) they should monitor (Patelli and Prencipe, 2007). However, this criticism could increase in emerging markets, such as Kuwait, since the regulations do not offer guidance on the appointment or selection and role of NEDs, which will be discussed in detail in the next chapter.

Regarding the quality of disclosure in annual reports, it has been argued that outside directors could affect the determining of a company's voluntary disclosure policy as well as having incentives to foster the disclosure of more information with greater transparency to the company's stakeholders. For example, Chen and Jaggi (2000), Eng and Mak (2003), Cheng and Courtenay (2006), and Chau and Gray (2010) documented that this type of director fosters the quality of disclosure. Beasley (1996) argued that companies with a higher number of outside directors reduce the likelihood of financial statement fraud. On the other hand, Ajinkya et al. (2005) declared that companies with a higher proportion of outside directors on the board tend to disclose more information about management earning forecasts. Chen and Jaggi (2000) reported that the percentage of independent non-executive directors is positively related to the comprehensiveness of financial disclosures and this relationship is more likely to be weaker for family-dominated companies. Lim et al. (2007) found that companies with more independent boards disclose more information related to forward looking and company strategy. Another interesting conclusion is that board structure does not contribute to improving the level of non-financial and historical financial information. This contrasts with the conclusion reported by Samaha (2010), from an Egyptian information environment, who declared that the different components of CG disclosure are associated with board independence. In contrast, it is inconsistent with Barako et al. (2006), who found a negative association between them. On the other hand, companies with a higher proportion of independent outsider directors on the board may help to reduce the probability of corporate wrongdoing (Uzun et al., 2004).

In the Italian context, Patelli and Prencipe (2007) revealed that a positive relationship between percentage of independent directors (as an internal control mechanism) and extent of voluntary disclosure (as an external control mechanism). Based on a sample of 104 companies listed on the Singapore Stock Market (SGX), Cheng and Courtenay (2006) also reached the same result. The findings of previous studies are consistent with the findings obtained from the Spanish, Irish, Malaysian, and Egyptian markets (Arcay and Vazquez, 2005; Donnelly and Mulcahy, 2008; Akhtaruddin et al., 2009; Samaha and Dahawy, 2011). In this respect, Chau and Leung (2006:13) stated that "*the inclusion of a higher proportion of independent directors on corporate boards could result in more effective monitoring of boards and exert greater influence on management decision to set up audit committee".* Chau and Leung (2006) suggested that the proportion of independent directors affects the existence of audit committees; these results are in line with Huafang and Jianguo (2007) in China. Conversely, the ratio of audit committee members to total members on the board is not related to voluntary disclosures (Akhtaruddin et al., 2009). Concerning the outcomes, in contrast, Barako et al. (2006), Eng and Mak (2003), and Rouf (2010) documented a negative association between proportion of independent NEDs and extent of voluntary disclosure. On the other side, some studies found no significant association between those variables (see, for example, Haniffa and Cooke, 2002; Ghazali and Weetman, 2006).

In the case of Australia, Lim et al. (2007) used data from 181 companies to examine this relationship. Following the classification of Meek et al. (1995), the authors developed a checklist composed of 67 voluntary items, and the study provided evidence of a positive correlation between board size and overall voluntary disclosure which is consistent with Akhtaruddin et al. (2009).

More recently, Samaha et al. (2012) studied the effect of a set of CG mechanisms on the extent of CG disclosure. They examined annual reports and websites of the most active 100 companies on the Egyptian Stock Exchange (ESE). The study revealed that a higher proportion of NEDs on the board leads to an increase in the amount of CG disclosure, consistent with the previous Egyptian studies conducted by Samaha and Dahawy (2010, 2011) and Samaha (2010). Concerning board size, the result is consistent with Alanezi's (2011) study, conducted in the Kuwaiti context, referred to earlier and showing no association between these variables. However, it is inconsistent with prior studies (e.g. Lim et al., 2007; Akhtaruddin et al., 2009).

3.9.3.3 The Board Committees (The Audit Committee)

The audit committee is defined as a key element of an effective CG regime (Gramling et al., 2004) and the existence of this committee, as an indicator of the quality of CG, encourages the reliability of information provided by the internal audit; in addition, sufficient information should be supplied by the audit committee to the board of directors (Solomon, 2010). From an agency theory perspective, Haron et al. (2005) stated that the audit committee is likely to protect the interests of shareholders and works to make sure that managers fulfil their responsibilities upon their contracts. Felo et al. (2003) and Brennan and Solomon (2008) concentrated on the importance of audit committees as a cornerstone which improves the quality of financial reporting and accounting functions. It is argued that the presence of an audit committee and the independence of its members have significant influence on reducing the occurrence of corporate fraud (Uzun et al., 2004). Song and Windram (2004) indicated that one of the audit committee's responsibilities is to act as a final safeguard and approve the financial statements prior to their release to shareholders and other stakeholders. The audit committee plays an affirmative role as a monitoring mechanism to foster the quality level of the information stream from the company as agent to the shareholder as owner (Bradbury, 1992). Therefore, the Smith Report (2003:3) highlighted the role of this committee:

> *"While all directors have a duty to act in the interests of the company, the audit committee has a particular role, acting independently from the executive, to ensure that the interests of shareholders are properly protected in relation to financial reporting and internal control."*

Additionally, the Smith Report emphasised that all members of the audit committee should be independent NEDs. CARs should include a separate section providing detailed information regarding the role and responsibilities of the audit committee and the actions taken to discharge those responsibilities.

The Cadbury Report (1992) recommended that all companies should establish audit committees as the best practice of CG. The key responsibility of an audit committee, as a representative of the company board, is overseeing a company's financial reporting process, auditing the financial statements, enhancing the internal control function. It also plays an important role in directing independent communication with both external auditors and internal auditors as well as in facilitating communication between the board, external auditors and internal auditors (Klein, 2002; Colley et al., 2005; Chau and Leung, 2006). Due to a growing awareness of the crucial role of audit committee, a number of companies have voluntarily established an audit committee in order to ensure effective communication between the corporate board and its external auditors (Rezaee, 2002). However, the presence of an audit committee does not guarantee the quality of the GC or the reliability of financial reporting. There are some important points to be considered in the selection of audit committee members, such as their experience and independence in order to ensure the effectiveness of this committee.

In this respect, Colley et al. (2005:40) stated that *"audit committee members must be good judges of the character of the managers with whom they deal, and they must create a culture that minimizes the risk of strong or deceitful personalities cutting corners or not providing full disclosure".* Further, Solomon (2010:187) reveals that *"the independence of (usually non-executive) directors sitting on audit committees is essential if this monitoring role is to be successful".* So, it can be concluded that the independence of committee members is necessary to ensure the efficiency of the audit committee as one of essential elements of good CG. In this context, CG literature provides evidence that companies with independent audit committees are less likely to suffer financial statements' fraud or earning management (e.g. Abbott et al., 2000; Bedard et al., 2004). Moreover, the results of Jaggi and Leung's (2007) study, in Hong Kong, lend support to the idea that the effectiveness of the audit committee is significantly reduced when family members sit on corporate boards, more specifically when these members control the corporate board. Hence, there is a call for academic research to assess the effectiveness of audit committees (see, for example, Pucheta-Martinez and Fuentes, 2007). The audit committee is employed in many developed economies, so there is a need to explore the effect of audit committee, as an internal monitoring mechanism, on the improvement of the quality of financial reporting in developing countries such as Kuwait, since it is still in the early stages of a transitional period of adopting CG culture and practices.

Regarding research into disclosure and CG, there are several studies which seek to explore the association between the existence of audit committees and corporate disclosure. For example, a study conducted by Barako et al. (2006) to explore the correlation between the audit committee and voluntary disclosure was based on a sample of 43 companies listed on the Nairobi Stock Exchange (NSE). They found that the presence of an audit committee is perceived to enhance the level of voluntary disclosure. This outcome is consistent with results in other recent studies from emerging markets (Arcay and Vazquez, 2005; Al-Shammari and Al-Sultan, 2010; Samaha and

Dahawy, 2010, 2011; Rouf, 2011) as well as with the findings of previous studies from economically advanced nations (Ho and Wong, 2001, in Hong Kong; Forker, 1992, in the United Kingdom) which provide evidence that the existence of an audit committee has a significantly positive impact on the level of voluntary disclosure. Hence, it can be concluded that the audit committee is considered a significant factor affecting voluntary disclosure practices in annual reports. However, Yuen et al. (2009) found that Chinese listed companies with an audit committee tend to disclose less voluntary information. Samaha (2010) and Samaha et al. (2012) did not find sufficient evidence to support this association.

3.9.4 Ownership Structure

Ownership structure is considered a crucial element of the CG system, and a large set of studies examines its impact on voluntary disclosure policy. La Porta et al. (1999) classified companies based on ownership structure: a family, the state, a widely-held financial institution (e.g. bank, insurance company), a widely-held corporation, or a miscellaneous grouping. The argument here is that the legal environment, in which a company operates, has a significant impact on the composition or dispersion of corporate ownership. More specifically, when a country’s regulations provide good protection of minority shareholders’ rights, it will be common to find more widely-held companies (“diffusion of ownership”), while less widely-held companies will be more common in economies with poor shareholder protection rights. It has been proven that the sizes of capital market and ownership dispersion are positively associated with the degree of participants’ protection (La Porta et al., 1997).

As noted earlier, several aspects of corporate ownership structure are employed in accounting literature as explanatory variables to assess their effects on disclosure behaviour around the world. It is worth noting that disclosure literature classifies ownership structure into several categories, for instance, institutional ownership (Haniffa and Cooke, 2002), outside ownership (Chen and Jaggi, 2000), governmental ownership (Naser et al., 2002; Eng and Mak, 2003), and block-holder ownership (Eng and Mak 2003; Huafang and Jianguo, 2007; Tsamenyi et al., 2007). Most above mentioned studies provide empirical evidence consistent with the hypothesis that there is a significant and positive association between the extent of disclosure and each of governmental, foreign, and institutional forms of ownership. However, there is negative association between managerial ownership and disclosure (for example, see Eng and Mak, 2003; Yuan and Xiao, 2007; Rouf, 2010).

Institutional investors such as investment trusts and pension funds are considered major holders of equity in companies and their subsidisers. In most cases, this type of owner exercises their power to affect the company's strategic decisions. It has been argued that the large shareholders in some countries play a significant role in CG (Shleifer and Vishny, 1997). They are expected to have significant power, which influences capital markets and company management as a result of the significant percentage which they hold in their portfolio: "investee companies". For example, Mallin (1996) documents that in the UK, institutional investors hold between 65% and 75% of quoted companies, while the figure is between 47% and 50% in the US.

In the institutional investors' context, the UK Combined Code (Financial Reporting Council, 2006:19 and 20) recommends that institutional investors should carry out the following points:

1. *Dialogue with companies: "Institutional shareholders should enter into a dialogue with companies based on the mutual understanding of objectives."*

2. *Evaluation of governance disclosures: "When evaluating companies' governance arrangements, particularly those relating to board structure and composition, institutional shareholders should give due weight to all relevant factors drawn to their attention."*

3. *Shareholder voting: "Institutional shareholders have a responsibility to make considered use of their votes."*

Hence, the institutional investors should act in the interests of their ultimate beneficiary. In fact, they have the responsibility to exercise their right to vote and should consider it as "a fiduciary duty" Mallin (2001). Moreover, the power of large shareholders, such as institutional investors, derives from the degree of legal protection of their votes (Shleifer and Vishny, 1997). Consequently, institutional investors could emphasise their portfolio or their ownership; this will lead them to more monitoring and control of management in investee companies (Shleifer and Vishny, 1997).

It has been argued that companies with a large proportion of shares held by institutional investors may disclose more voluntary disclosure. El-Gazzar (1998) provides evidence supporting this. In the context of interim reports, Schadewitz and Blevins (1998) provide evidence of a negative association between institutional ownership and interim disclosure. It is argued that managers in companies controlled by a wide set of outside shareholders will release more voluntary information to reduce agency costs. One common form of CG systems in business worldwide is the outsider system, which refers to systems of finance and corporate governance where the majority of large companies are owned by outside shareholders, such as financial institutions or individual shareholders, whilst being governed by their managers. This form is widespread in the UK and the US. These owners characterise the outsider system and exercise a significant influence on the company board (Solomon, 2010). On the other hand, Solomon (2010:197) stated that *"the UK CG system is taking on the characteristics of an insider rather than an outsider system, with institutional investors becoming insiders who own and also control companies to some extent".* However, it has been argued that the majority of CG systems fall roughly within the insider and outsider models, sharing some attributes of both models (Solomon, 2010).

In a comprehensive comparative study to assess the ownership structure of the 10 largest corporations in 49 countries, La Porta et al. (1998) revealed that the concentrated ownership structure for a sample of 49 countries usually falls in the "insider system". Ruland et al. (1990) tested the motivation of managers to disclose information related to forecasts of earnings. Their results show that the percentage of insider ownership in the company is the most important variable in distinguishing between reporting and non-reporting companies regarding voluntary disclosure of management forecasts.

In a regional and comparative study, Chau and Gray (2002) assessed the relationship between different aspects of ownership structure (outsider ownership and family or concentrated ownership) and the voluntary disclosures of companies listed on the Hong Kong and Singapore stock markets. Their results show a positive association between proportion of wider ownership and increased voluntary disclosure. They also documented that in Hong Kong (HK) the prevalence of "insider" and family controlled companies is expected to be associated with lower levels of disclosure. In this context, Chau and Gray (2010) state that the family ownership in HK companies has significant influence on transparency levels and policy makers should consider this factor when developing regulations.

Eng and Mak (2003) studied the impact of different ownership structure aspects (managerial ownership, block-holder ownership, and government ownership) on voluntary disclosure. Their study concentrates on voluntary strategic, non-financial and financial information in the management discussion and analysis in the annual report. Their results showed ownership structure has an impact on the voluntary disclosure practices of 158 companies listed on the Singapore Stock Exchange. Their findings support the notion that companies with less managerial ownership are expected to release more voluntary information. Ghazali and Weetman (2006) and Samaha and Dahawy (2010) also reached the same conclusion. This is in line with Yuan and Xiao (2007), who investigated the impact of managerial ownership on the extent of voluntary disclosure in China based on a principal-agent and proprietary costs perspectives. Eng and Mak (2003) found government ownership to be positively associated with voluntary disclosure. On the other hand, they found that different types of block-holder ownership (individuals, institutions/corporations and nominees) are not correlated to disclosure. Contrary to their hypothesis, an increase in the proportion of outside directors tends to reduce voluntary disclosure.

In the Malaysian context, Ghazali and Weetman (2006) expanded in the work of previous studies by investigating different types of ownership structure: ownership concentration, number of shareholders, director ownership, and government ownership. Following the approach of Meek et al. (1995), Ghazali and Weetman constructed and developed a checklist of 53 items of information, classified into three main categories: strategic, financial, and corporate social responsibilities. The overall results showed that director ownership had a significant and negative relationship with total voluntary disclosure and all three disclosure categories. However, companies with a high proportion of executive directors' ownership were associated with decreased total voluntary disclosure only, consistent with the findings of Eng and Mak (2003) and Samaha and Dahawy (2010). Conversely, other ownership types do not appear as predictor variables. Family member on the board has a significant and negative relationship with overall level of voluntary disclosure only, consistent with Ho and Wong (2001) and Haniffa and Cooke (2002). With regard to government ownership, the conclusion is consistent with Naser and Al-Khatib (2000), Suwaidan et al. (2004), and Samaha and Dahawy (2010, 2011), who reported that companies with government ownership do not appear to disclose more information. In contrast, Wang et al. (2008) revealed that level of voluntary disclosure is positively related to proportion of state ownership, but less disclosure is expected by this type of company in Egypt (Rizk et al., 2008).

In another study, Ghazali (2007) tested the influence of ownership structure on CSD in CARs by employing three ownership structures (ownership concentration, director and government ownerships). A checklist including 22 items, constructed based on previous studies (e.g. Hossain et al., 1994; Haniffa and Cooke, 2002), was applied to annual reports of 87 non-financial companies. The results indicated that companies in which the executive and non-independent directors "owner managed companies" hold a higher proportion of company's shares "closely held companies" disclose less CSD information in their CARs. Providing further evidence about the role of Malaysian corporate boards in promoting voluntary disclosure, Haniffa and Cooke (2005) indicated that there is a negative association between CSD and boards dominated by executive directors. On the other hand, Haniffa and Cooke (2005) stated that companies with a chairman having multiple directorships tend to disclose more information about their social responsibilities and activities. Regarding shareholder types, Ghazali (2007) also stated that companies in which the government is considered a major shareholder revealed more CSD information, which is consistent with author's proposition. The results also indicate that companies disclosed, on average, approximately 25% of the items contained in the checklist which is considered a low level. However, this result is consistent with Khasharmeh and Suwaidan (2010) in the GCC countries, referred to earlier. Hence, it could be suggested that the preparers of CARs in GCC countries and Malaysia may have similar considerations and objectives to disclose social activities in their CARs. Moreover, they could employ similar types of social information to express their social responsibilities toward societies. However, this result is lower than the results reported in other Middle East studies (e.g. Suwaidan et al., 2004).

Guan et al. (2007) evaluated GC issues in Taiwan by using a sample of 45 listed companies. Their study focused on the impacts of ownership structure: managerial ownership, block-holder ownership, institutional ownership, director ownership, and outside directors on the disclosure level. To test voluntary disclosure practices, an index was constructed consisting of 57 information items (including 37 items for CARs and 20 for websites). The study provided evidence of a negative association of block-holder ownership with corporate disclosure, consistent with Tsamenyi et al. (2007), who used a sample of 22 listed companies to evaluate CG practice in Ghana. However, institutional ownership and director ownership are found to be positively related with disclosure levels. The findings of institutional ownership are inconsistent with Donnelly and Mulcahy (2008), who find no proof that ownership structure is associated with voluntary disclosure. The findings of director ownership variable are consistent with Ghazali and Weetman (2006). On the other hand, they indicate that the institutional ownership variable plays a crucial role in enhancing the information transparency level. The authors also suggested that the corporate board acts as "an effective internal CG mechanism".

The main conclusion to be drawn from a review of the literature on ownership is that every aspect of ownership is distinguished by some shortcomings and may cause serious CG problems. For example, insider ownership could reduce monitoring problems. However, this type of ownership structure leads to an increase in the levels of control over a company by a specific stakeholder group due to the low level of separation between management and ownership, and so tends to ignore the interests of other groups such as minority shareholders. Additionally, there can be abuse of power (Solomon, 2010). Consequently, minority shareholders could suffer problems in getting information about a company's activities.

3.10 CONCLUSION: THE GAP IN THE LITERATURE REVIEW

One of main objectives of the review of relevant literature is to identify the gap and limitations in the research. Based on the previous discussion, it can be concluded that disclosure in CARs is usually inadequate to meet the needs of user groups for accounting information (Alsaeed, 2006; Chatterjee, 2007) and more specifically in developing countries.

This leads to a statement that, to be able to make sound decisions, user groups require more information than is available in the CARs. Thus, improved corporate disclosure would lead to a reduction in "the disclosure gap" (Rouf, 2010). From a closer look at studies exploring the usefulness of information and the importance of CARs, it can be inferred that most studies have been conducted in the economically advanced nations. The developing countries do not receive great attention from researchers, and few studies focus on this part of the world. Therefore, little is known about the behaviour of those groups in emerging markets. In the user groups' context, Zoysa and Rudkin (2010) argued that the majority of previous studies examined very few groups, in most cases one or two, resulting in limited knowledge about the perceptions and views of user groups.

It has been argued that the main user groups of information in developed capital markets are different from those in emerging ones (Wallace, 1993). In addition, Ngangan et al. (2005) provided empirical evidence supporting Wallace's view that user groups from developed and developing countries differ in terms of how they rate the importance of disclosure items. This might be due to different factors: political, cultural, economic, diversity in decisions, and social (e.g. Jaggi, 1975; Firth, 1978; Chang et al., 1983; Gray, 1985).

Although two studies explored the perception of annual report users in Kuwait, there is a need for more research in this area. This is based on two reasons. Firstly, the KSE is criticised by some international bodies on the following points: commercial regulations do not provide enough protection to market participants; the lack of disclosure requirements thus lead to the emergence of disclosure problems such as those related to the percentage of ownership in listed companies and related parties issues. Hence, the Kuwaiti government made some extensive and significant changes in the capital market environment (for more details, see Chapter 4). Secondly, from the legitimacy theory perspective, societies change over time, so organisations should respond to these changes in order to conform to the value systems of the society in which they perform their activities. Unerman and Bennett (2004) argued that the expectations of stakeholder groups, as a part of society, change over time; hence, organisations must continually adapt their operations and report their activities based on these circumstances. In this sense, Deegan et al. (2000) argued that companies tend to change their disclosure policies over time, based on social events. Therefore, user groups differ in their information needs, and these needs may change with time, providing a good opportunity to explore users' information needs for making economic decisions from one period of time to another.

Regarding voluntary disclosure and CG literature, academic studies in this area have largely examined the influence of company characteristics and CG mechanisms on the extent of disclosure and the various types of voluntary corporate disclosure. However, much prior research has concentrated on developed countries and East Asian countries. In contrast, very few studies have examined the voluntary disclosure and corporate governance practices in developing countries such as the Middle East, and more specifically the Gulf region.

It should be noted that most disclosure literature covers a single period of time, e.g. one-year data only. On the other hand, some studies discuss disclosure practices over two-year data to evaluate the level of improvement. However, conducting a longitudinal study on a yearly basis contributes to a better understanding of a phenomenon such as disclosure level and its components as well as tracking trends and changes in the phenomenon over the examined years. It has been argued that the difference of conclusions in studies suggests the need for individual country studies and comparative analysis (Samaha and Dahawy, 2011).

The present study extends and contributes to prior work by assessing the perception and view of four user groups regarding the perceived importance of the corporate annual report as a crucial source of information amongst other sources and by exploring the usefulness of a set of voluntary proposed information to be included in the annual reports. This may improve the quality of disclosure and increase the level of corporate transparency in annual reports of listed companies. On the other hand, this study also extends previous studies by exploring the effect of a comprehensive set of company and governance characteristics on the voluntary disclosure practices in Kuwait as an example of an emerging market. This could help to identify the factors that dominate the disclosure strategies of companies listed on the KSE.

In the practical implications' context, the study's findings would be useful to corporate boards, regulators, market participants, and should be of interest to academic researchers, policy makers and planners for improving disclosure policies, ensuring a higher level of transparency in companies' information, and setting up/developing corporate governance codes of best practice. Consequently, this may help to increase stakeholders' confidence in the capital market, especially "national and international investors", so may encourage them to invest more in the KSE. On the international level, the results may yield sufficiently interesting conclusions to emerging markets, especially Middle East countries that have a similar social, political, and economic environment.

The following chapter concentrates on the role of the Kuwaiti government regulatory bodies and legislative framework, and on the accounting and auditing profession in affecting the shape of financial reporting and the disclosure of information provided by companies listed on the KSE.

CHAPTER FOUR: TRANSPARENCY REPORT

CHAPTER FOUR
TRANSPARENCY REPORT

4.1 INTRODUCTION

The relative importance of capital markets in different countries varies greatly and is, in part, dependent on size. Irrespective of size, however, market success is crucially linked to reputation, or degree of confidence attained among the public, investors, and governmental bodies. In this respect, capital markets are arguably measured according to their level of transparency, the credibility of information provided to current and prospective investors, and the ability of monitoring bodies to protect all parties involved. Hacimahmutoglu (2007:131) states that:

> *"As the equity capital emerges, as an essential corporate finance mechanism in emerging markets and Europe, the regulation of companies that provides adequate protection for the minority shareholders' and investors' interests enables companies to access the equity capital in the global market".*

The amount and types of accounting information disclosed by companies varies from one state to another depending on the development and sophistication of the capital market, the development of the accounting and auditing profession, and the application of legislation in the state (Suwaidan, 1997). Two types of pressures influence accounting information, namely: market pressures and regulatory bodies' pressures (Inchausti, 1997). In this respect, the form of company accounting and reporting practices are also affected both indirectly and directly by entry into capital markets (Choi, 1973, Cooke, 1989a).

Chapter 3 discussed accounting research conducted in different countries to explain companies' voluntary disclosure practices. It also addressed a number of prior studies dealing with the adequacy of disclosure in published CARs as a source of information in the view of user groups. The main motivation of the current chapter is to provide brief background information on Kuwait and its economy, on some aspects of the KSE, and on the emergence of the capital markets authority (CMA). Moreover, this chapter discusses the role of legislation and the auditing profession as main factors influencing the reporting practices of listed companies in Kuwait, providing a fundamental backdrop against which to develop further research agendas in transparency and governance in the Middle East region.

4.2 COUNTRY BACKGROUND AND ECONOMIC OVERVIEW

Kuwait is a Middle Eastern country on the Arabian Gulf bordered on the north by Iraq and on the south by Saudi Arabia. Its area is approximately 17,818 square kilometres of desert. Kuwait is a small, oil-rich country, governed by a constitutional hereditary emirate, with six administrative divisions or governorates, operating a civil law system, with Islamic law significant in personal matters. The formation of political parties is forbidden by the constitution; however, a number of *de facto* political groups exist, constituting a varied spectrum of legislative blocs operating in the National Assembly such as tribal groups, merchants, Shiite activists, Islamists and secular liberals.

Economically, Kuwait is a relatively open economy with self-reported crude oil reserves of about 104 billion barrels, about 7% of world reserves. Oil represents nearly half of GDP, 95% of export revenues, and 95% of governmental income. The GDP (purchasing power parity) of Kuwait is $155.5 billion with a real growth rate of 8.2% and the GDP *per capita* is $42,200. Kuwait's climate limits agricultural development; consequently, with the exception of fish, it depends almost wholly on food imports. Agriculture, therefore, accounts for 0.3% of the GDP composition, while industry accounts for 47.4% and services represent 52.3%. The labour force across all sectors represents a combined total of 2.243 million, of which only 40% are Kuwaiti nationals. Unemployment rates are 2.2%, and none of the population lives below the poverty line. Inflation rates have reached 4.7%, while gross fixed investment is 26.1% of GDP. Revenues and expenditures in the national budget are $108.30 billion and $58.06 billion respectively, while public debt represents 6.5% of GDP. (www.cia.gov, 25 October, 2012).

Having provided a general context for the country's economic position, the next section will review the main aspects of Kuwait's regulatory environment.

4.3 THE REGULATORY ENVIRONMENT: THE KUWAIT STOCK EXCHANGE (KSE)

4.3.1 Background

The KSE, established in 1944, is the oldest stock market in the Gulf Cooperation Council (GCC) region (The Hawkamah Institute (HI) and the Institute of International Finance (IIF) Report, 2007), yet its governing legislation, issued in 1983, lags behind the developments of its trading activities. The 1983 laws have not been updated to follow the rapid development either of local business or in regulatory environments elsewhere in the world. Table 4.1 shows trading activity changes in the KSE for the last seven years. In 2009, the KSE achieved a record number of shares traded, 106,332 million, making 2009 the most active year of trading. It has been argued that increased trading volume leads market participants to demand more information from companies (Gray et al., 1984; Doupnik and Salter, 1995, as cited in Haddad, 2005).

Table 4.1: Changes in Trading Activities in the KSE during the Period 2005-2011

Year	Market index	Volume of shares traded Million	Value of shares traded KD Million	No. of share dealings Thousand	No. of listed companies	Market capitalisation KD Million
2005	11,445	52,246	28,422	1,956	162	30,396
2006	10,067	37,658	17,284	1,486	181	30,979
2007	12,559	70,438	37,010	2,102	197	33,837
2008	7,783	80,851	35,747	1,998	205	30,726
2009	7,005	106,332	21,829	1,939	206	27,722
2010	6,956	74,692	12,526	1,254	215	33,679
2011	58,142	38,423	60,683	6,184	215	24,053

Source: Kuwait Stock Exchange annual reports (2005-2011) One Kuwaiti Dinar (KD) roughly equals $3 Dollars

Table 4.2 presents data relating to the number of companies listed on the KSE for the years 2005-2011. At the end of 2010, the service sector leads other sectors in terms of number of companies, representing 28% of total listings. The investment and real estate sectors come second and third, with 51 and 39 companies representing 24% and 18%, respectively. A noticeable increase in number of companies listed on the KSE is observed. This arguably generates more demand for auditing services on the one hand and greater monitoring and oversight efforts from regulatory bodies on the other. Consequently, it can be concluded that the development of capital markets greatly impacts the accounting environment (Haddad, 2005).

Table 4.2: Changes in Industrial Sectors and Number of Companies on the KSE during the Period 2005-2011

Sector	Number of listed companies						
	2005	2006	2007	2008	2009	2010	2011
Banking sector	8	9	9	9	9	9	9
Investment sector	39	43	43	46	47	51	51
Insurance sector	7	7	7	7	7	7	7
Real estate sector	28	29	34	35	35	39	39
Industry sector	23	25	27	28	28	29	28
Services sector	33	45	53	57	58	60	61
Food sector	5	5	6	6	6	6	6
Non-Kuwaiti companies	15	17	17	16	15	14	13
Investment funds	4	1	1	1	1	-	1
Total of KSE listed companies	162	181	197	205	206	215	215

Source: Kuwait Stock Exchange annual reports (2005-2011)

According to the above discussion, the increase in the size of the capital market in Kuwait over these years reinforces the need to update the legislation and regulations that govern it.

Together with the Ministry of Commerce and Industry (MCI) and the Central Bank of Kuwait (CBK), the KSE aims to coordinate and integrate financial and economic activities and capital movements in Kuwait in order to achieve national economic development and financial stability. The KSE’s continuous development of its share trading systems and methods and its adoption of modern techniques has enabled it to achieve high financial status at both regional and international levels. Recently, the KSE entered into an agreement with the NASDAQ-OMX (the Swedish stock market) to develop the KSE’s trading system and to train its technical staff. The new trading system is launched in the second quarter of 2012 (as published on the KSE website, 2012). However, for the KSE to fully accomplish its responsibilities and duties, and to achieve the goals for which it was established on an on-going basis, there is clearly a need to continually improve, adapt and refine its regulations and guidelines to facilitate a well-functioning and transparent trading environment year after year. The following is a brief discussion of the main features of the KSE.

4.3.2 KSE Legislation

The KSE is organised by the Amiri Decree issued in August 1983, as amended by the Amiri Decree No. 158 of 2005, and the Ministerial Decree No. 35 of 1983. These laws govern the general framework of the KSE and established a KSE Committee with responsibility for setting its rules, general strategies and policies and managing the market. This dual role of the KSE Committee to both monitor and manage the market is considered by many bodies and specialists to be a significant defect. In most other countries, responsibility for monitoring the market is vested in a separate body from that issuing regulations and executing processes. Consequently, it is rare for the KSE Committee to disclose any irregularities and defects in the management of the market.

4.3.3 KSE Listing Requirements

The Kuwaiti legislator has revised the rules and conditions for listing companies on the KSE several times in recent years. The latest revision is Resolution No. 2 of 2008, and the KSE's website publishes the KSE Committee's requirements for a company to gain listing of its shares on the market. Among the most important of these are the following:

1. The company's issued capital should be fully paid and should not be less than $30 million, and the total of shareholders' equity shall not be less than 115% of the weighted average of the paid-up capital in the last two fiscal years, according to the annual audited financial statements prior to the listing request and approved by the company's General Assembly (Article 2).
2. The company shall have achieved a net income in the last two fiscal years, and the yearly net income shall not be less than 7.5% of the weighted average of the paid-up capital at the end of each fiscal year (Article 4).
3. Of the company's capital, 30% should be distributed to a number of shareholders according to the schedule guide accredited by the KSE Committee; otherwise, 30% of the company's capital shall be offered for private placement by a specialised company independent from the company requesting listing (Article 7).
4. The company should attain the approval of its General Assembly to list its shares on the KSE (Article 8).
5. The company's board shall pledge to adhere to all the rules and regulations set by the KSE, and to provide the KSE management with all the required data and information (Article 9).
6. The company shall provide its shareholders' registry to the clearing company (CL) and adhere to all the instructions issued by the KSE in this regard. (Article 10)
7. A non-Kuwaiti company must be listed in its country of origin's stock market (Article 11).

4.3.4 The KSE Committee

The KSE Committee was formed by a resolution of the Council of Ministers (CM) based on the proposal of the MCI. It has the authority to issue the necessary rules and procedures regarding the following issues:

1. Dealing, supervision, and monitoring in securities.
2. Reviewing listing requests by brokers and the shares of listed companies, or any other securities in the market and reaching a decision regarding the requests.
3. Monitoring of the deal funds and investment portfolios in securities listed on the market.
4. Monitoring, preparation, and disclosure of financial statements and results for listed companies and investment funds.
5. Making regulations about the acquisition of a significant percentage of company capital.
6. Making regulations to prevent dealing based on inside or undeclared information, or conflicts of interest.
7. Making regulations about professional ethics and the obligation of confidentiality by the staff of the market and the companies that operate in securities.

The committee is made up of 11 members representing various bodies, as shown in Table 4.3.

Table: 4.3 Members of the KSE Committee

Names of Bodies	Member Position
Ministry of Commerce and Industry	Chairman of Committee
Manager of the KSE	Vice Chairman of Committee
Ministry of Finance	One member
Central Bank of Kuwait (CBK)	One member
Ministry of Commerce and Industry (MCI)	One member
Council of Ministers (CM)	Two members with high level of experience and competence chosen by the Council of Ministers upon nomination by the Minister of Commerce and Industry
Kuwait Chamber of Commerce & Industry (KCCI)	Four members selected by the KCCI and will include a broker

As depicted in Table 4.3, the Minister acts as the Chairman of the Committee, with the Manager of the KSE as Deputy. It has a three-year span, which is subject to renewal. The CM determines all remuneration and financial rights for the members of the

Committee. The Chairman submits to the CM a detailed report every three months on the work of the KSE and the status of investors, as well as analysing the KSE's performance in the light of the general policies of the state over the long term.

In terms of sanctions against violators, the Amiri Decrees of 1983 and 2005, which regulate the KSE, set out penalties and sanctions to be enforced by an independent KSE committee. At its own discretion, it can impose any of the following penalties:

1. Alert.
2. Warning.
3. Suspension for a period determined by the Committee, and cancellation of transactions following the violation.
4. Confiscation, all or in part, of bank guarantees.
5. Imposition of prohibitions on dealing in shares issued by companies or bodies that violate the regulations until the causes of the violation are dealt with.
6. Cancellation of membership.
7. If the violator is a buyer, s/he must deposit the cash value of the shares to be traded with a clearing company before the buying transaction.

In addition to the previous legislations related to the KSE, the next section discusses the disclosure framework covered in the commercial regulations such as the disclosure of ownership interests.

4.3.5 Status of Disclosure and Transparency Requirements in the KSE

Kuwait's legal framework asserts that companies are legally responsible for the immediate disclosure of all material information to the KSE and to the public via the media, such as newspapers. Furthermore, companies are accountable for the accuracy of information they publish since it may influence the prices of shares. The KSE listing requirements oblige companies to disclose information regarding specific issues including: the acquisition or disposal of subsidiary or associated companies' related-party transactions, and changes in ownership structure.

The KSE Committee Resolution No. 5, issued in 1999 regarding the declaration of interest in the shares of companies listed on the KSE, focuses on the minimum percentage of ownership required for disclosure. It obliges companies to disclose the ownership of any concentrated interest of 5% or more of its shares and to reveal the sale procedures for any deal exceeding 5% of outstanding shares. In 2006, the Committee of Promoting Transparency (CPT) on the KSE, which is a part of the public benefit society "Transparency Society-Kuwait", issued its report on the status of the KSE. This stated the resolution's limitations, including not specifying the type of information to be disclosed, not dealing with conflicts of interest, and not covering any issues related to the disclosure of interests in joint ventures. Thus, the deficiencies of the disclosure requirements under the current legislation provide an opportunity for the exploitation of 'inside information', This permits the whole issue of what information is covered by the requirements and the correct timings of information disclosure under the requirements to be at the discretion of the board or the KSE Committee.

Furthermore, the CPT also stated another weakness of the disclosure legislation is the lack of criminal sanction to deter or punish violators. The only penalties involve excluding the shares of the violator from the quorum needed to convene the General Meeting, removal of the right to vote on the company's resolutions for two elections or, in extreme cases, depriving the offender of the right to run for membership of the board for two elections. Certainly, these sanctions against the breach of the disclosure law in Kuwait are not considered strong enough to act as meaningful deterrents. In fact, the International Monetary Fund (IMF) encouraged Kuwait to adopt its code regarding Good Practices on Transparency in Fiscal Policy. However, IMF reports show that Kuwait does not currently follow these practices (Estandards Forum, 2009).

The modernisation of the Kuwaiti disclosure process remains critical. In order to develop an efficient and effective regulatory regime, an essential part of ensuring the validity of the trading climate both now and in future, there is a crucial need to improve the governance and operation of the regulatory authorities themselves as well as a clear need for more regulations to achieve the protection of investors and improve international confidence in the KSE. Additionally, it seems that *"changes need to be made to the disclosure regime but this should not be a matter of seeking more disclosure, but more useful disclosure"* (Dallara, 2008:340). Consequently, the existence of effective law relating to the proper and timely disclosure of interests and related party transactions, with the accompanying meaningful enforcement of law, would help both to protect the stakeholders and to enhance capital market development through increasing the amount of truthful and reliable information provided.

In the following section, the assessment of legislative and regulatory frameworks in Kuwait will be discussed in light of a number of international bodies and studies.

4.3.6 Showcasing the Need to Improve the Legislative and Regulatory Framework

In 2004, the International Monetary Fund (IMF) published a comprehensive report assessing the general status of the KSE's regulations. This stated that Kuwait has only partly implemented 25 International Organisation of Securities Commission's (IOSCO) principles for effective shares regulations, whilst not implementing the remaining five principles in any form. These untouched principles are key, as they relate to the role and responsibilities of the regulatory body and its independence. The lack of implementation is the result of the Kuwaiti regulatory environment not meeting the principles required by IOSCO, creating serious gaps in the country's legislative framework. Moreover, the report states that the key structural shortcoming amongst all others is the absence of an independent regulatory body that can supervise the KSE. Thus, the KSE has been criticised on the ground that *"the exchanges were initially self-regulating − the Kuwait Stock Exchange largely still is − but the need for an independent regulatory body was soon perceived"* Seznec and Kirk (2010: 46).

The HI and the IIF report (2007:15) stated that:

> *"In Kuwait, the enforcement of legal requirements needs improvement. Kuwait's regulatory environment and its enforcement comply with just over one-third of IIF corporate governance guidelines. The KSE currently assumes the oversight and regulatory responsibilities for the market. However, plans are underway to create an independent capital market regulator. The adoption of an independent regulator is crucial to the improvement of the regulatory environment in the country".*

In this respect, Bouresli (2009) revealed that there were no real signs of improvement in the infrastructure of the KSE between 2004 and 2009. In particular, she argued that the KSE needs to rapidly establish a comprehensive body of legislation constructed with focus yet with the necessary breadth to solve all shortcomings in its existing laws and regulations. Bouresli (2009) highly recommended modifying the organisational structure of the KSE, by establishing a monitoring body for the capital market to be responsible for overseeing the activity of all participants in the capital market. To be effective, however, this body must command all the necessary powers to perform its duties and to comply with the standards of the IOSCO.

International volumes of trade among countries and engagement with international organisations have a significant impact on the development of the regulatory regime and accounting practices adopted in Kuwait. The IMF, The HI, and IIF have all proposed suggestions for improving Kuwait's regulatory and legislative environment. These proposals, even if not implemented immediately, collectively serve to aid the process of improving the protection of shareholders and, in turn, thereby enhancing investor confidence in the transparency and fairness of the KSE. In 2003, the IMF carried out a Financial Sector Assessment Programme regarding Kuwait and in 2004 published its Financial System Stability Assessment report. This indicated that the Kuwaiti government should focus on the development of its regulatory regime, since current legislation is based on outdated laws. The report also highlighted the urgent need to establish an independent body to take over the supervision of the capital market and to contribute to the development of capital market laws. Consistent with international directives, the Kuwaiti government established such a body in the Capital Markets Authority (CMA). The next section addresses its introduction.

4.3.7 The Emergence of the Capital Markets Authority and its Objectives

In early 2010, following approval by the National Assembly, the Kuwaiti legislator enacted a law leading to the establishment of a Capital Markets Authority (CMA). Overall, the main objectives of Law No. 7 are to solve all the areas of regulatory shortfall existing in the legislation covering the KSE and any troublesome overlapping in the jurisdiction of monitoring among regulatory bodies, by separating their tasks.

In addition, the new law includes proposals to establish a new court called the "Stock Exchanges Court". In fact, the establishment of such a specialized court to settle disputes in capital market affairs would make it easier to mediate and conclude legal disagreements that may arise as a result of application of the provisions of this law. Supporting this, Lopez-de-Silanes (2004) argued that the development of capital markets significantly depends on an important factor: namely the creation of laws that help to facilitate enforcement and the improvement of court procedures that allow for a more efficient dispute resolution process. The existence of laws and regulations assists in providing legal shareholder protection and economic growth; however, this objective cannot be reached without quality law enforcement (La Porta et al., 2000). The Kuwaiti government should consider this.

The CMA's main objectives can be summarised as follows:

- To organise trading in shares through an approach that suitably reflects principles of fairness, competitiveness, and transparency.
- To educate and increase public awareness of the benefits of investment in the KSE, its risks, and promote the obligations related to investment in shares to generally encourage such investment.
- To provide protection to market participants involved in the trading of companies' shares or other securities.
- To implement policies of full disclosure to ensure fairness and transparency, to prevent conflict of interests and to the stop exploitation of internal information by individuals who have potential access to non-public information about the company.
- To ensure compliance with laws and regulations by all market participants in the capital market and to specifically enforce rules related to the trading of companies' shares.

4.4 CORPORATE GOVERNANCE MECHANISMS IN KUWAIT

Specialist international organisations around the world (e.g. the Organisation for Economic Co-operation and Development [OECD] and Institute of International Finance [IIF]) have made significant efforts to set universally recognised codes of corporate governance. Countries worldwide can adopt these principles as is or as guidelines to construct local codes. The key factor why companies prefer to apply principles of corporate governance is to enhance their reputations globally and locally, to attract well-educated and well-experienced individuals, and to draw positive attention from current and expected suppliers and current and future investors. At a government level, the application of these codes could aid in obtaining international loans and attracting greater local and foreign capital to invest in their capital markets. Therefore, the application of these principles becomes a good indicator of strengthening confidence in an area and the stability of its capital markets, in addition to the obvious confidence which comes from the increase of efficient company performance to achieve greater profits.

The following discussion sheds some light on private international organisations, with their essential work and effort to promote the protection of shareholders' and investors' interests in emerging capital markets. In February 2002, the IIF issued policies for improving corporate governance and transparency in emerging countries. The practical IIF code of corporate governance covers widespread elements: minority shareholder protection, responsibilities of the board of directors, accounting and auditing, transparency of ownership and control, and the regulatory environment. In order to improve these crucial elements, the IIF established a number of specialised service and advisory groups.

The first type of group is Governance in Equity Markets (GEM), which works to help capital markets in emerging countries in the following aspects: improving their corporate governance and listing requirements, increasing investor confidence in listed companies, and attracting a larger number of issuers. The second type of group, the Equity Advisory Group (EAG), attempts to enhance corporate practices in emerging market countries by promoting the IIF code of corporate governance (IIF code), assessing emerging market corporate governance frameworks (country-specific reports), and consulting stock exchanges to improve equity markets (gem assessments) (all of the preceding objectives are based on information taken directly from the IIF's website).

In this respect, Gregory (2002:1) stated that *"IIF asserts that improving corporate governance in emerging market economies is essential for building investor confidence and stimulating private capital flows. The IIF policies and code are written from the perspective of investors and asset managers in emerging markets, and are intended as a flexible guide for securities regulators, stock exchange authorise, corporate boards of directors and managements in emerging markets"*.

The Organisation for Economic Co-operation and Development (OECD) principles of corporate governance arise from the separation between ownership and control, the mainstay of Anglo-American corporate governance strategy (OECD, 2004). The IIF's principles of corporate governance and transparency in emerging capital markets, however, stem from divergent interests between managers and shareholders, and also from a desire to reduce the potential for conflicts of interest between them, as company shareholders cannot fully monitor and follow the fast changing activities of company managers (IIF, 2002). The IIF (2003) asserts that modifications of the IIF code follow the latest improvements and changes in corporate governance and in legal aspects by developed countries such as the United States and the United Kingdom (IIF, 2003).

In 2007, the HI and IIF published their report about an empirical study to assess the general status of the legislative regime and CG practices in Kuwait. This sheds light on the central steps that Kuwaiti regulators need to take to enhance the investment environment. It also identifies major gaps in the Kuwaiti corporate governance framework such as the protection of minority interests and the improvement of disclosure requirements.

4.5 THE STATUS OF CORPORATE GOVERNANCE PRACTICES IN LIGHT OF COMMERCIAL REGULATIONS

All companies listed on the KSE must comply with the regulations and laws issued by three bodies: namely, the Ministry of Commerce and Industry (MCI), the Central Bank of Kuwait (CBK) and the KSE. Listed companies should submit audited annual financial statements within three months of the end of the financial year to each of these monitoring bodies, which then inspect them for compliance with International Financial Reporting Standards' (IFRS) requirements and national regulations. Although the enforcement authorities endeavour to be active in Kuwait, the short time period available to review the companies' financial statements − sometimes as little as three weeks before the annual general meeting − makes it inherently difficult to perform their duties adequately. Additionally, the CBK depends on the audit report for monitoring compliance with IFRS and other regulations (Al-Shammari, 2005; Alanezi, 2006). Al-Shammari (2005) also reported no meaningful co-ordination between the respective surveillance departments of the MCI and the KSE.

In Kuwait, four major sources of laws and regulations are within the scope of this study, as they give more attention to the topics of listed companies, the capital market, general requirements for disclosure and current CG practices. These are as follows:

1. Commercial Companies Law (CCL) No. 15 of 1960 (as amended)
2. Law No. 6 of 1962, which was issued to organise the accounting profession and amended by Law No. 3 of 1965 and by Law No. 5 of 1981 on the practice of the auditing profession
3. Kuwait Stock Exchange law "Amiri Decree issued in August 1983, as amended by Amiri Decree No. 158 of 2005"
4. The KSE Listing Requirements

Overall, there is no separate code for best practice within corporate governance, and the CCL contains no formal recommendations that listed companies can use as guidelines for their corporate governance policies or strategies recommended to improve the board's efficiency, company performance, and its internal control systems. Thus, the actual term ‘corporate governance’ is itself absent from the text of the CCL and KSE listing requirements. As highlighted by the IMF (2004), CG principles have not been fully adopted in Kuwait. In this vein, Alanezi (2011:140) argues that:

> *“Despite the huge development in corporate financial reporting and regulations in Kuwait, there has been little comparable parallel development in broader corporate governance issues in Kuwait. There is no corporate governance law nor has a code of best practices been imposed on Kuwaiti non-financial companies”.*

The IMF report (2012) indicates that Kuwait lacks basic corporate governance indicators, such as the strength of auditing and financial reporting standards, the efficacy of corporate boards of directors, and the protection of minority shareholders’ interest. It may also be confirmed, by a new study about Kuwait, that the KSE suffers in different aspects: inadequate legislation to protect minority shareholders, poor monitoring practices, lack of disclosures, and a large amount of information asymmetry (Al Mutairi et al., 2012).

According to the HI and the IIF report (2007), the requirements of Kuwait’s CCL comply with around 50% of the IIF code’s guidelines. Appendix 3 provides a detailed comparison between Kuwait’s corporate governance framework and the IIF code of CG.

The next sections review CG mechanisms contained in the Kuwaiti regulations (e.g. CCL). The HI and the IIF report (2007) discussed the Kuwaiti CG framework from five different aspects: minority shareholder protection, structure and responsibilities of the board of directors, accounting/auditing, transparency of ownership and control, and regulatory environment and enforcement. These aspects are drawn from the IIF code of CG, containing five essential principles. Accordingly, the discussions contained in the following sections rely on the similar comparative plan of the HI and IIF report and concentrate on the issues related to the scope of the research.

4.5.1 Company Shareholders

4.5.1.1 Minority Shareholder Protection

According to the HI and IIF report (2007), the Kuwaiti CG framework meets 75% of the terms contained in the IIF code that relate to the protection of minority shareholders. The report highlights a need for further improvement to strengthen the regulations on organising shareholder meetings and on voting rights. For example, Kuwait’s law does not currently have any provision about cumulative voting and, moreover, the IMF report

(2004) indicated that, to fill serious gaps in the current CCL and listing requirements, the Kuwaiti legislator and regulator should promote and strengthen minority shareholders' protection, standards of disclosure, CG principles including the liability of corporate board, and the role of professional auditors in reporting practices.

It is important to note that under Kuwait CCL, there is a lack of rules that regulate the takeover process. As an example, in a scenario where a majority shareholder of a company desires to sell their shares, the minority shareholders currently have no right to force the majority shareholder to include their share in sales trends. This example highlights the law's failure to provide the required protection to minority shareholders to satisfy accepted international standards.

Regarding the lack of formal rules, Little and Cunha (2009:47) argue that:

> *"Acquisitions in Kuwait in some respects can be conducted on a much more simplified basis than other more developed jurisdictions as evidenced by the lack of formal rules other than the Block Trading Rules. However, the lack of rules also can introduce some uncertainty to the process as well as provide obstacles to acquiring 100% of a company as evidenced by the lack of mechanisms to squeeze out minority shareholders. All of this combines to make the acquisition process quite interesting and highlights the need to engage competent local counsel to assist the acquirer".*

4.5.1.2 Voting Rights

The IIF code strongly advises companies to adopt three significant recommendations aimed at ensuring fair voting rights for minority shareholders. These are proxy voting, the one-share for one-vote principle, and cumulative voting. Kuwait's CCL has only adopted the first two recommendations.

On proxy voting, it declares that "a shareholder may appoint another person to attend a General Meeting as a proxy". It also states that each shareholder has the right to a number of votes in a General Meeting that equals the number of shares s/he owns. However, it does not address cumulative voting, the adoption of which for the election of directors would help support minority shareholders' rights by giving them a chance to use their votes more strategically. It could also help the KSE to gain more confidence from investors, especially if such investors can actively see that the regulators want to protect them and are taking steps towards doing so. Consequently, it would also help to create a better environment for current and prospective investors.

4.5.1.3 Corporate Ownership Structure

For acquisition and merger transactions, the IIF code recommends that companies should gain the approval of shareholders or directors for any transactions that would change or affect the company's capital structure, such as takeovers and mergers. On this issue, as discussed previously, Kuwait's CCL is consistent with most of the IIF's recommendations and provisions. It states that "mergers, acquisitions and major asset transaction decisions should be passed only by the General Assembly in extraordinary meetings and require approval from shareholders representing 75% of company's shares".

The HI and the IIF report (2007) stated that CG in Kuwait conforms to almost 75% of the IIF guidelines on transparency and on disclosure of ownership and control issues. On a different point, the IIF code recommends that a public offer should be made for the acquisition of all the shares of a company when ownership by a single entity exceeds 35%, as this can change its capital structure. In Kuwait, the CCL is silent regarding this matter. Kuwait's corporate governance practices could certainly be improved by adopting this recommendation on triggering a buyout offer, ensuring all shareholders are treated equally in a takeover. Correcting this deficiency would strengthen minority shareholders' rights and enhance investors' confidence in the KSE.

Kuwait's legal framework requires the board to win approval from shareholders for any increase in capital. On approval, existing shareholders have priority over other applicants to obtain new shares in proportion to the number of shares they already own in the company in line with a standard rights issue.

The IIF code encourages companies to disclose details of share buyback transactions to shareholders. In Kuwait, companies can buy back their shares at market price, but the buyback transaction should not exceed 10% of their shares. Listed companies have to inform the KSE within one day of receiving an approval from a General Assembly for a buyback and must obtain permission from the KSE before starting any sell and buy transactions. Also, listed companies must provide the KSE with a detailed schedule of transactions in its shares on a quarterly basis.

4.5.1.4 Shareholder Meetings and Other Rights

According to the CCL, a General Assembly meeting of shareholders should be held annually. The company's board has discretion to call other such meetings. Under an article of its listing requirements, the KSE requires a company to hold its General Assembly meeting within 45 days of the approval of its audited financial statements by KSE, and the proposed dividends should in turn be distributed to all shareholders within 45 days of the General Assembly meeting.

For added protection for minority shareholders, the IIF code states that a special meeting must be held if shareholders who represent a specific amount of the outstanding shares request the meeting. The Kuwaiti CCL requires the board of a company to hold a special meeting upon the request of shareholders who represent at least 10% of the company’s capital. Also, it gives shareholders who own a minimum of 25% of a company’s shares the right to call, in writing, for an extraordinary meeting at any point.

On attendance at general meetings, the IIF code says that the necessary quorum should not to be too high or too low; it suggests those present should represent a minimum of about 30% of the company’s shareholding, and should include both independent and minority shareholders. In Kuwait, the quorum of the General Assembly meeting is reached when those present own more than 50% of the company’s shares. If the legal quorum is not reached, a notice for a Second General Meeting should be sent and the members who attend this meeting are considered to be a legally valid quorum whatever their number. The CCL in Kuwait also requires that the legal quorum of an extraordinary meeting is shareholders who represent 75% of the company’s shares. If an extraordinary meeting quorum is not reached, an invitation to a Second Meeting should be sent, and here the legal quorum would be formed only if shareholders attending the meeting represent more than 50% of the company’s shares. Resolutions are approved when shareholders who own more than 50% of company’s shares vote in favour.

4.5.1.5 Treatment of Foreign and Domestic Shareholders

In general, foreign investors seek to achieve maximum possible profitability, but whilst doing this they nevertheless want to see an effective legislative framework that secures their rights. Kuwait attempts to remove all possible forms of restriction on the entry of foreign investments. The KSE website reports on two laws in particular that have been enacted to encourage and regulate foreign investments in Kuwait. Based on Law No. 10 of 1999, which organises direct investment of foreign capital, an Investment Committee was established. This reviews foreign investment applications, promotes available investment opportunities, grants incentives to encourage foreign investors and facilitate the licensing procedures of the project, removes obstacles that foreign investors may encounter, and safeguards foreign investors in maintaining ownership of their projects. Law No. 20 of 2000 allows non-Kuwaitis to own shares in Kuwaiti listed companies. It also permits foreign investors to own shares of existing companies or those that might be established in the future. The KSE's website also mentions other laws designed to encourage the participation of non-Kuwaitis in Kuwaiti listed companies, such as the Ministerial Resolution (MR) No. 205 of 2000.

In contrast, the HI and the IIF report (2007:12) revealed that *"it is essential for foreign and domestic shareholders to be treated equally. In Kuwait, foreign investors can buy stock only through mutual funds. Foreign shareholders are thus not given the same rights as domestic investors"*. This clearly contradicts the published information regarding foreign investment on KSE's website, but the report gives no supporting evidence for this statement.

Additionally, Estandards Forum (Best Practices Report, 2009:8) documents that:

> "*Kuwait imposes significant restrictions on foreign investments. Although open to some types of foreign investment, certain sectors are restricted or even closed, particularly in the area of the oil and gas industries".*

According to the report published by the IMF (2012), Kuwait ranks relatively low on business environment indicators. One of the areas that needs immediate attention from government is Kuwait's ability to attract foreign direct investment, which would help the country to derive great benefit from the transfer of technology and knowledge that foreign ownership could bring about.

In terms of foreign investors, MR No. 205 of 2000 allows investors to own and trade shares in listed companies and to participate in the formation of listed companies (Article 2).

Under Article 7 of this resolution, foreign investors have the usual voting and nomination rights that accompany the shares which they own in Kuwaiti listed companies. This resolution encourages the flow of foreign capital into the KSE. On the other hand, this MR imposes some restrictions on foreign investors, which may prevent investment in the KSE. For example, in terms of the banking industry, the MR allows a foreign investor to own and trade shares in banks. However, s/he must get prior formal approval of the CBK when s/he wishes to hold more than 5% of the bank capital. In addition, foreign investors are required to trade in shares only through brokers and must buy or sell shares within the premises of the KSE (Articles 4 and 5).

It is worth noting that Kuwait's legal framework grants shareholders the right to submit cases of prejudice and legality to the local courts. However, there is no provision for shareholders to formally present a point of view to a company board. Based on the preceding sections, it would seem that the Kuwaiti legislator should strengthen provisions regarding minority shareholders' interests in order to increase the confidence of market participants, and to make the KSE a more attractive environment for investment.

4.5.1.6 Investor relations and corporate responsibility

The IIF guidelines declare that companies should have regard to relations with investors, and report on their environmental and social responsibilities toward the society. In practice, Pierce (2012) argues that few companies have an investor relations department and only a very limited number of Kuwaiti company boards have developed any formal process for managing their relationships with stakeholders. The author also argues that there is little use of triple bottom line reporting methods (e.g. financial, social, environmental performance). The CCL is notably silent about the latter two issues, whilst, in contrast in developed countries, such topics enjoy considerable attention and focus from governments, capital markets, powerful lobbies, and the public at large. Companies react to this pressure by attempting to disclose information about their social and environmental responsibilities in different shapes in their annual reports; however, as yet, this lacks international consistency.

The next sections discuss the provisions contained in the CCL to regulate boards of directors and enhance our understanding of the role these requirements play in promoting the need to improve the framework of CG in Kuwait.

4.5.2 Organisation of Boards of Companies under the Commercial Company Law

The CCL contains the following provisions and guidelines to organise the boards and directors of listed companies:

1- The board regulates the company, and its Memorandum of Association determines its formation and the period of membership. A Memorandum of Association may not reduce the members to less than three; membership is subject to renewal and may not exceed three years (CCL Article 138).

2- Board members are not subject to any penalties in cases of violation of honour and honesty or bankruptcy (CCL Article 139).
3- Each board member must be a shareholder and own shares in the company of no less than 1% of its capital or $22,500, unless its Memorandum of Association does not state a larger quantity (CCL Article 139).
4- A board member must not be a member of the board of more than three Kuwaiti listed companies based in Kuwait (CCL Article 140). In addition, a board member must not be a member of the board of a company with similar activities, or a competitor to the company (CCL Article 151). Also, s/he must not be a Managing Director or a Chairman of more than one Kuwaiti listed company based in Kuwait (CCL Article 140).
5- Shareholders elect the board members by secret ballot (CCL Article 141).
6- A board member must not be an employee in a governmental public institution or authority. However, if the government own shares in a particular company, s/he is allowed to combine her/his two positions, as a government employee and a board member, for s/he would be representing the government in that company based on percentage of shares owned by the government (CCL Article 142).On the other hand, if the board member does not represent a government body, then s/he is obliged to adjust her/his working status, [e.g. resign] within a month after election.
7- A board meeting is not quorate unless half of the board members are present, where they are not less than three members, if the Memorandum of Association does not state a larger number. The board should hold a meeting at least four times during the financial year, unless the Memorandum of Association indicates more often (CCL Article 144).
8-The board secretly elects a Chairman and a Vice Chairman for a year, unless the Memorandum of Association indicates another period. The board is permitted to secretly elect one or more Managing Directors. The competent governmental authorities (KSE, MCI, and CBK) should be informed with copies of decisions to elect the Chairman, Vice Chairman and Managing Directors of the board (CCL Article 145).
9- The Memorandum of Association clarifies a method of remuneration of board members, and may not allow the total of these remunerations to be more than 10% of the net profit after excluding depreciations, reserves, and the distribution of profit of not less than 5% of the company’s capital to the shareholders or any higher percentage of the distribution of profit stipulated by the Memorandum of Association. Shareholders’ approval at an annual general meeting should be obtained for the remuneration of the board (CCL Article 150).

It can be concluded that the CCL failed to introduce some crucial issues related to the implementation of good CG practices. More specifically, the CCL has no provisions to discuss the appointment of independent directors or their proportion on the company board. In this respect, the common characteristic of Kuwaiti board structure for listed companies is that the board is governed by non-executive directors, with the executive directors representing a minority. For example, it has been argued that it is important to clearly define the role of an independent director. Therefore, the Kuwaiti legislator "*should first abolish the requirement of ownership of 1% of the company's capital to be qualified to be a company's director, because such a requirement makes it difficult to define the independent director*" (Al-Wasmi, 2011:250). Moreover, the existence of independent directors, as an important corporate governance element, on the board enhances the level of company transparency and accountability, since they represent shareholders' interests (Samaha and Dahawy, 2010).

In relation to the optimum proportion of non-executive directors on the board, the IIF code states that at least 33% of the board should be non-executive directors, the majority of them being independent. According to the Global Corruption Report, Zinnbauer et al. (2009:93-94) state:

> *"A stronger role for independent directors is an important, but not the only, element needed for effective corporate governance, especially when independent directors are nominated by a controlling shareholder. Additional measures with regard to strengthening board independence and accountability should include stronger liability of directors for negligence and innovative approaches, such as holding committee and board meetings without the presence of executives. This has proved very popular in the United States, where the share of firms whose board of directors met without their CEO jumped from 41 per cent in 2002 to 93 per cent in 2004".*

The Kuwaiti authorities would be well advised to heed the advice implied in this statement if they wish to improve the image of Kuwaiti business.

Because the current CCL is silent on the need for minimum requirements of business experience and/or academic qualifications of directors, believing that this is an internal issue for the company's Memorandum of Association, the Kuwaiti legislator imposes no obligations on listed companies to appoint qualified directors onto their boards. Thus, Kuwaiti company boards may at times suffer from being populated entirely by individuals lacking business experience and/or any formal business training pragmatically required for the proper running of listed companies.

In addition to creating a minimum requirement for the relevant business experience and academic qualifications of directors, it is highly encouraged that directors be required to attend training and continuous learning courses/programmes, which should be offered by regulatory bodies or related bodies to build board members' capabilities and keep them updated with new regulations. Moreover, the Kuwaiti government may heed lessons already learned internationally and benefit from the global knowledge and experience of other countries in this field to optimally prepare directors for the requirements of their position. This may strengthen the ability of directors to adequately run companies.

4.5.2.1 Structure of the Board and Responsibilities of Company Directors

As previously indicated, Article 138 of the CCL states that there should not be less than three directors on the board. The period of membership should not exceed three years, but may be subject to renewal. This conforms to the requirements of the IIF code. However, the law leaves the articles of the Memorandum of Association of Kuwaiti companies to determine the upper limit of directors on the board.

Overall, the Kuwaiti corporate governance framework complies with about 33% of the IIF code related to company directors. The essential weakness of the Kuwaiti CG framework lies in not addressing the structure of boards. In particular, the legislation should clearly define the concept of independent director, as mentioned in the previous section, and determine the composition of the board. Then it can require the listed companies to appoint independent non-executive directors.

Another crucial requirement for consideration is the improvement of the regulations relating to listed companies' timely and correct publication of information, as a part of the board's responsibilities. Improvement in this area may raise the reliability of information released by listed companies in different communication channels such as CARs. Subsequently, this would further strengthen confidence in the KSE and contribute towards creating stability in Kuwait's economy. Both the IIF and CCL concentrate on the company as the entity legally responsible for correct information disclosure.

4.5.2.2 Board Meeting

The CCL instructs a company's board to meet at least four times per fiscal year, unless its Memorandum of Association requires more meetings, matching the frequency suggested by the IIF code. Under KSE listing requirements, a company must provide an authenticated copy of the minutes of its board meetings to the KSE within two weeks of the meeting, so that all important and major decisions taken in the meeting are revealed to the public in a timely fashion.

The CCL states that the quorum needed to hold a board meeting should be at least half the members of the board, or three members, unless the company's Memorandum of Association requires a greater number or percentage. In contrast, the IIF code advises that a quorum should comprise of executive, non-executive, and independent members.

4.5.2.3 Board Sub-Committees

The CCL does not oblige non-financial listed companies to set up any board sub-committees. The exception is companies in the financial sector, which are supervised and regulated by the CBK and are mandatorily required to create audit committees in line with accepted international conventions and global anti-money laundering principles. Thus companies under the supervision of the CBK are under stricter regulation than companies supervised by the MCI and the KSE. The former have to meet more onerous requirements relating to the improvement of board efficiency and company performance. It is perhaps surprising that these two sets of companies practise their operations and activities in the same country, yet face different requirements.

As recommended by the IIF code, an audit committee's functions are to approve external auditors, the firm's internal controls and risk management, and to prevent audit and non-audit services being bought from the same audit firm. Since Kuwait's CCL makes no mention of an audit committee (except for firms supervised by the CBK), it states that the company's management must set up systems for internal control system and risk management. Additionally, it holds the external joint auditors accountable for assuring that a company has sufficient internal control and risk management systems. Obviously, placing responsibility for these matters with external joint auditors is a direct result of the absence of audit committees. Although Kuwaiti legislation does not provide for regulating the relationship and communication between internal and external auditors, it clearly forbids obtaining audit and non-audit services from the same audit firm. Kuwait, as an example of an emerging capital market, should recognise this deficiency in its regulations and require all listed companies to establish an audit committee on similar terms to the IIF recommendations.

4.5.2.4 Other Board Responsibilities

Both the IIF code and Kuwait's CCL agree that information disclosure is important. The IIF code requires all conflicts of interest involving a company's directors to be fully disclosed. Although Kuwait's CCL lacks a clear and precise description of director's conflicts of interest, as discussed earlier in the chapter, it affirms that the board's chairman and directors should not benefit, directly or indirectly, from contracts and deals that the company is involved in, without the explicit approval of shareholders in the General Assembly meeting (Article 151).

In this regard, Kuwaiti company boards tend to obtain approval for their transactions in advance of the General Meeting, and it is therefore relatively easily achieved. This is especially so since 90 of the companies listed on the KSE are run by the major shareholders (Al-Qabas Newspaper, 2010, as cited in Al-Wasmi, 2011).

It is worth noting that both the KSE listing requirements and the CCL require companies to construct rules forbidding any board directors and additional key management from using insider information to gain from private transactions. All listed companies are also required to comply with IFRS requirements regarding related-party transactions. To prevent unfair practices, Kuwait's CCL also prohibits directors from engaging in the management of a company with similar activities, or any other competitor (Article 151). In this regard, the MCI representative announced, in the official meeting with Kuwaiti accounting and audit firms, that companies of boards in Kuwait violated this article (which was published in Al-Qabas newspaper on 20 December 2010).

In order to enhance the protection of shareholders and bolster public confidence, and more specifically investors' confidence, Al-Wasmi (2011:115) argued that "*the director's Conflict of Interests with the company should be regulated in a more strict manner. In other words, the related parties' transactions must be governed by provisions that ensure more transparency through imposing more disclosure requirements as regard the related parties' transactions, which is in turn enhancing the supervision of non-controlling shareholders*".

After discussing the status of disclosure regulations and the CG practices in the KSE, the next sections discuss the regulations and laws regulating the auditing profession, enhancing our insight in the effect of this legislation on accounting and disclosure practices in Kuwait as an example of emerging market.

4.6 THE AUDITING PROFESSION IN KUWAIT

It is usual across all markets for an external auditor to have a positive effect on financial reporting practices and more specifically on the quality of any public information disclosed by the companies they audit. Hence, one mechanism that can improve the quality of annual financial reports is the mandatory appointment of an external auditor. Such an appointment adds to the effectiveness of applying the accounting regulations, since the auditor is responsible for a thorough inspection of the accuracy of a company's accounts and the financial report ultimately submitted to the public.

In this context, the Kuwaiti legislator was keen to strengthen the auditing profession, and this section describes the major provisions of Decree Law No. 5 of 1981 that regulates the auditing profession.

4.6.1 Conditions for Auditor Registration

The most important conditions and procedures for the registration of auditors are as follows:

1- S/he must hold a bachelor degree in accounting from an accredited university (Article 2).
2- S/he must have five years' practical experience in the accounting and auditing field in the public sector, or seven years' in the private sector in insurance, financial companies or banks (Article 2).
3- S/he must pass the licence test and register in the external auditors' register in the MCI (Articles 1 and 2).
4- S/he will comply with professional ethics and professional practices (Article 9).

4.6.2 External Auditor's Responsibilities and Duties

1- A licensed external auditor can audit the accounts of individuals, companies and institutions according to technical accounting standards (IFRS) and local professional ethics' rules (Article 12).

2- The appointed external auditor in a company should inform the MCI of his/her appointment within eight days of the date of appointment (Article 12).
3- The external auditor cannot be a chairman of a listed company, or a managing director, board member or employee of the company which appoints her/him as an external auditor (Article 18).
4- The external auditor of the company is not allowed to (Article 19):
a- Be a partner in the company or have an administrative position in it.
b- Be a relative of a member of the company's board even from the fourth degree.
c- Work in another job which conflicts with the auditor's position. Generally, it is not permissible to do the following (Article 20):
1- Practise consultancy.
2- Work in promoting or establishing new companies.
3- Be involved in book keeping and preparing financial statements.
4- Work to promote his/her audit firm or try to get work in a way that violates professional ethics.

4.6.3 Penalties

Through Amiri Decree Law No. 5 of 1981, the Kuwaiti legislator gives the MCI authority to send the external auditor to the disciplinary panel if s/he breaks the articles of Amiri Decree Law or violates professional ethics or practices. If the MCI holds the external auditor to be guilty of a crime, then s/he shall place the matter in the hands of the prosecuting authorities or the Public Attorney (Article 21).

The following disciplinary penalties can be applied to an external auditor who is found guilty of any of these offences: [1] Caution, [2] Stopping her/him from practising in the auditing profession for no more than three years, or [3] Removing his/her name from the licensed external auditors' register (Article 23).

4.6.4 Recent Regulations for the Auditing Profession

The desire of the Kuwaiti legislator to protect the interests of the public, to raise the level of professional audit practice, and to encourage and promote the moral values of the profession (ethical conduct guidelines) led to the issue of Ministerial Resolution No. 291 of 2006. Its most important provisions follow:

1. The standards of ethical conduct for professional accountants issued by the International Federation of Accountants (IFAC) apply to external auditors in Kuwait (Article 1).
2. Based on recommendations from the Permanent Technical Committee for setting Accounting and Auditing Standards, the MCI is authorised to determine the standards of ethics that are not applicable to the Kuwaiti business environment and s/he has the right to identify alternative codes that should be followed by external auditors (Article 2).
3. The Kuwaiti Association of Accountants and Auditors is responsible for the compliance of its members with the standards of ethics issued by the IFAC. Also, any verified violation committed by an external auditor should be referred to the MCI (Article 3).

4.6.5 Challenges Facing the Auditing Profession in Kuwait

It is clear that, whilst acting to define the majority of responsibilities and duties expected for an external auditor, the Kuwaiti legislator has nevertheless overlooked some important aspects that may further develop the profession of accounting and auditing in Kuwait and may also generally contribute to the professional development of external auditors.

Under Article 161 of the CCL, the Kuwaiti legislator gives the company's shareholders the right to choose and appoint external auditors for their company and to determine their audit fees during the general meeting. In practice such rights are not commonly exercised. External auditors are nearly always appointed based on the recommendations and direction of the board since the board members mostly govern the voting process for the appointment of external auditors as they represent the major shareholders, as mentioned previously (see Section 4.5.2.4). In addition, the appointment of auditors is sometimes associated with family ties with company management, making it inherently difficult to achieve transparency in the auditors' appointment process. This may also affect their independence and their ability to work as an agent of the shareholders.

It is worth highlighting that Kuwaiti regulations require the accounts and statements of each listed company to be audited by two separate accounting and audit firms. According to the Aljoman Centre for Economic Consultancy's survey (2008) (published in Al-Anba daily newspaper 25 July, 2008) and a separate study conducted by Al-Jarida Newspaper (2010) (published 1 August, 2010), which only included the listed Kuwaiti companies, there is a specific number of audit firms in Kuwait that audit the accounts and records of companies listed on the KSE. For instance, the report observes that there are only three large audit firms (which are all affiliated with international auditing firms) that audit 141 out of the 195 companies, representing 72.5% of companies listed in the capital market. The survey results also suggest considerable linkage between the name of the first audit firm and that of the second for each company and between its associated or subsidiary companies. This may be mainly due to the same company being appointed for both tasks on the explicit instructions or recommendation of the company board or alternatively this association may be simply attributed to the recommendation of the first and larger audit firm.

Moreover, the survey stated that major companies in the KSE tend to appoint the same audit firm due to the fact that they feel satisfied dealing with a firm they already know and trust and therefore see no benefit in changing. In addition, Kuwaiti companies prefer to appoint internationally affiliated audit firms, which may be interpreted on the ground as wishing to send a signal to stakeholder groups about the quality of information included in their annual reports. From the other side, Kuwaiti audit firms attempt to affiliate with large internationals in order to raise their professional competence level and to increase the proportion of their audit work in Kuwait as a marketing objective, which is consistent with the assumptions of signalling theory and literature (see Chapters 2 and 3).

Accordingly, such practices in Kuwait serve to undermine the independence of external auditors, which is considered to be one of the most significant corporate governance control mechanisms. In other words, the current practices of Kuwaiti companies may impair the concept of independence. Moreover, the appointment of an external auditor based on the board's recommendations may similarly lack objectivity and hence carry inherent questionability regarding the independence of auditors from their clients. This is problematic since, in auditing the company's accounts, the auditor is normally considered to be acting as the shareholders' agent rather than being influenced by, or biased in favour of, the board. The value of auditing services directly stems from the presence of a true independence of the auditor from their clients (Simon and Francis, 1988; Koh and Mahathevan, 1993). Thus, it can be stated that strengthening the quality of independence has a positive impact on strengthening overall supervision over the company's management and on ensuring that shareholder rights are properly protected (Al-Wasmi, 2011).

On a different point, the MCI representative announced in the official meeting with accounting and audit firms (published in *Al-Qabas* newspaper 20 December, 2010) that one of the most important criticisms directed against external auditors in Kuwait is that auditing is not regarded as a full-time role, which restricts the full focus needed to practise this vital profession. This stance has an adverse effect on the quality performance of audit firms in particular and on the accounting and auditing profession in general in Kuwait.

It has been argued that financial reports in emerging markets are less reliable sources of information than those released in developed capital markets (e.g. Jaggi, 1975; Saudagaran and Diga, 1997). This may be due to many factors such as a shortage of qualified auditors and accountants. It may constitute a restriction in confirming the company's financial position and the contents of financial statements (Saudagaran and Diga, 1997), indicating a need for continuing training and education programmes to improve the professional skills of external auditors across emerging markets such as Kuwait.

Regarding the effectiveness of the audit function, Al-Shammari (2005) observes that, in 2001, the Disciplinary Committee of the MCI was involved in investigating the first case of disciplinary action since the application of the External Auditing Law of 1962. The case was brought against an auditor as result of violated IFRS requirements. S/he gave an unqualified report to a company and in doing so breached the IFRS' requirements by making incomplete disclosures and releasing inaccurate information. The Disciplinary Committee cautioned the auditor and, in light of this action and through reviewing companies' independent audit reports since this decision, an increasing number of listed companies therefore predominantly received qualified audit reports. Three of the 50 companies received a qualified report in 1996, three in 1999 and seven in 2002.

According to formal interviews with official representatives of the surveillance department of the MCI, in 2009 there were five complaints submitted to the MCI against audit firms. Some of these complaints related to the so-called "Big 4" and others related to local audit firms as follows:

1. After a review of the annual report of two companies by the surveillance department, it was discovered that the appointed auditor as a liquidator was the

same for both companies in liquidation.This appears to be breaking the law itself, and s/he also evaluated the assets and liabilities for both companies at the same value.

2. For another four complaints submitted regarding four listed companies, the content of the complaints mainly included one of the following three points: firstly, the external auditor did not comply with the IFRS' requirements; secondly, the external auditor amended the profits or losses of a company according to the wishes of the board and therefore did not accurately reflect the actual financial position of the company; and thirdly, it was suggested that a relative relationship existed between the external auditor and some of the board members of the company audited.

It is clear that Kuwaiti legislation currently neglects the importance of the role of external auditor in protecting shareholders' interests and improving disclosure practices. Under the CCL, the shareholders usually appoint the same company's external auditors in the annual general meeting each year; however, under a good CG regime, shareholders are not permitted to appoint the same external auditors for a period of time exceeding three or four years. Such restrictions exist to prevent the possibility of a board abusing their power by retaining a favourable auditor indefinitely and to reduce the possibility of too comfortable a relationship between the company management/board and its auditors.

The above discussion points out the weaknesses and strengths of the current regulatory and legislative environment in Kuwait. However, deficiencies in commercial regulations from different aspects such as disclosure and the lack of a CG regime in Kuwait mean that the regulators and legislator should pay greater attention to setting out suitable and radical solutions to these deficiencies and establish a CG code to be followed by listed companies. Previous sections shed some light on the audit profession, which also needs more interest from governmental bodies to develop the Kuwaiti accounting and auditing profession. This can be done by adopting the best practices in other developed countries which match the Kuwaiti business environment. This could make the KSE a stronger and more respected market internationally.

Appendix 3 presents more detail about the comparison between the provisions of the IIF code and the Kuwaiti commercial regulations and other information which is beyond the scope of this study.

A comparison of the State of Kuwait with other GCC countries that have similar economic and legal frameworks could help to provide a more comprehensive understanding of the respective strengths and weaknesses of certain aspects of the Kuwaiti regulatory and legislative environment and more specifically its corporate governance framework. This is the task of the next section. It is important to mention that the following sections will be based on the Comparative Survey of Corporate Governance in the Gulf Cooperation Council, issued by the Hawkamah Institute (HI) and the Institute of International Finance (IIF) (HI and IIF, 2006), unless otherwise stated.

4.7 CORPORATE GOVERNANCE CHARACTERISTICS: KUWAIT AND THE GCC COUNTRIES/THE DEVELOPED COUNTRIES

Overall, the subculture of the respective business environments in GCC countries has not contributed positively to the development of effective practices for corporate governance frameworks in each country, with the notable exception of Oman and, to a lesser extent, Kuwait and Saudi Arabia. Corporate governance structures in GCC countries do not generally meet the minimum standards that international investors seek.

Amongst GCC countries, developments in corporate governance frameworks come slowly and these countries lag significantly behind the best practices in observed corporate governance worldwide. In addition, "*the identification of eventual corporate governance gaps within the region, as compared to other regions, will increase the awareness for the need of regional harmonisation of stock-market regulation*" (The National Investor's (TNI) Survey (2008b:16).

Moreover, there is significant variation in their corporate governance frameworks. In illustration, it is worth observing the sizeable drop in international compliance amongst the best and worst GCC countries from a CG perspective. Oman has the strongest corporate governance framework in the region and complies with roughly 70% of the IIF's guidelines, whilst Kuwait and Saudi Arabia have around 50% compliance; Bahrain and the United Arab Emirates (UAE) have just 40%; and Qatar is classified last among the six countries, only complying with a strikingly low 35% of the IIF guidelines. In terms of CG in the capital markets of the region, Saidi (2011) and Koldertsova (2010) argued that Kuwait remains the only country that does not have CG codes. Table 4.4 shows the recent and intended improvements in corporate governance practices among GCC countries in 2006.

In Kuwait, the CG framework is at a transitional stage and meaningful steps are now being taken, including reassessing the existing regulatory structure, with a view to establishing corporate governance practices. As discussed previously (see Section 4.3.7), The Authority of Capital Market Law would force KSE participants to commit to and comply with CG requirements. The introduction of such a law would strengthen and enhance the compliance levels of companies and would thus help the regulatory bodies to carry out their responsibilities in a more efficient and optimal way. Furthermore, separating the supervisory and monitoring functions and establishing an Independent Authority of Capital Market would significantly enhance confidence in the KSE amongst international and local investors as well as other participants. Table 4.4 presents corporate governance frameworks in GCC countries.

Table 4.4: Corporate Governance Reforms in the GCC as of 2006

Bahrain	The Ministry of Commerce in Bahrain has drafted a new Commercial Companies Law and a new code of corporate governance that will be enforced in the near future.
Kuwait	A new Capital Market Law will incorporate corporate governance-related requirements for companies.
Oman	The Capital Market Authority planned to reassess current corporate governance requirements in Fall 2006.
Qatar	Doha Securities Market would introduce a code of corporate governance by the end of 2006. Authorities are strengthening the regulator's surveillance, the stock exchange and companies, and enforcement procedures; they also created an independent regulator in 2005.
Saudi Arabia	The Capital Market Authority issued a draft code of corporate governance for public comment. It hoped to finalize and implement the code by the end of 2006.
UAE	The Emirates' Securities and Commodities Authority, the regulator for the UAE, is currently drafting a code of corporate governance for listed companies. Abu Dhabi Securities Market recently issued corporate governance guidelines for listed companies for market feedback. The Dubai Financial Market drafted corporate governance guidelines for listed companies, which should become enforceable by Fall 2006. The Ministry of Economy has drafted a new company law which includes corporate governance principles.

Source: Comparative Survey of the HI and the IIF (HI and IIF, 2006)

As a result of globalisation, the economies of GCC countries have naturally integrated more with the world economy; as such, there is growing pressure on them to accept international standards and practices. However, these standards and practices are sometimes considered to conflict with accepted local practices. An example of this is the requirement for listed companies to provide quarterly earnings forecasts, which would force them to regularly share information that has traditionally been considered internal and confidential. Thus, although the level of disclosure and transparency in the

Gulf region is improving, progress remains slow with significant subculture obstacles to overcome.

Many listed companies in the GCC region, like companies listed in other emerging markets, continue to resist essential changes in corporate governance, especially those related to the role and responsibilities of board members, which must be modernised if the Kuwaiti economy is to continue to develop. According to a survey (Gulf News, 2010) conducted in the GCC region, over 63% believed that board directors in GCC companies are not fully prepared to fulfil their roles. Accordingly, the GCC Board Directors Institute (BDI) was established to promote the professional skills of directors to, in turn, increase the effectiveness of boards in the GCC region. This has had a positive and effective impact in assisting the directors to implement a range of fundamentally sound CG practices within their boards.

In the GCC, companies have tended to be regarded historically as the private preserves of their controlling families. These powerful families often appoint their relatives and/or friends as supposedly independent directors and, whilst some influential shareholders have persuaded companies to set up audit committees, few companies have progressed as far as creating remuneration or nomination committees.

According to a report issued by Dow Jones Private Equity, more than 90% of commercial activity in the Gulf Arab States is run by families who control over 5,000 companies with combined assets of more than $500 billion. The private sector provides 70% of employment opportunities and represents a second source for investments, after the government sector (published in *Al-Watan* newspaper 11 December, 2009) (Al-Watan, 2009b). The concentration of company ownership by government and families means that there is no culture of widespread ownership; this tends to result in the rights of minority shareholders in listed companies largely being ignored.

In most cases, the boards of state-owned companies include senior government officials. In practice, this further complicates matters and contributes to entrenched conflicts of interest and authority problems because regulators and auditors can sometimes prefer to neglect their responsibilities in order to avoid embarrassing government officials when they fail in their performance of fiduciary duties as board members.

The survey of the HI and the IIF (HI and IIF, 2006) indicates that older capital markets, such as Kuwait and Oman, that were established 44 and 18 years ago respectively, enjoy better corporate governance frameworks than those of Qatar and the UAE. In regard to the number of companies listed on the GCC capital markets, The National Investor (TNI) Survey (2008a) indicated that the KSE is considered the largest capital market in the Gulf region in terms of number of listed companies. In addition, Kuwait has stronger minority shareholder protection laws than other GCC countries as a result of its experiencing a number of financial scandals in its capital market and in Kuwaiti investment abroad in the 1980s. In a shareholder protection context, Pierce (2012) observes that Gulf countries tend to have low investor protection compared with international best practice worldwide. In fact, Kuwait's generally better corporate governance framework is probably a positive epiphenomenal result of those experiences. Table 4.5 shows the equity market capitalization and concentration for each of the six GCC capital markets.

Table 4.5: Equity Market Capitalisation and Concentration

Country	Market capitalization as percentage of GDP (July 2006)	Top 10 companies as percentage of total market (June 2006)	Total number of companies (March 2006)
Bahrain	126%	78%	47
Kuwait	154%	48%	161
Oman	38%	71%	124
Qatar	175%	82%	33
Saudi Arabia	140%	75%	79
UAE–Abu Dhabi/ Dubai	106%	64%	92−(59/33)

Source: Comparative Survey of the HI and the IIF (HI and IIF, 2006)

Listed companies in the GCC region often have strong ties with companies elsewhere in the Gulf, mainly because the good investment climate and stability of the Gulf countries' economic systems make them attractive to capital investors from In addition to these strong ties, some companies choose to list on more than one GCC capital market. In illustration, one only has to look at the significant correlation between the KSE and the Dubai Capital Market (DCM), driven primarily through joint investments by many Gulf companies in both countries. Sixteen Kuwaiti companies from a total of 20 companies are the foundation of the foreign corporate sector in DCM. These companies represent the largest companies in the KSE. Moreover, two Gulf companies are listed on the KSE and in DCM at the same time, as well as another five Gulf companies listed on both the KSE and the Abu Dhabi market (published in *Al-Watan* newspaper 28 November, 2009) (Al-Watan, 2009a).

Some issues constitute an obstacle for investment in GCC countries, such as the weak enforcement of legal requirements, though Oman is an exception to this. In fact, regulatory bodies do not have sufficient power to strictly enforce companies' compliance with the rules. Hence, the IIF guidelines encourage countries to enhance their respective regulatory environments, rendering the GCC stronger and more transparent in this regard. This serves to improve corporate disclosure and transparency, good accounting and auditing practices, and protect minority shareholder rights. Moreover, regulatory bodies should not be under the control or influence of any specific parties. So, it is crucial that GCC countries establish independent regulatory bodies to gain credibility for the region's regulatory environment, certainly an essential issue for Kuwait.

Most GCC countries have set up independent regulatory bodies for overseeing their capital market; Table 4.6 summarises the regulatory structures. A clear issue that continuously limits the effectiveness of GCC regulatory bodies is the lack of sufficient skilled and professional staff.

Table 4.6: Regulatory Structures in GCC Countries

Country	Regulatory Structure
Bahrain	The Bahrain Stock Exchange (BSE) is an autonomous organization that regulates itself. Its board of directors is made up of representatives from the Bahrain Monetary Authority, Ministry of Commerce, and Ministry of Finance.
Kuwait	Kuwait Stock Exchange (KSE) is an independent financial institution. The KSE Committee regulates the exchange. Kuwait does not have an independent regulator.
Oman	In 1998, Oman became the first GCC country to establish a separate regulatory body the Capital Market Authority (CMA). The CMA regulates the Muscat Stock Market.
Qatar	Doha Securities Market (DSM) has been regulated by the Qatar Financial Markets Authority (QFMA) since 2005. The QFMA is an independent regulatory agency.
Saudi Arabia	Tadawul, Saudi Arabia's stock market was established in 2001 and is an independent organization. In 2003, the government created the Capital Markets Authority (CMA), which regulates the Tadawul. The CMA is a government organization, but has financial, legal, and administrative independence.
UAE	The Emirates Securities & Commodities Authority (ESCA) was established in 2001 to regulate the Abu Dhabi Securities Market (ADSM) and the Dubai Financial Market (DFM). The ESCA is a government organization, but has financial, legal, and administrative independence. The ADSM is a legal entity of autonomous status with financial and managerial independence. The DFM is a public institution having its own independent corporate body.

Source: Comparative Survey of the HI and the IIF (HI and IIF, 2006)

Kuwait has a better corporate governance framework than other GCC countries and achieved a score of three out of five for compliance against the IIF's corporate governance guidelines. Despite this, and although Kuwait enjoys strong laws protecting minority shareholders' rights, its overall regulatory environment remains undeniably weak and in need of modernisation. Some improvements were made to Kuwait's CCL as a result of financial scandals in the 1980s, but they have since stagnated and not kept pace with the remarkable changes in the Kuwaiti business environment during the last couple of decades (e.g. remarkable changes in trading activities in the KSE; see Section 4.3). Currently, there are efforts by governmental regulatory bodies to amend the existing CCL and to include corporate governance requirements in the new Capital Market Law (CML). The most interesting advantage that Kuwait has among GCC countries is its court system. Judges are independent and experienced. Verdicts are also provided in a timely manner. Table 4.7 shows a summary of corporate governance practices or frameworks in each GCC country compared with IIF guidelines.

Table 4.7: Comparison of Corporate Governance Frameworks in the GCC Countries with IIF Guidelines (on scale of 1-5 with 5 being fully compliant)

Comparative Aspects	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	United Arab Emirates
Minority Shareholder Protection	2.0	4.0	3.0	2.5	3.5	2.5
Voting Rights	1.5	3.5	3.5	2.5	2	3.5
Firm/Capital Structure	1.5	4.5	1.0	2.0	5.0	2.0
Shareholder Meetings/Other Rights	3.0	3.5	3.5	3.0	3.0	2.5
Structure and Responsibilities of the Board of Directors	2.0	1.5	3.5	1.5	2.0	1.5
Board Structure	1.0	1.5	3.5	1.5	2.0	1.5
Disclosure	4.0	3.5	5.0	1.5	4.0	3.5
Others	1.0	0.5	2.5	0.5	2.5	0.0
Accounting and Auditing	2.0	2.5	4.0	2.0	2.5	2.0
Standards	3.0	3.5	3.5	3.0	3.5	2.5
Audit Committee	0.5	0.0	5.0	0.0	0.0	0.0
Transparency Ownership	2.5	3.5	3.5	1.0	4.5	2.5
Regulatory Environment	2.0	2.0	4.5	2.5	2.5	2.0
Overall Assessment	2.0	3.0	3.5	2.0	3.0	2.0

Source: Comparative Survey of the HI and the IIF (HI and IIF, 2006)

When reviewing the exercise of the CCL powers and rights and adoption of international standards of GC in the Gulf countries, Seznec and Kirk (2010:46 and 47) observe that:

> *"In the Gulf states there is not only conventional public respect for authorities, but there is also a deeply ingrained culture of public politeness and a distaste for public confrontation, or fitna, within the community. These established attitudes inhibit the robust adoption of international standards of corporate governance along lines set out in the OECD principles or the IIF Code."*

At the same time, the authors criticise the concept of independent regulatory bodies in the GCC countries on the grounds that:

> *"While the regulator may be constituted as a separate body independent of exchanges itself, it is difficult to see the Gulf regulators as independent from the political authorities. In all these countries, the government has a major say in appointing the senior officers of the regulatory body. In many, the chairman of the regulatory bodies is the competent minister himself. This naturally attracts criticism internally, since a regulator is supposed to be free from political control or influence".*

It will be useful to turn from a regional comparison of Kuwaiti corporate governance characteristics to a more international perspective. As previously stated, the Kuwaiti legislator does not set out separate codes of corporate governance nor allocate defined articles in the CCL to specifically deal with this issue. In contrast, developed countries, such as the UK, US, and Australia, give specific attention to establishing well-defined corporate governance regimes and go so far as to publish separate codes of corporate governance best practice (see Table 4.8).

Table 4.8: Comparison of Kuwaiti Corporate Governance Attributes with those of Developed Countries

No	Comparative Aspects	UK, US, and Australia	Kuwait
1	Board of directors	Separation of the roles and responsibilities of chairman and CEO (UK and Australia). No separation between chairman and CEO (US). The chair should be an independent director. (UK and Australia). However, independent to chairman is not necessary (US).	No separation between chairman and CEO or managing director.
2	The composition of the board	A combination of executive and non-executive directors as independent (UK); a majority of the board should be independent directors (Australia and US). The non-executive or outside directors are appointed by a committee and according to specific criteria.	No provision regarding this issue.
3	The definition of independent directors	Independent directors are not involved in serious relationships or circumstances that may affect the director's decision or independent status and they are not members of the company management.	Some restrictions on directors, to keep the independent exercise of their judgement, are set out in the CCL.
4	The rights of shareholders	Encouraging better interaction and communication between the boards of listed companies and their shareholders. Promoting greater understanding of the point views of shareholders by the board. Requirement to make information publicly available and to treat shareholders equally in their access to information.	No provision regarding this matter.

5	Board sub-Committees	Consists of a majority of independent non-executive directors.	According to the CCL, Kuwaiti companies do not have to establish these types of committees; the exception is companies regulated by the CBK.

Source: Kuwait Commercial Companies Law (CCL) No. 15 of 1960 (as amended); The UK Corporate Governance Code June 2010; Corporate Governance Principles and Recommendations, the second edition 2007 as mandated 30 June 2010; ASX Corporate Governance Council, Australia; USA, the Sarbanes-Oxley Act of 2002

4.8 SUMMARY AND CONCLUSION

The empirical literature in the field of accounting suggests that changes in the business environment lead to changes in the demand and use of financial information; this demand in turn guides the establishment and development of accounting systems (Hassan et al., 2003). Riahi-Belkaoui (1985) suggests that accounting does not develop in a vacuum but reflects the particular environment in which it is developed. Consequently, accounting systems and disclosure practices are markedly different among nations (e.g. Riahi-Belkaoui, 1985; Adhikari and Tondkar, 1992).

The laws and regulations of a well-organised capital market and good CG practice in well-run companies would provide adequate protection for market participants, and hence enhance public confidence in the capital market, in turn making the capital market more efficient. The existence of law is, in itself, however, not enough to reach these objectives. Law must be supported by an active and competent enforcement body, sustained by qualified employees capable of ensuring compliance with the law.

The concept of CG elicits a great deal of attention and receives high priority on the agenda of those interested in the development of capital markets, including companies, investors, and policy makers, in order to enhance and bolster confidence in the capital market. This answers the question “Why is corporate governance important?”. Consequently, it can be fairly stated that, if the Kuwaiti government desires to make the KSE a truly prominent market among many other emerging capital markets, it must establish a sound corporate governance regime to guarantee the protection of market participants in general and of minority shareholders in particular. A well-established CG system would help Kuwaiti companies to access the global market. It has also been observed that a crucial requirement for improving the current CG framework is the establishment of an independent body solely responsible for monitoring the performance and proper participation of KSE companies. This would be a significant step, encouraging the flow of investment capital into the capital market on one hand and assisting companies to find easier ways to finance their projects and activities on the other.

The purpose of this chapter was to address the role and impact of influences such as the organisational environment, legal environment (e.g. CCL and KSE listing requirements), and auditing profession on both the accounting and reporting practices followed by companies listed in the KSE, and also on the level of information transparency released in CARs. In this sense, it has been argued that listing requirements and other related regulations have a great impact on the corporate accounting systems and reporting practices of listed companies (Choi, 1973). This is intended to provide context and fundamental background information to develop the research discussion around "a voluntary disclosure index" (see Chapter 5).

It can be inferred from the discussion of Kuwaiti accounting regulations that Kuwaiti CG mechanisms are limited. Additionally, the legislative requirements of listed companies regarding disclosure of corporate information have been addressed in general terms. A clear lack of protection for minority shareholders and their rights in the corporation has been shown and, as we have seen numerous times in this chapter, there are only fleeting examples of CG practices in Kuwait. This is perhaps a result of the absence of formal CG codes that could be used as guidelines by companies. In other words, there are not many CG practices in Kuwait and CG here could benefit from further research in this area. The results of a review of regulations suggest that significant effort is still needed to construct good CG codes in Kuwait as a result of their growing international importance in increasing the confidence and protection of shareholders in the capital market.

As we have noted, there is no dedicated independent specialised body charged with monitoring the accounting and financial reporting practices of listed companies. The government regulatory agencies of the KSE are outdated and ineffective, as well as not being active enough in the due application of commercial law. In this sense, Alanezi (2006:65) reports that *"overlapping regulatory functions amongst the regulatory agencies, particularly in monitoring Kuwaiti listed companies, hinders the effectiveness of the regulation of the market".*

A timely response to the recommendations of international bodies is needed. To this end, the establishment of a CMA was a step in the right direction towards economic and regulatory reforms and this should positively assist in integrating accepted global best practice into the Kuwaiti CG framework.

Furthermore, the existence of a CMA should help to overcome the weaknesses of regulatory bodies' current structure and set adequate mandatory regulations regarding the preparation and submission of CARs. This should also serve to improve the level of disclosure of information required by companies listed on the KSE in order to further enhance the quality of CARs and the accuracy of disclosed information. For the KSE to be a prominent emerging capital market, the CMA should be granted authority to act as an independent and neutral body, structurally protected from any political pressures. To supplement this, a robust and transparent appointment process should be introduced for the appointment of the CMA's commissioners. The CMA should also establish an adequate mechanism to prohibit the abuse of inside information and ensure that major and minority shareholders have the inalienable right to access information on an equal basis. Moreover, the formation of a published corporate governance framework would give Kuwait a competitive advantage amongst other GCC countries, as well over many other developing markets internationally, in improving the flow of international capital into the KSE as well as bolstering investors' confidence in their underlying protection from a CG perspective.

It has been revealed in the HI and the IIF report (2007), in addition to a report published by the IMF in 2004 and some empirical studies conducted in Kuwait, that there is a lack of proper law and regulation to properly organise the business environment generally and the listed companies of the KSE more specifically. Therefore, there is a clear need for the introduction of a proper and up-to-date law with efficient and reliable enforcement mechanisms (e.g. quality and quantity of staff) to implement the laws and to ensure compliance with the regulations; however, the latter cannot be achieved without the existence of an independent and adequate overseeing body and all of these factors work together to create more confidence and stability in the capital market. In support of this, the IIF report formally recommended a set of solutions and suggestions to overcome the obstacles of insufficient disclosure and CG practices across the KSE. This provided the necessary background to construct and develop the next research instrument, which is a questionnaire survey (see Chapter 5). The importance of these recommendations and their applicability to the Kuwaiti business environment will be assessed based on the views of expert users of Kuwaiti CARs; this will form part of the task of Chapter 6. In addition, the review of regulations will assist in the construction and development of the index to assess voluntary disclosure practices (see Chapters 5).

CHAPTER FIVE: RESEARCH METHODOLOGY

CHAPTER FIVE
RESEARCH METHODOLOGY

5.1 INTRODUCTION

The three previous chapters shed light on the theoretical framework and literature relevant to this study as well as on the main aspects related to the business, legal, and regulatory environment that influences the corporate annual reports (CARs) and disclosure practices in Kuwait. In light of this, primary objectives were set out for the current study. The first objective is to assess the importance of annual reports and their sections in the view of respondents. The second is to investigate the usefulness, in the perception of external user groups, of selected items of information to be included in annual reports. The third is to evaluate voluntary disclosure practices in the annual reports of Kuwaiti non-financial companies listed on the KSE. The last major objective is to identify the determinants that explain variations in the voluntary disclosure in annual reports.

This chapter aims to present the research methods used in this study to reach its objectives and is structured as follows: Section 5.2 outlines the research philosophy. Various research methods used in previous and similar studies are presented in Section 5.3, while Section 5.4 identifies the research method used in this study. Section 5.5 presents the questioning technique in the construction of questions and Section 5.6 provides a comprehensive description of the questionnaire's components. Section 5.7 provides details of research hypotheses related to users' perceptions. Details of the pilot study and the questionnaire translation are presented in Section 5.8. Section 5.9 outlines groups participating in the questionnaire and sampling procedure. Sections 5.10 and 5.11 discuss the validity and reliability of the questionnaire and statistical techniques used in assessing the perception and view of user groups. The procedures followed to obtain the research sample and data collection in the second empirical study are presented in Section 5.12. Sections 5.13 and 5.14 discuss in depth the construction and development of a voluntary disclosure index and its computing. Section 5.15 provides the primary background and theories to forming the research hypotheses and expectations, while Section 5.16 presents the statistical tests employed to evaluate hypotheses and formulated expectations. Finally, the conclusion is offered in Section 5.17.

5.2 RESEARCH PHILOSOPHY

Research philosophy is defined as the process of scientific practice upon the philosophy of people and proposition regarding the world and the nature of knowledge (Collis and Hussey, 2009). In this respect, Saunders et al. (2009) described research philosophy as the development of knowledge and the nature of that knowledge. Thus, research philosophy gives a guideline regarding how to conduct scientific research so it can be assumed that a philosophy framework has a direct effect on the selection of research approaches, methods used in collecting data, and the analysis of results.

The discussion of paradigms and paradigmatic assumptions are considered a cornerstone in any academic research. There are two paradigms in social science research, namely: positivistic and phenomenological (Hussey and Hussey, 1997). The next paragraph discusses the assumptions in view of these paradigms.

Creswell (1994 and 1998) provided a comprehensive description and general definition for the five main assumptions of research philosophy, namely: ontological, epistemological, axiological, rhetorical, and methodological assumptions. These assumptions support the two main research paradigms or philosophies: positivistic and phenomenological. Table 5.1 provides a summary of these two research philosophies and their relation to five assumptions. The ontological assumption concentrates on the nature of reality. In positivists' view, reality is referred to as objective and external to the researcher, while it is perceived as subjective and internal to the researcher in the view of phenomenologists. The epistemological assumption relates to the study of knowledge and the type of knowledge considered valid in the research area. In the perspective of positivists, to provide credible and measurable data about the phenomenon under study, a researcher should be independent and objective. Conversely, a phenomenologist believes that the researcher should be close to what is being researched and interact with it to gain an extensive understanding of the phenomenon under investigation (Hussey and Hussey, 1997).

The axiology assumption deals with the role of values in research. In this regard, positivists believe that the process of research is undertaken in a value-free and unbiased way. From an anti-positivist perspective, research is value-laden, so the researcher cannot be independent or distant from the research. The researcher's interpretations of the phenomenon are derived from her/his values. The rhetorical assumption relates to the language of research. In a positivistic context, the style of writing leans towards formality, whilst, in the phenomenological context, researchers write in an informal style. The final philosophical assumption is related to the process of research. Under the positivistic approach, the methodological steps applied in the study should be based on a deductive manner, with the analysis focusing on the association between variables and/or causality. The analysis is context-free and aims to reach generalisation, which would aid in obtaining some benefits such as: the ability to predict, explain, and understand a particular phenomenon. It can be concluded that the positivistic paradigm employs quantitative approaches to analyse data statistically and explain the association between measurable variables through testable hypotheses and theories. In contrast, the phenomenological paradigm concentrates more on induction and is context-bound, with the analysis seeking more to understand the phenomena under investigating through developing theories (Hussey and Hussey, 1997; Collis and Hussey, 2009). Thus, the latter paradigm employs qualitative approaches to understand a certain phenomenon.

Table 5.1: Research Philosophy

Assumption	Question	Positivists	Phenomenologist
Ontological	What is the nature of reality?	Reality is objective and singular, apart from the researcher.	Reality is subjective and multiple as seen by participants in a study.
Epistemological	What is the relationship of the researcher to that researched?	Researcher is independent from that being researched.	Researcher interacts with that being researched.
Axiological	What is the role of values?	Value-free and unbiased.	Value-laden and biased.
Rhetorical	What is the language of research?	Formal based on set definitions and impersonal voice. Use of accepted quantitative words.	Informal and evolving decisions. Personal voice use of accepted qualitative words.
Methodological	What is the process of research?	Deductive process, cause and effect. Statistic design categories isolated before study. Context-free generalisations leading to prediction, explanation and understanding, accurate and reliable through validity and reliability.	Inductive process, mutual simultaneous shaping of factors. Emerging design categories identified during research process. Context-bound patterns, theories developed for understanding. Accurate and reliable through verification.

Source: Hussey and Hussey (1997:48)

Watts and Zimmerman (1986) declared that a positive accounting approach aims to explain and predict accounting phenomena. Advocates of this approach attempt to differentiate positive from normative theories since the latter are concerned with prescription and value judgement, while the former depend on empirical data to test research hypotheses. Thus, it can be stated that propositions formulated upon the positive theory are verifiable. For example, it offers an opportunity to avoid the value judgements and theoretical speculations of normative models (Ryan et al., 2002). As another example, the implication of the positive accounting theory serves to determine a theory and verify the research hypotheses through answering "What is" rather than "What ought" questions (Watts and Zimmerman, 1986; Riahi-Belkaoui, 2002; Ryan et al., 2002). This has a positive impact on determining different variables that may affect accounting phenomena.

In light of the above, the present study could be classified as positive and it used a positivist approach to examine the variation in perception of different user groups via a set of testable hypotheses. These hypotheses are tested using non-parametric analysis. On a different point, it attempts to explain the variation in voluntary disclosure provided in CARs by employing a set of explanatory variables. The association between these variables and disclosure practices are statistically tested through the formulation of a set of testable hypotheses. These hypotheses are tested using multivariate regression analysis; they either stemmed from the theoretical perspective, as discussed in Chapter 2 (e.g. agency theory, signalling theory), or have been chosen for their possible causal associations to voluntary disclosure behaviour. Furthermore, the empirical approach used has normative implications, which may help policy makers to achieve their objectives (Suwaidan, 1997). For example, if the results of research reveal that the overall level of voluntary disclosure is low, this suggests a need to improve disclosure requirements (Dye, 1986) and the CMA must pay more attention to the types of disclosure in CARs.

Above that, as mentioned previously, the current study focuses mainly on two primary objectives. First, to explore and evaluate the perception of user groups regarding the usefulness and importance of CAR and the improvement of its voluntary information besides other issues such as CG. This can be achieved through employing a questionnaire survey as a quantitative approach. Second, the study also seeks to understand and explore the phenomenon under investigation which is the voluntary disclosure practices in annual reports of listed companies at the KSE, which can be reached through employing a voluntary disclosure index as a quantitative approach.

The present study highlights the status quo of the market, i.e. how it is constructed and maintained rather than focusing on how to change it. Burrell and Morgan (1997) suggested and developed, based on two perspectives or dimensions and five sets of theoretical assumptions as shown in Table 5.1, four mutually exclusive ways or paradigms of viewing the social world. These paradigms are commonly used in social science research, which are functionalist, interpretive, structuralist, and humanist. Figure 5.1 demonstrates the location of each paradigm for the analysis of social theory. Thus, it can be stated that the study is carried out within a functionalist paradigm since the objectives of study closely fit this paradigm. For instance, the functionalist research paradigm is related to quantitative studies. In this respect, Crabtree and Miller (1992:6) proposed that a quantitative approach is more likely to fit an "explanation-testing" of social order or affairs, and control, while a qualitative method is usually more useful and used for "identification, description and explanation-generation".

Figure 5.1 Four paradigms for the analysis of social theory

The sociology of radical change

Subjective	Radical humanist	Radical structuralist	**Objective**
	Interpretive	Functionalist	

The sociology of regulation

Source: Burrell and Morgan (1979:22)

5.3 DATA RESEARCH METHODS

Data collection is considered an essential stage of research since the accuracy of research results highly depends on the way data are obtained. Data collection can take place through a number of methods as well as from different sources. Specifically, two methods are commonly used in previous studies, namely: interviews and questionnaires.

5.3.1 The Interview Method

One method for gathering data is an interview, either structured or unstructured. Interviews can take place over the telephone, face-to-face, or through the medium of the computer (Sekaran, 2003; Fink, 2003). Researchers employ this method to obtain the views of subject groups in relation to the research topic's objectives.

The interview method has a number of advantages, including a high degree of flexibility in the questioning process (Greenfield, 2002). It gives a good opportunity to control the interview situation and the line of questioning (Creswell, 2003) as well as assisting reading nonverbal behaviour (Sekaran, 2003). Moreover, it presents a good chance for clarifying questions and adding new questions during the dialogue between the interviewer and interviewee (Sekaran, 2003). Hence, this method is considered one of the most effective research approaches which may be preferred when discussing long and difficult questions. In addition, the interview may have a positive impact on improving the response rate (Oppenheim, 2000). Despite its many advantages, the interview method suffers some deficiencies, which are summarised below.

The first limitation relates to the interview itself. It is considered more costly, for example in travel and telephone costs, than other research methods such as mail questionnaires (Oppenheim, 2000), particularly in the case where interviews involve participants spread over a wide area (Sekaran, 2003). Moreover, this type of data collection can be very time-consuming.

The second limitation concerns errors related to the interviewer. The presence of the researcher in this method could cause bias in responses (Creswell, 2003). Other factors possibly creating bias in the answers are the researcher's personality and tone of voice. To mitigate these drawbacks, researchers should be aware of these matters before the interviews. In this context, De Vaus (2002) stated that interviewers require careful training and suitable personal skills.

The last limitation concerns the interviewee's bias. In some cases participants in interviews do not wish to provide accurate information, give correct responses, or divulge the truth about the events of interest since the presence of the researcher means a lack of anonymity. Moreover, this could be the result of the research topic itself or some of the questions addressing sensitive issues. It should be taken into account that interviewees are affected by social desirability considerations, preferring to give acceptable rather than true answers (De Vaus, 2002).

5.3.2 The Questionnaire Method

A questionnaire survey is an efficient mechanism to collect information regarding the perspectives and beliefs of groups of people as well as changes in their opinions and their information needs. It is a highly structured data collection method and consists of a set of written questions which are usually highly pre-formulated, so individual respondents can complete it by themselves (Fink, 2003). This type of data collection technique can be carried out by mail, telephone, electronically distributed, or administered personally (Sekaran, 2003). Although interviews allow a researcher reasonable space and great flexibility regarding administering and changing the questions, the questionnaire is a more efficient mechanism to obtain data, in terms of time and cost (Sekaran, 2003; Burns and Bush, 2009).

The questionnaire is frequently used by researchers in social sciences. It is characterised by low cost compared with other research methods such as interviews, particularly when the questionnaire involves a wide range of people spread over a large territory. It is also helpful in assuring respondent anonymity as well as providing more privacy to complete the questionnaire (Nachmias and Nachmias, 2007). Finally, this data collection technique helps to reduce "error bias" or "response bias", which could occur as a result of the personal characteristics of the interviewer and the variation in their abilities and skills.

Conversely, there are some disadvantages related to this data collection approach. In this type of survey, the given response must be accepted as final since the researcher has no opportunity to probe beyond it, to correct the misunderstanding of questions, and to observe the nonverbal cues of respondents (Oppenheim, 2000). Furthermore, the researcher cannot clarify ambiguous responses (Almahmoud, 2000). Moreover, a low response rate is considered the most serious problem associated with questionnaires. In this respect, Sekaran (2003) stated that a response rate of 30% is generally accepted for a mail questionnaire.

5.4 RESEARCH METHOD

De Vaus (2002:131) argued that *"It is impossible to decide which method is the best: the relative strengths and weaknesses vary according to the characteristics of the survey"*. A researcher should take into account some key factors when selecting a method of collecting data such as: the research topic, sample size and distribution, the type of questions, nature of the population, and time and cost constraints (De Vaus, 2002).

A "self-administered" or so-called "drop-off questionnaire" is considered the most suitable method for this study. With regard to this research method, the study followed the recommendation of Sekaran (2003:236), who stated that:

> *"When the survey is confined to a local area, and the organization is willing and able to assemble groups of employees to respond to the questionnaires at the workplace, a good way to collect the data is to personally distribute the questionnaire. The main advantage of this is that the researcher or a member of the research team can collect all the completed responses within a short period of time".*

On the other hand, the appropriateness of this method can be derived from the type of research topic, the nature of the society in which the questionnaire is conducted, and the subject groups who participate in the questionnaire. As mentioned previously, the questionnaire's objectives are to explore the perceptions of different user groups regarding different aspects. Consequently, this study deals with different user groups and also aims to obtain the views of as many users of annual reports as possible, so the interview method would consume the valuable time of the interviewer and interviewees. In addition, the questionnaire is an appropriate way to answer the research question without the researcher pressurising the respondents. The use of a self-administered questionnaire is also expected to be useful and effective in minimising some disadvantages related to the mail questionnaire such as low response rate and missing data.

On a different note, it is expected that the workplace environment, in which target groups work, creates some restrictions regarding gaining access, specifically if the interview technique is employed. Furthermore, members of the Kuwaiti business community are characterised by a tendency to be cautious in providing personal opinions, due to their cultural background, on sensitive issues since they believe these opinions could create conflict with the nature of their work and affect their work future; in addition, their personal opinions represent their employers' official view. Hence, the use of questionnaires is an effective method for protecting the confidentially and anonymity of research participants and obtaining the co-operation of participants from the Kuwaiti business community.

In light of the reasons outlined above, the questionnaire technique was considered the best method to reach the main objectives of the study as well as coping with the disadvantages of other research methods.

5.5 THE QUESTIONING TECHNIQUE

There is a general consensus that the wording of questions plays an important role in determining the quality and type of data obtained from participants in the study. In this sense, Fink (2003:11) clarified that *"a straightforward question asks for information in an unambiguous way and extracts accurate and consistent information. Straightforward questions are purposeful and use correct grammar and syntax".* Consistent with this view, when designing the questionnaire, several attempts were made to ensure the questions were written in an acceptable and clear way, as well as using simple words and common terms.

A. Types of Questions

The questions were drawn firstly by reviewing a number of previous relevant studies: Alrazeen (1999), Al-Mahmoud (2000), Naser et al. (2003), Al-Mutairi (2004), Mirshekary and Saudagaran (2005), Al-Ajmi (2009). Secondly, the questions were also compiled by reviewing the main reports about the KSE, which were published by different national and international bodies (as discussed in Chapter 4).

B. Forms of Questions

Best (1981:43) stated that "*the closed-form questionnaire usually consists of statements or questions with a fixed number of choices. The respondent is asked to check the response that best fits the item"*. Consistent with this view, the questions were written in a statement format and the respondents were given a five-point Likert scale to express their perceptions. In some cases, this indicated the importance/agreement level of statements and in others, the level of difficulty with specific statements in the view of participants. Fowler (1993) declared that a five-point Likert scale gives a reasonable opportunity for discrimination among each question. So, this could help to increase variation in possible results by coding (e.g. from "not at all important" to "extremely important").

The closed-ended questions are easier for respondents to answer and complete. They assist the researcher to code the information easily for subsequent statistical analysis and interpretation (Sekaran, 2003; Fink, 2003). In this context, Greenfield (2002) stated that this type of question does not require writing by both researcher and respondents and is characterised by its uncomplicated analysis. This is also, *"particularly important in large surveys because of the number of responses and respondents*" (Fink, 2003:18). Although this type of question helps to save time for both the respondent and researcher (Oppenheim, 2000), it is criticised on the ground that it may generate bias and so could indirectly force respondents to select from a set of given alternatives. Closed-ended questions may suffer other limitations as a result of loss expressiveness (Oppenheim, 2000). In some cases, they also do not help the researcher to know the reasons behind respondents' answers. In view of the above discussion, it was decided to use closed-ended questions in this study.

To overcome drawbacks, at the end of each section, participants were given free space to add further responses, items, comments, suggestions and opinions. Moreover, respondents were invited and encouraged to highlight critical topics which were not covered or not deeply covered in the questionnaire (see Appendix 4). Overall, the comments and suggestions of respondents were edited and documented, as qualitative data to strengthen and support the statistical results of this thesis; see Chapter 6.

5.6 COMPONENTS OF QUESTIONNAIRE

The questions have been constructed in a clear and structured approach to minimize the respondents' time and effort in completing the questionnaire as well as following the ideas and questions step by step. With regard to the sequence of the questionnaire, it is useful to lead the respondents from questions of a general nature to those that are more specific, and from questions that are easy to answer to those that are more difficult (Hoinville et al., 1978; and Sekaran, 2003).

Initially, the questionnaire began with a short introductory paragraph explaining the general objectives of the research topic. Another purpose of the cover page is to encourage the respondents to answer questions without bias and to provide more comments. The questionnaire in this study was grouped into five sections.

The first dealt with participants' demographic information and other important information required for research purposes. This provides a good background regarding participants' responsibilities and duties. This section includes: place of work, type of job, employment record and qualifications. Consisting of three parts, the second section was constructed to investigate the views of different user groups about the importance of CARs and their sections for making decisions. It also investigates whether, in the respondents' view, the annual report contains information that has the qualitative criteria that may enhance its quality. The third section consisted of three questions assessing the current level of voluntary disclosure in annual reports, according to the view of user groups. It also rated the usefulness level of voluntary disclosure and selected voluntary items to be disclosed in annual reports. The fourth section investigated some factors that could affect information transparency provided by companies in the respondents' view. Finally, section five comprised of three questions representing of a series of statements about the kinds of criticism directed against the regulatory and legal environment of KSE (see Chapter 4). It also examined the ability to implement CG practices in Kuwait.

5.7 PHASE I: RESEARCH HYPOTHESES RELATED TO USERS' PERCEPTIONS

In particular, the first stage of this study seeks to test the hypotheses related to users' perceptions toward Kuwaiti annual report as a source of information and the importance of voluntary information along with other issues.

5.7.1 Importance of Information Sources

A number of academic studies have been conducted to explore the essential sources of information employed by users of corporate information. More specifically, a wide set of previous studies in different parts of the world attempted to explore the most important sources regularly used by different types of user groups in the process of making decisions (e.g. Nasser et al., 2003; Mirshekary and Saudagaran, 2005; Zoysa and Rudkin, 2010). These show that the most valuable source of information is the corporate annual report (CAR).

Rees (1995) argued that personal contact with companies and publicly published information are considered one of the other sources which could help investors to follow and anticipate company performance. In this respect, Abu-Nassar and Rutherford (1996) stated that external users of financial reports depend more on alternative sources of information to CARs as an important instrument for the process of decision-making since those sources include more up-to-date information and that which is not available in annual reports.

The results of these studies revealed different perceptions toward the sources of information. For this reason, the present study proposed a similar research question to explore the most important sources of information in the views of users of corporate information in Kuwait. Given the preceding discussion, the following null hypothesis will be tested:

H1: There are no significant differences among user groups in the perceived importance of different sources of information.

5.7.2 Importance of Annual Report Sections

According to Rees (1995), accounting information included in a CAR could be categorised into two main sections: the first relates to financial information, including the statement of financial position and income statement etc. However, some companies do not release information specifically about future plans, long-term liabilities, and breakdown of profits etc., because this shortness in detailed information could mislead users of annual reports. The second section contains information related to the auditor report, chairman's letter etc., which can be called non-financial information. On the other hand, Rees (1995) claimed that the concentration of information provided in CARs varies across countries and could be governed by business laws and other regulations in each country. Thus, a corporate report is viewed as a product that reflects legal and cultural relationships (Senoun 1993).

The previous research indicated that financial statements, especially the statement of financial position and income statement, are the sections most frequently employed by users of CARs for decision-making (e.g. Epstein and Anderson, 1994; Naser et al., 2003; Al-Ajmi, 2009; Zoysa and Rudkin, 2010). In addition, studying the importance of the cash flow statement and its data revealed that it is important since it assists in providing information regarding the ability of a company to generate cash flow from its operations and investment (Neill et al., 1991).

Turning to the importance of non-financial information, derived from the qualitative information, Smith and Taffler (1992) explored the relationship between the chairman's letter and company performance; they proved a significant association between these variables. Hence, a weakness in the ability to read and understand the chairman's letter reflects the weakness in the company's financial performance. Although the contents of information included in the chairman's letter are not required to be audited by an external auditor, there is a requirement that these contents should harmonise with the general context of the annual accounts. Bartlett and Chandler (1997) revealed that the chairman's message is considered one of the most important sections of annual reports (Jamil et al., 2009; Bhana, 2009); it is seen as an introductory section which sets the rhythm of the subsequent sections and contents of annual reports. Therefore, it is crucial to identify the importance that user groups attach to different sections of the CAR. Thus, the following hypothesis will be tested:

H2: There are no significant differences among user groups in the importance they attach to various sections of a corporate annual report.

5.7.3 The Qualitative Characteristics of Corporate Information

The main objective of corporate annual reports is to provide useful information which should meet the needs and perspectives of key users, such as creditors and shareholders, for decision making. Also accounting information provided in annual reports could be useful for other parties who are interested in business and economic events. In order to reach this primary objective, information should have a number of characteristics, called qualitative characteristics of accounting information. In terms of completeness, Lewis and Pendrill (2003) stated that the benefits of information should exceed its production costs. In addition, the International Accounting Standards Committee (IASC, 1989) indicated that information releases by companies should be useful for users in the decision process. It must possess qualitative characteristics including being understandable, relevant, reliable, comparable, and timely.

Overall, empirical studies allocated a number of characteristics to gauge the quality of CARs. These studies recognised relevance, reliability, understandability and comparability, and consistency as the main characteristics that information should contain to be judged useful. In addition, accounting information can be considered reliable when it has the following characteristics: representational faithfulness, verifiability, and neutrality (Wolk et al., 1992). It is, therefore, important to question the various stakeholder groups regarding their perception about whether the corporate information has the qualitative characteristics that could affect the quality of the annual report. Given that, the following hypothesis will be tested:

H3: There are no significant differences among user groups on agreement level of qualitative characteristics that might affect the quality of corporate annual reports.

5.7.4. Voluntary Disclosure Practices

The next sections cover several aspects of voluntary disclosure. Among these aspects are: level of voluntary disclosure, the usefulness of voluntary disclosure, and the proposed voluntary items to be disclosed in CARs.

5.7.4.1 Existing Level of Voluntary Disclosure

The overall level of voluntary disclosure and categories of information in emerging markets such as Kuwait are criticised for being lower than documented by studies conducted in other countries (Al-Shammari, 2008; Al-Shammari and Al-Sultan, 2010). Therefore, it can be concluded that, in the perspective of major user groups, information provided in annual reports is not fully satisfactory.

There is empirical evidence from the literature (for more details see Chapter 3) indicating variation in the level of voluntary disclosure and the types of information disclosed by companies. This variation could be interpreted on the grounds that disclosure practices differ among companies and this creates a great deal of interest in exploring the perception of stakeholder groups regarding the current level of voluntary disclosures in the annual reports of companies listed on the KSE. This could help in investigating whether the results of empirical studies conducted in Kuwait are consistent with the perception of well-experienced and knowledgeable users. This would also help to gauge the level of satisfaction among the user groups regarding the level of voluntary information that companies disclose. Consequently, the participants were asked to evaluate the current level of voluntary corporate disclosures. This leads to the following hypothesis.

H4: There are no significant differences among user groups' views on the current level of voluntary disclosure released in the corporate annual reports.

5.7.4.2 Usefulness of Voluntary Information

Shaoul (1997) indicated that accounting disclosure is considered a powerful mechanism and a crucial source which helps to investigate the company's performance and financial position and to assess public disputes regarding company strategies and policies. Larson and Kenny (1995) stated that that disclosures and accounting reports play a central role in the growth of capital markets. Beyond that, Ndubizu (1992) asserted that disclosure, as a factor, helps to avoid market failure through reducing the level of uncertainty in a stock market. Therefore, issues like these receive much attention from governments and the public. In the disclosure context, Gilson (2000:5) argued that "*delivering information to investors is easy; but delivering credible information is hard*". Thus, stakeholders, especially minority shareholders, benefit from the disclosure of information when it is accurate and credible as well as timely.

From the above, it can be concluded that one of CARs' main objectives is to provide useful information to users through voluntary disclosure. Therefore, companies should employ voluntary disclosure in a more efficient way; this could increase the flow of capital in the capital markets such as the KSE. Consequently, it is important to explore how voluntary disclosure provided in CARs can be useful in making effective decisions. The following hypothesis will be tested:

H5: There are no significant differences among user groups' views on the usefulness of voluntary disclosure.

5.7.4.3 Proposed Voluntary Items to be Disclosed in the Annual Report

Among previous studies, conducted in the context of developed and developing countries, there is no general agreement on the list of voluntary information, "the checklist", to assess the disclosure level. Firth (1978) used 75 information items, some of which are mandatory; McNally et al. (1982) used 41 items, some also mandatory; Chau and Gray (2002) used 113 items; and Agca and Onder (2007) used 87 items of information. More recently, Al-Shammari and Al Sultan (2010) used 76 items and Alanezi (2011) used 51 information items.

In this study, respondents' views towards the usefulness of 29 proposed information items (if they were regularly published in CARs) were explored. This may help to improve the quality of voluntary disclosure in Kuwait. Given that, the following hypothesis will be examined:

H6: There are no significant differences among user groups about the perceived usefulness of voluntary disclosed items listed in the questionnaire to improve the quality of voluntary disclosure.

5.7.5 Factors Affecting Corporate Information Transparency

The identification of determinants that may affect the level of transparency of the information published is considered a complex process. In fact, information transparency may also be influenced by a range of factors: company and corporate governance characteristics, the status of the national economy, the attributes of the capital market on which companies are listed, and cultural values.

Information transparency is most likely influenced by board reputation in terms of the professional experience and high level of skills of directors who sit on the board, as well as of experienced senior managers who are engaged in making strategic decisions. Besides, information transparency is affected by a company being well-established and well-known, with a better reputation than other companies which are considered less established and with less history in business norms. With regard to auditors' reputation, Ahmed and Nicholls (1994) and Ali et al. (2004) stated that big audit firms influence the policy of accounting information disclosure followed by their clients, and so it is expected that they encourage transparency in the information released by their clients. Moreover, it is argued that the audit profession has a significant role in enhancing confidence in the reliability of company information (Nazri, 2011). It is expected that the level of information transparency would improve with an improvement in the understanding of the factors which influence transparency. Consequently, it is important to ask the various user groups about the factors that may contribute to fostering companies' information transparency. Thus, the following research hypothesis will be tested:

H7: There are no significant differences among user groups' perceptions on the factors that may affect the information transparency provided by listed companies.

5.7.6 Accounting Regulations and KSE's Growth

As discussed in Chapter 4, the KSE was criticised by a number of international bodies and studies on the ground that it suffers a lack of regulation, miscommunication and poor cooperation between the regulatory bodies, and the absence of regulation enforcement. This contributes to a series of problems such as insider dealing and the lack of minority interest, hence weakening the confidence of individual investors in the capital market (King and Roell, 1988). To make a strong capital market, applicable laws and regulations in the market should achieve two fundamental prerequisites: minority shareholders should receive good information about the companies, and the company's insiders should not cheat other company shareholders (Bernard, 2000).

The regulatory bodies of the KSE are expected to increase their coordination and work as a team, as discussed in Chapter 4. This is considered a crucial part of a successful organisation, following the recommendations and standards of international organisations, such as the International Monetary Fund (IMF) and the International Organisation of Security Commissions (IOSCO), so could help to achieve their objectives. This could aid the development of the capital market, considered one of most important objectives for many countries such as Kuwait. Moreover, if this comes to fruition it will diversify the income sources and attract a wide range of new investors in the KSE. Hence, this could strengthen the competitive position of the KSE among other Arab capital markets.

Under these circumstances, it is important to ask different categories of professional users, who are interested in the KSE's affairs, about their views on the need to reduce the overlap in surveillance and enforcement functions among the KSE's regulatory bodies. Also, the need to revise/set new business regulations in Kuwait mitigates the lack of current laws. It is also important to ask user groups in the KSE about their perception regarding the level of difficulty in applying some issues related to corporate governance: all statements drawn from Chapter 4. Based on the preceding discussion, the following three hypotheses will be investigated:

H8: There are no significant differences among user groups' views regarding the reduction of overlapping in the surveillance and enforcement functions among regulatory bodies.

H9: There are no significant differences among user groups about the perceived usefulness of a set of procedures to improve the level of confidence and investment in the capital market.

H10: There are no significant differences among user groups' opinions on the degree of difficulty about the ability to apply some issues related to corporate governance best practices.

5.8 PILOT STUDY AND THE QUESTIONNAIRE TRANSLATION

A pilot study is considered prior to actually using the questionnaire to collect data for research objectives and has a positive impact on improving the quality of the questionnaire and its contents. Thus, this step could help prevent any potential problems in recording the data for subsequent analysis and it also allows questionnaire participants to answer the questions without any problems (Saunders et al., 2009). Therefore, a pilot study is one of main ways to test the successful questionnaire.

In this respect, the study followed the advice of Saunders (2009:394), who argued that:

> *"Initially you should ask an expert or group of experts to comment on the representativeness and stability of your questionnaire. As well as allowing suggestions to be made on the structure of your questionnaire, this will help establish content validity and enable you to make necessary amendments prior to polite testing with a group as similar as possible to the final population in your sample".*

Based on the above discussion, the questionnaire in this study went through a number of preparation and development stages before it reaches the final draft for actual distribution. The first draft was piloted to the faculty members of College of Business Administration at Kuwait University, who have the relevant theoretical background. They were asked to provide their feedback regarding the questionnaire's wording and order of questions, content and structure, and limitations. Based on their feedback, a few items were eliminated. Several amendments were made to the wording of some questions, some less relevant questions were eliminated in order to reduce the questionnaire's length and others were combined. In the next stage, the questionnaire was translated into Arabic.

After reviewing a number of various translation approaches (McGorry, 2000), the decision was made to pursue the following method. The questionnaire survey was initially written in English, which, in Kuwait, is considered the second main language after Arabic for official correspondence in the government and private sector and among well-educated individuals. Consistent with Marin and Marin's (1991) view, the study adopted a double translation manner to avoid potential ambiguities. This involved the use of a translation office "as an independent party" to translate and the questionnaire into Arabic, thus avoiding any bias in the process if he conducted this task himself. In the second preparation phase of translation, copies of the translated to English and original questionnaire were submitted to some faculty members at Kuwait University Accounting Department to ensure the translation did not affect the original meaning of the questions in particular and the questionnaire in general.

The second piloted stage, as a further step, took place with an experienced group to obtain extra comments about the simplicity and sequence of the questionnaire. Discussions were held with a number of senior employees at the Ministry of Finance since they are similar to the target user groups, having a good knowledge of commercial regulations and the contents of CARs. On completion, the final draft was ready to be administered to the target groups.

5.9 PARTICIPANT GROUPS AND SAMPLING PROCEDURE

As previously mentioned, this study concerns the investigation of users' perception toward information in CARs as a source of information. Hence, the first step in a sampling plan or design is to identify the whole population for the target groups. The groups of respondents were categorised into four different groups as follows: financial advisors, external auditors, market regulators, and academics. As a result of the difficulty of identifying the entire population of interest, the culture of the research population, the participants being expected to be sensitive to the research topic or some of the questions, and time constraints, a decision was made to choose to employ judgement and snowball samplings.

The study sample followed the advice of Neuman (2000), who stated that judgement sampling is appropriate if the study aims to obtain better understanding of the research phenomenon rather than being generalised to the whole population. On the other hand, a snowball sampling method was used: participants in this questionnaire were asked to refer other colleagues and/or introduce further elements of the group since Kuwait is a small country and society is built on close social relationships between individuals. So, in most cases, it is assumed the group of people has a good knowledge and connection with each others.

It is interesting to note that the selection of the following groups is based on a number of considerations: a set of relevant studies. Further, it is assumed that the target groups are familiar with CARs and their contents as well as issues discussed in the questionnaire. Members of financial advisory group were selected and their unlisted investment companies' addresses were obtained through the Central Bank of Kuwait's (CBK) website. The list of audit firms was obtained through the 2006 directory published by the Kuwaiti Association of Accountants and Auditors. The names of highly ranked audit firms, i.e. in terms of number of listed companies audited, were obtained from the regulatory bodies. The following discusses the participant groups in this study and the reasons and motivations behind their selection.

Financial Advisory Group

The first group consists of portfolio managers from unlisted investment companies involved in activities such as providing investment advice and analysis of different types of information to adequately explain the financial position of a company and other circumstances needed to reach an informed decision. It is important to include experienced managers since they are more familiar with the contents of annual reports, the disclosure requirements, and the regulations of the KSE. They are also knowledgeable about companies' performance and financial position. Hence, this would strongly help to get valuable opinions about the importance of CARs and the usefulness of voluntary information in making decisions.

External Auditor Group

This includes local audit firms which are associated with one of the Big 4 firms or any other international firms. Usually these firms are audit listed companies. External auditors are expected to have a positive role in promoting compliance with local regulations and IFRS along with having a significant influence on the quality and credibility of information provided in annual reports. The audit firms are requested to pass the questionnaire to professional individuals from different functional levels (e.g. partners and senior auditor managers). The selection of auditors, who differ in their levels of responsibilities and powers, may help them to give informed opinions and valuable comments in different dimensions.

Market Regulator Group

The market regulator group consists of market regulators from three governmental bodies: the MCI, KSE and CBK. The Department of Shareholding under the MCI regulates many issues related to companies listed on the KSE. In addressing the regulations related to financial reporting, Arnold et al. (1994) revealed that the regulators can be considered as working on behalf of shareholders and others. The Kuwaiti government owns a significant percentage in companies listed on the KSE, specifically leading companies. Consequently, it is important to involve government representatives and the Shareholding Companies' Departments under these regulatory bodies. The departments responsible for supervising the listed companies are requested to pass the questionnaire to the qualified individuals such as managers, controllers, heads of departments and senior employees. The selection of members of this group, who differ in terms of functions as well as practical experiences, could give a reasonable opportunity in enhancing the variation in possible results, and to obtain valuable comments and suggestions. In addition, it is important to gain the view of government toward CARs and voluntary disclosure.

Accounting Academic Group

The fourth group of participants consists of accounting academics in public and private universities in Kuwait, who are involved in teaching or their research in financial reporting, disclosure practices and CGs. This group has been chosen to participate in this questionnaire on the grounds of their specialisation in issues associated with disclosure and corporate governance practices. That is because they are assumed to be knowledgeable from their theoretical background and well-trained or practised from their positions as consultants to various bodies in Kuwait. In addition, they participate as experts in setting the accounting and business regulations. The government of Kuwait usually appoints members of this user group as ministers so that they can participate in setting country policies.

5.10 VALIDITY AND RELIABILITY

In the first part of the current study, two types of tests were employed, namely: validity and reliability, to confirm the acceptability and credibility of a research instrument and the study results. The Statistical Package for Social Science (SPSS) version 17.00 was used to produce the results and the test of reliability.

Validity is defined as the ability and accuracy of the measurement instrument to measure what it was intended to measure (Saunders et al., 2009). So, the instrument can be said to be valid when it measures what it set out to measure. As a matter of fact, the quality of research project outcomes is affected by the quality of the data collection method (Huck and Cormier, 1996). Consequently, the researcher should depend on reliable and valid instruments to collect data, to ensure more reliable conclusions (Reda, 1992). In this study, the validity of the questionnaire stemmed from several professional staff and experienced academics, who participated in the pilot study as previously discussed.

Reliability is represented by the consistency of a measuring instrument. Neuman (1997:138) defined reliability of the instrument thus:

> *"Reliability deals with an indicator's dependability. If one has a reliable indicator or measure, it gives you the same result each time the same thing is measured. Reliability means that the information provided by indicators (e.g. questionnaire) does not vary as a result of characteristics of the indicator, instrument, or measurement device itself".*

In fact, it is often difficult to arrange for a collected group of people, such as participants, more specifically in surveys, to repeat answering the same questions on two different occasions to assess the consistency of results. However, an alternative technique, called the internal consistency reliability, was adopted to measure how well the items, which measure the same concept in the scale, are correlated to each other.

To discover the reliability of the study's results, the Cronbach's alpha measurement of internal consistency was used. This is a common statistical technique in testing the reliability of research instruments and widely used in social researches. The Cronbach's alpha approach aims to assess the correlation between all items; its values range between 0 and 1. George and Mallery (2003) gave a general definition of Cronbach's alpha scores by employing the following scale: higher than 0.9: Excellent; higher than 0.8: Good; higher than 0.7: Acceptable; higher than 0.6: Questionable; higher than 0.5: Poor; and less than 0.5: Unacceptable. Hence, the higher value of coefficient alpha indicates a more reliable scale.

Table 5.2 shows the values of the Cronbach's coefficient alpha for the overall user groups and for each of the user groups. The scores of Cronbach's alpha are above 0.7, reflecting good internal consistency reliability of the answers.

Table 5.2: The Values of Cronbach's Alpha for the Questionnaire

Name of Groups	Coefficient alpha
All user groups	.90
Financial Advisory	.85
External Auditor	.90
Market Regulator	.88
Accounting Academic	.94

5.11 STATISTICAL TECHNIQUES TO TEST USERS' PERCEPTION

There are two main statistical approaches to analysing data, namely: parametric tests and non- parametric tests. To determine which approach should be used, the collected data should satisfy a set of statistical assumptions, including (for example, see Balian, 1982; Blumberg et al., 2008; Saunders et al., 2009): assumption of normality, which means that data observations should be drawn from a normally distributed target population; assumption of homogeneity of variance, which means that standard deviation of data observations should be equal. It is also presumed that data observations should be independent.

It is interesting to note that parametric statistics are more efficient than non-parametric when all assumptions are satisfied, as well as when collected data is measured on an interval scale (Siegel, 1956). Conversely, if all or any preceding assumptions are not met by data cases, non-parametric techniques would be the more appropriate approach (Balian, 1982). In this sense, non-parametric methods are considered an alternative test when any preceding assumptions are not possible to apply to data observations. Moreover, Newbold et al. (2003) stated that non-parametric techniques are more appropriate for the survey containing ordinal data without the existence of the normality assumption. According to the results of normality for questionnaire data, using Kolmogorov-Smirnov and Shapiro-Wilk tests indicated that the p-value was less than 5%. This suggests that the normality assumption was not met, so non-parametric statistics were used in this part of the study.

The following main statistical techniques were employed in the questionnaire survey:

Descriptive Measures: To explore the data thoroughly by group response to gain a better understanding of the data, descriptive statistics were employed and comprised of overall mean values, standard deviation scores, and the ranking for each item in terms of level of agreement or importance or difficulties based on the overall mean values.

Frequencies: These were employed to display simple counts and percentages for categorical or ordinal data.

Non-Parametric Methods: The statistical technique of the Kruskal Wallis (KW) test is used to test the null hypothesis that there is no significant difference among user groups' perceptions. Thus, this test is helpful in exploring the level of consensus among target user groups. In case the KW test shows any significant differences among user groups' responses, the Mann-Whitney (MW) test is used to examine the differences between each pair of groups. In other words, the KW is adopted to find out if there is any statistically significant difference across factors and if so to pinpoint where the differences lie by using the MW. These approaches are commonly used with the Likert scale, as data is not normally distributed.

5.12 PHASE II: RESEARCH SAMPLE SELECTION AND DATA COLLECTION

This study's target research population is all non-financial companies listed on the KSE, since the number of listed companies is small. Year 2005 was selected as a base year due to the International Monetary Fund Report (IMFR) (2004) regarding the assessment of financial sector stability in Kuwait being published for the public at the beginning of 2004. The IMFR's report includes very important recommendations concerning inefficiency practice mechanisms in the KSE and time and serious efforts are required from regulatory bodies such as the KSE and CBK to mitigate the deficiencies in the followed procedures and regulations. Moreover, the present study covers the financial period 2005-2008, which was chosen because it is prior to the establishment of the Capital Markets Authority (CMA), which was instituted to improve the monitoring process on market practices, as one of its main objectives, and to follow the recommendations of international bodies such as the IMF (see Chapter 4). Another important impetus behind choosing this financial period is to examine voluntary disclosure changes over a period of time and without the existence of changes in mandatory disclosure requirements. In addition, this was considered the most recent data available when conducting the empirical work at the end of 2008 and the beginning of 2009.

According to the Investor Guide and Annual Report of 2005 issued by the KSE, a total of 158 companies are listed on the KSE; these are classified into two categories: Kuwaiti companies (143) and non-Kuwaiti companies (15). The sample selection process involved two important stages. As can be seen in Table 5.3, the initial sample of 158 companies was reduced by excluding all financial companies which have financing and/or leasing activities. Also, they are excluded from the statistical research sample as their accounts, by the nature of their operations and activities and information reporting practices, are different from those of non-financial companies. On a different point, this exclusion is a common technique, employed in most disclosure literature (e.g. Cooke, 1989a, 1989b; Wallace et al., 1994; Haniffa and Cooke, 2002; Ghazali and Weetman, 2006; Akhtaruddin et al., 2009), and thus would offer a good opportunity to compare the research outputs with the results of disclosure studies.

Table 5.3: Selection of Companies

Description	Total no. of companies	% of total research population
All companies listed on the KSE as of 31 December, 2005	158	100
The first stage (excluding)		
Banks	(11)	7
Insurance companies	(9)	5.7
Investment companies	(41)	26
Total number of companies excluded	61	38.7
Total no of non-financial companies represented in the research sample	97	61.3

After the first stage of exclusion, all non-financial companies listed on the KSE in 2005 are considered the target population of the study since the population size is relatively small. It should be noted that the full set of annual reports for some companies are not available on their website and also some companies do not have a website, so companies were directly contacted to obtain the annual reports for the study period. The other research data were gathered through a questionnaire survey submitted to companies' senior management; questionnaire details are presented in Appendix 5. It is noteworthy that the availability of such data was checked through visiting/contacting the authorised offices in the KSE and MCI; however, it was not available. Financial information, such as company size and leverage, was hand-collected, obtained from CARs of the research sample. Information about board composition was also hand-collected, obtained through using Investor Guides of 2005-2008.

This study applied criteria, and any company not meeting these is omitted from the research sample. Consequently, only data from 52 companies, as a final sample, can be used in the empirical section. Table 5.4 provides a breakdown of the main criteria employed to reach the final sample.

Table 5.4: The Criteria Applied for Sampling the Companies

Description	Total no. of companies	% of total research population
Total no. of non-financial companies represented in the research sample	97	100
The second stage (excluding)		
Companies with different fiscal year not ending at 31 December (financial year-end in Kuwait) since the financial period may affect the extent of voluntary disclosure in CARs and the collecting of financial data.	(8)	8.25
A company was excluded when the required data for this study was not available (e.g. a full set of CARs).	(7)	7.22
A company was excluded when the required data for this study could not be obtained for several reasons. In the view of companies, these types of information are considered to be internal information or they tend to be secretive.	(30)	30.93
The final sample of research which represents companies with complete and usable data to conduct the empirical part.	52	53.60

The research sample contains 50 companies with four observations and two companies with three observations. Table 5.5 illustrates the total number of companies, based on the year- observations, to assess the extent of voluntary disclosure. The 52 companies are classified into three industry types, following the scheme used by Al Mutawaa and Hewaidy (2010), who investigated the extent of compliance with disclosure requirements by Kuwaiti listed companies. Since the food sector includes only five companies, which is considered a very small sector, adding them to the industry sector was suggested due to their having similar activities. Companies can be classified into two types of industry: manufacturing and non-manufacturing companies.

A number of previous studies conducted in different parts in this world used a different sample size. For example, Ghazali and Weetman (2006) used a sample of 87 annual reports of Malaysian companies; in Singapore, Cheng and Courtenay (2006) used 104 companies; Barako (2007) examined 54 Kenyan companies; and, from Turkey, Agca and Onder (2007) tested 51 listed companies. The current studies conducted in Kuwait covered different numbers of companies: Al-Shammari and Al Sultan (2010) used 170 companies from financial and non-financial sectors. However, Al-Shammari (2008) and Alanezi (2011) used annual reports of 82 and 119 non-financial companies listed on the KSE, respectively. Table 5.6 presents the sample distribution based on type of industry. It reveals that the majority of the sample companies are treated as manufacturing companies (63.59%), followed by non-manufacturing companies (36.41%).

Table 5.5: Total Number of Companies per Year Observations

Description	2005	2006	2007	2008	Total examined observations
Non-financial companies	52	52	51	51	206

Table 5.6: Component of the Sample by Industry Type

Sector	Frequency					
	2005	2006	2007	2008	Total	%
Manufacturing	33	33	32	33	131	63.59
Non-manufacturing	19	19	19	18	75	36.41
Total	52	52	51	51	206	100

5.13 CONSTRUCTION AND DEVELOPMENT OF A VOLUNTARY DISCLOSURE INDEX (DEPENDENT VARIABLE)

The disclosure index is considered an important tool, widely adopted in disclosure literature after the pioneering study of Cerf in 1961 (Marston and Shrives, 1991; Hussainey, 2004). The main objective of the disclosure index is to assess the level of disclosure in terms of quantity and quality of information provided by companies in their annual reports. Moreover, the disclosure index is an effective mechanism for explaining the variation in the amount of information disclosed among companies.

Coy and Dixon (2004:79) stated that the disclosure index is widely used in accounting research to "*provide a single-figure summary indicator either of the entire contents of reports of comparable organisations or of particular aspects of interest covered by such as voluntary disclosures and environmental disclosures*". To achieve its objectives, the process of constructing research instruments should be reliable and valid (Cooke and Wallace, 1989). Reliability means the possibility to achieve similar findings if two researchers applied the same instrument "index" to assess the extent of disclosure by a specific sample at a certain period of time. Wallace (1987) defined the validity of the index as the ability of a measure "index" to gauge what the researcher wants to measure.

In this sense, Wallace (1988) argued that there is no general agreement regarding the information items that can be selected to evaluate the level of voluntary disclosure. In addition, disclosure literature indicates that there is no general approach to determine the process of item selection as well as the number of items that should be included in the disclosure index (Hooks et al., 2000). Thus, this process depends on the research objectives (Wallace and Naser, 1995). Consequently, the components and number of items included in the checklist also vary from one study to another. The construction and development of a voluntary disclosure index (VDIND) "checklist" has taken several steps:

A good starting point in constructing the disclosure index is the selection of information items which could be expected to be disclosed in CARs. To achieve this, a careful review of a set of voluntary disclosure studies, applied in different parts of the world, was carried out (e.g. Hossain et al., 1994; Meek et al., 1995; Hossain et al., 1995; Haniffa and Cooke, 2002; Leventis and Weetman, 2004; Ghazali and Weetman, 2006; Barako et al., 2006; Alsaeed, 2006; Barako, 2007; Al-Shammari, 2008). In order to be more relevant to the KSE, some modifications were made to a list of information items drawn from previous studies. It should be noted that the majority of items selected were used in many studies, reflecting their importance and relevance as a basis for formulating business decisions. To ensure the initial checklist included only voluntary items, it was checked against the mandatory disclosure requirements imposed on the listed companies such as the International Financial Reporting Standards (IFRS) and the national reporting requirements issued by regulatory bodies (see Chapter 4). As the result of the study covers four financial years, it takes into consideration any change in the disclosure requirements during a research period to e ensure the checklist is suitable and applicable for the examined period.

The preceding steps generated a preliminary checklist of 64 items. To ensure no items required by the IFRS and/or other national requirements were included, it was reviewed by three external auditors from three different auditing firms: KPMG, Ernst and Young, and the RSM International in Kuwait as a further check. The auditors recommended eliminating one item since it is somewhat related to the disclosure requirement of IFRS 7. Furthermore, they suggested modifying one item to prevent any doubt about its validity as a voluntary item (see Appendix 6, Table 1). Thus, the preliminary checklist comprised 63 items.

The checklist generated from the third step was piloted on a random sample of annual reports of four manufacturing and non-manufacturing companies for the examined period (2005-2008). This step aims to improve or polish and update, as well as serving to exclude items of information considered irrelevant, or not commonly disclosed by

Kuwaiti listed companies. Consequently, the pre-test suggested dropping 11 items from the list (see Appendix 6, Table 2).

Finally, the checklist from step four was screened by a number of accounting academics to enhance the ability of the checklist methodology to be more comprehensive and include more important voluntary items and to ensure consistency among items and categories of the checklist. They recommended dropping three information items since they assumed them to be a replication of the same function, measuring the same issue (see Appendix 6, Table 3).

Moreover, the discussion with accounting experts (a number of accounting academics, auditors, and a financial consultant at the company department in the KSE), as independent evaluators, confirmed the validity and applicability of items included in the checklist, derived from step five, to be valid for use in assessing the extent of voluntary disclosure for all companies under investigation. This would enhance the reliability and validity of the disclosure scores.

The final checklist included a total of 49 voluntary items, classified into four major categories in terms of content of the information. Table 5.7 presents the list of major categories and the distribution of number of voluntary items in each category to the total of VDIND. Appendix 7 provides details of quantitative and qualitative information items included in the scoring sheet.

Table 5.7: Voluntary Disclosure Index

Category	No. of information items	%
Corporate environment	13	27
Corporate financial performance and future prospects	9	18
Corporate governance information	11	22
Corporate social and environment Information	16	33
Total	49	100

Following sound research practices in enhancing the validity of the disclosure index and avoiding any potential bias relevancy, the recommendations of Cooke (1989a, 1991) were taken into consideration as a precautionary step: the entire CAR was carefully read to fully understand the nature of the company's activities and was scrutinised against the scoring sheet. Accordingly, this helps to determine that the information items included in the checklist were applicable for each company under investigation. This methodology is widely used in disclosure literature (e.g. Hossain et al., 1995; Meek et al, 1995; Haniffa and Cooke, 2002).

5.14 SCORING THE DISCLOSURE INDEX (WEIGHTED vs UN-WEIGHTED DISCLOSURE INDEXES)

The next step in constructing a disclosure index is to assign weights to the items of information contained in the index. Two main schemes or approaches have been employed in the empirical literature to capture the levels of disclosure: weighted and un-weighted schemes (Cooke, 1989b). The first scheme, advocated by Copeland and Fredericks (1968), relies on the presentation of information. The authors employed the number of words to describe an item disclosed. Hence, the weighted scale of disclosure varies, stretching from zero to one. However, the weighted approach met some criticisms from Cooke (1989b), since it generates personal subjectivity related to the procedure of allocation of scores and the author suggests an alternative approach, called a dichotomous procedure or an un-weighted approach. Under this approach, an information item takes the value of one if it is disclosed in the annual report and zero otherwise. As a measurement technique, the disclosure index is debated among academics in accounting literature (Barako, 2007; Hassan and Marston, 2010).

While the essential proposition of the un-weighted disclosure index is that all items of information are equally important to the user groups or all items included in the index are treated equally, the weighted disclosure index presumes that the relative importance of different items included in the disclosure index is not equal in the view of information users. It also presumes that the relative importance of information to users varies from one item to another. Consequently, this approach concentrates on the importance of information items and assigns weights to different items included in the index based on the weights given to information items by surveyed user groups (Chow and Wong-Boren, 1987; Botosan, 1997). On the other side, researchers who advocate the use of a weighted index technique believe that weighted disclosure scores are a valid proxy for measuring the extent as well as the quality of disclosure. It also may serve the purpose of reducing the problems of subjectivity (Botosan, 1997; Hodgdon, 2004).

After discussing the general concepts and perspectives of the equal-weighted and weighted approaches, it can be concluded that each suffers from several limitations, an issue that has been discussed in accounting research; however, there is no common approach. For this study, it has been decided to employ un-weighted approach, and the following sheds light on the reasons behind its adoption.

The relative importance of an information item included in the disclosure index may change over time, a proposition consistent with the empirical evidence provided by Hassan et al. (2006). Thus, it is not realistic to construct a survey exploring users' perception regarding the relative importance of different voluntary disclosure items over a long period of time. Consequently, it is rational to employ the un-weighted approach since one of the grand objectives of the current study is to test the changes in voluntary disclosure behaviour of companies over four financial years, which is considered to be a relatively long period of time.

The weighted approach has been criticised on two grounds: firstly, on the subjectivity inherent in assigning weights to disclosure items. Chow and Wong-Boren (1987) argued that the weighted approach contributes to creating subjectivity since rating the importance of disclosure items, in the process of item weighting, stems from a survey using a point scale methodology and without real economic consequences to the respondents. Consequently, it can be concluded that the process of rating may not fully reflect actual use of information items as much as it reflects the perceptions of information needs of participants in the survey alone. They also argued that some respondents may tend to assign a high weight of importance to items that are not currently released by companies. Therefore, this would increase the probability of the subjectivity problem in developing the disclosure indices and may affect their reliability (Marston and Shrives, 1991, 1996). A possible way to overcome subjectivity is to employ the un-weighted scores. So, it can be stated that the un-weighted approach helps to avoid the problem of the subjectivity inherent in assessing the relative importance of each disclosure item across all potential groups of information users (Ferguson et al., 2002).

Another criticism directed at the weighted approach is that it frequently tends to depend on the perceptions and views of investors to assign weights using point scale methodology. Thus, it does not necessarily represent the view of other stakeholders regarding the importance of information items.

The un-weighted approach is assumed appropriate when no importance is assigned to specific groups of users (Cooke, 1989a; Hossain et al., 1995; Wang et al., 2008) as well as when voluntary disclosure items are important to all user groups of accounting information in making decisions. Another advantage of employing this approach is that it gives an opportunity for analysis independent of the perceptions of a particular user group (Chow and Wang-Boren, 1987).

Using an un-weighted disclosure index in this study is based on empirical evidence in this area suggesting that using weighted and un-weighted indexes provides almost identical results (e.g. Firth, 1979a; Robbins and Austin, 1986; Chow and Wang-Boren, 1987; Cooke, 1989b; Wallace and Naser, 1995; Marston and Shrives, 1996; Coombs and Tayib, 1998).

Owusu-Ansah (1998) stated that employing un-weighted scores is preferred over weighted scores. The results of Spero's study (1979 as cited in Lopes and Rodrigues, 2007) provided support for not using weights. The author claimed that giving weights to information items was irrelevant since companies tend to disclose more important information as well as disclosing less important information. As a result, companies would be scored in the same manner regardless of whether information items are weighted or un-weighted (Meek et al., 1995).

One further justification for choosing the un-weighted approach is its use by a wide set of researchers (e.g. Cooke, 1989c; Meek et al., 1995; Chau and Gray, 2002; Alsaeed, 2006; Al-Shammari, 2008; Akhtaruddin et al., 2009) (see Chapter 3). This approach helps to avoid subjectivity in assigning weights to the items of disclosure information included in the index, as mentioned previously. In this respect, Ahmed and Courtis (1999:36) stated that *"the un-weighted approach has become the norm in annual report studies because it reduces subjectivity*". In addition, this approach emphasizes the extent of overall disclosure instead of emphasizing particular items (Riahi-Belkaoui, 1994 as cited in Abdelsalam and Weetman, 2007), so this serves to reach research objectives.

After discussing the construction and development of a voluntary disclosure index and the motivations and justifications of employing the un-weighted approach for this study, it can be stated that the final disclosure checklist or "voluntary disclosure index" (VDIND) consisted of 49 factors (see Appendix 7). The checklist was further divided into four main information categories (see Table 5.7). The information items included in the VDIND were classified into classes: financial and non-financial information and scored numerically based on a dichotomous procedure. Based on that, each of 49 disclosure items included in the checklist received a score of one if disclosed in the

CAR and zero otherwise. The following section provides a detailed description of the calculation of VDIND.

5.15 COMPUTING THE DISCLOSURE INDEX

Once the scores for disclosure items in the VDIND were identified or assigned, the total VDIND could be calculated. The total VDIND, the dependent variable in regression models, for each company, represents the ratio of the total actual scores to the maximum expected disclosure scores. The total VDIND for each company was calculated as follows:

1. The expected disclosure scores were calculated by summing items scored as one and zero to derive the number of information items that each company in the study is expected to release in its annual report. The expected maximum number of items disclosed by a company is 49.

2. The actual disclosures were calculated by summing items scored as one to derive the total number of items that each company actually disclosed in its annual report. Also, the actual maximum number of items disclosed by a company is 49.

The following equation was used to compute the level of disclosure for each company in the study sample:

VDIND = ACVD ÷ EXVD

Where:

VDIND = The value of the voluntary disclosure index for each company

ACVD = The number of items each company actually disclosed

EXVD = The expected maximum number of items disclosed by each company (= 49)

It is important to point out that the value of the index stretches from zero to one, with the higher value of the index indicating the higher level of voluntary disclosure. The same procedure was used to compute the voluntary disclosure index for each of the four information categories.

5.16 HYPOTHESES DEVELOPMENT

Following the current direction taken or followed in the disclosure literature, the present study explores the association between company characteristics and corporate governance attributes and voluntary disclosure practices. Fifteen independent variables, as a comprehensive set, were used in this study and they can be divided into two groups. The first group is corporate governance (board size, cross directorships, role duality, the proportion of non-executive directors on the board, the presence of an audit committee, the percentage of family members on the board, government ownership, and the presence of a ruling family member on the board). The second group is company characteristics (company size, type of auditor, leverage, type of industry, profitability, company growth, and cross listing). The data regarding these variables were obtained from corporate annual reports and from other complementary sources for each of the four years. Table 5.8 provides a summary of independent variables and their proxies.

5.16.1 Corporate Governance Attributes

Board Size (Bsize)

Information disclosure is an important communication channel between the company and its stakeholders. Board size may affect the level of voluntary disclosure in CARs. So, it can be suggested that level of disclosure is a strategic decision, which the board of directors dominates. It is believed that the board of directors is the basis in a corporate governance system (Finkelstein and D'Aveni, 1994). The total number of members on the board may affect the manner in which directors carry out their responsibilities (Fama and Jensen, 1983). On the other hand, the board sets the policies and strategies to be employed by company management, and a larger board may lessen the probability of the information asymmetry problem (Chen and Jaggi, 2000).

A greater number of directors on the board may reduce uncertainty and the lack of information (Birnbaum, 1984). It is also expected that board size influences the ability of the board to monitor and assess management as well as the executives (Zahra et al., 2000). Beasley (1996) stated that financial fraud decreases with an increase in board size. In contrast, a small board has limited information-processing capabilities (Haleblian and Finkelstein, 1993). On the other hand, Denis and Sarin (1999) provided evidence of a positive association between board size and board composition. Lim et al. (2007) and Akhtaruddin et al. (2009) found a positive significant association between board size and the level of voluntary disclosure. In contrast, a number of studies revealed that there was an insignificant association between these variables (Arcay and Vazquez, 2005; Cheng and Courtenay, 2006).

According to the Commercial Company law (CCL), the board of directors shall consist of not less than three members (see Chapter 4, Section 4.5.2). Thus, the Kuwaiti legislator gives listed companies an opportunity to choose the appropriate board size, consistent with their needs and strategies. Consequently, the size of the board varies among Kuwaiti listed companies. With more directors on the board, it is expected that combined experience, expertise, and qualification will increase so this may affect disclosure policies. It could also increase the presence of independent directors on the board, so increasing the ability to release more voluntary information in their annual reports. Moreover, a larger number of directors may increase the ability to represent a wide range of stakeholders. According to the findings of the survey of GCC boards, conducted by The National Investor (TNI) (2008a), larger companies in the Gulf region, such as in Kuwait, tend to have larger boards which are above the market's average. The large companies may have more activities, operations, and responsibilities than the others leading a large company to have a larger board to absorb such activities. From the above discussion, it can be concluded that there are different views regarding the influence of board size on the extent of disclosure; therefore the following hypothesis is proposed to test the effect of board size:

H11: There is no significant relationship between board size and the extent of corporate voluntary disclosure in Kuwaiti corporate annual reports.

Cross Directorships (Crossd)

Cross directorship is an important corporate governance mechanism, addressed in governance literature. It is defined as directors who are engaged in or appointed on more than one board. Dahya et al. (1996) stated that cross directorships may enhance the level of information transparency since comparisons could be made upon knowledge of other companies. Moreover, Haniffa and Cooke (2002) argued that cross directorships have a positive impact on disclosure practices since directors have greater access to information in more than one company. Conversely, some critics have questioned the influence of cross directorships on the independence of directors. For instance, the existence of directors on more than one board will influence directors' independence as well generating a competitive disadvantage to their companies (Davis, 1993). Haniffa and Cooke (2002) reported no association between cross directorships in Malaysia and the extent of voluntary disclosure.

In Kuwait, the CCL forbids being a member on the board of directors of more than three listed companies based in Kuwait at the same time. In addition, it prohibits being a member of the board of a company with similar activities, or of a competitor to the company (see Chapter 4, Section 4.5.2). In case of Kuwait, cross directorships are common among listed companies, especially in a number of companies that invest in each other. This may give a special nature to the composition of the board in Kuwait. Specifically, Kuwait has received the highest rank among the other countries of the Gulf region in terms of the number of board positions and directors (The National Investor (TNI), 2008a).

As a result of the above discussion, it can be predicted that companies with cross directorships may be more transparent and tend to reduce confidentially. The following specific hypothesis has been proposed to test the relationship between cross directorships and extent of corporate voluntary disclosure practices:

H12: There is no positive significant relationship between cross directorships and the extent of corporate voluntary disclosure in Kuwaiti corporate annual reports.

Role Duality (Rdual)

In the context of corporate governance, the key issue usually discussed is whether the chair of the board and the CEO position are held by one individual or by two independent individuals. When one person possesses the authority of the board's chairman as well as the leadership of the top management, this generates a "unitary leader structure". In this sense, the CEO is likely to withhold bad or unfavourable information from the stakeholders, which may cause a limitation on information disclosure (Ho and Wong, 2001). Agency theory suggests that the combined functions may impair the ability of the board to perform its main functions such as monitoring, discipline, compensation of senior managers (Molz, 1988). Moreover, this leads the CEO to become involved in opportunistic behaviour since s/he controls the board of directors. Applying agency theory, Forker (1992) declared that a dominant personality in both positions influences the quality of monitoring function and this threatens the quality of disclosure. Fama and Jensen (1983:314) declared that the combined role of chair and CEO "*signals the absence of separation of decision management and decision* *control".* The combination of both these positions in one person may affect that person's ability to conduct the responsibilities and duties of both posts appropriately since s/he may not have enough time. Hence, the separation of these positions induces a system of checks and balances on the power of the management (Chaganti et al., 1985).

A number of studies show that one individual serving as both chair and CEO may affect the independence of the board and impair the power of its monitoring and governance roles which include information disclosure strategies. Empirical studies conducted in Malaysia and Hong Kong by Haniffa and Cooke (2002), and Gul and Leung (2004) declared a negative association between role duality and the extent of voluntary disclosure. Donnelly and Mulcahy's (2008) study suggested weak evidence regarding this association. In role duality, Gul and Leung (2004) claimed the existence of the expertise of non-executive directors on the board helps to mitigate the negative association between role duality and the extent of voluntary disclosure. On the other side, some studies provide no empirical evidence of a significant relationship between these variables (Arcay and Vazquez, 2005; Cheng and Courtenay, 2006; Ghazali and Weetman, 2006).

In case of Kuwait, the CCL does not require listed companies to separate the positions of chairman of the board and CEO, which is contradictory to the best corporate governance practice followed by many countries. In 53% of Kuwaiti companies listed on the KSE, the chairman is not the CEO (Alenazi, 2011). In view of prior empirical results, the influence of role duality can be predicted on the extent of voluntary disclosure. Considering this the following hypothesis is suggested to test the relationship between the role duality and the extent of voluntary disclosure:

H13: There is no negative significant relationship between role duality and the extent of voluntary disclosure in Kuwaiti corporate annual reports.

Non-Executive Directors on the Board (Nexed)

In general, the board consists of executive and non-executive directors. Its composition represents a proportion of non-executive directors to total number of directors. The importance of non-executive directors has been discussed in different aspects. The major shareholders appoint non-executive directors to monitor company performance (Yuen et al., 2009). Thus, a higher percentage of non-executive directors on the board means they control this process (Fama and Jensen, 1983; Rosenstein and Wyatt, 1990).

Fama and Jensen (1983) suggested that the board's composition is an important mechanism to diffuse agency conflicts within the company. Moreover, it contributes in promoting board effectiveness through providing the important checks and required balances of power on management. It is expected that the higher percentage of non-executive directors on the board may help in the disclosure of more voluntary information and thus may reduce the possibility of withholding information (Fama and Jensen, 1983; Yuen et al., 2009). However, Rouf (2010) claimed that executive (inside) directors may be more useful to a company than non-executive (outside) directors since they possess specific knowledge and expertise regarding their company. Patelli and Prencipe (2007) stated that board composition is an important mechanism that may reduce agency conflicts between managers and owners. In addition, a board with a higher percentage of expert non-executive directors tends to be more effective in board monitoring as well as in enhancing higher levels of corporate transparency (Gul and Leung, 2004).

Previous research provided evidence of a negative association between the percentage of non-executive directors on the board and the level of disclosure (e.g. Haniffa and Cooke, 2002; Gul and Leung, 2004; Barako et al., 2006). On the other side, evidence of a positive relation between these two variables has been provided by Chen and Jaggi (2000), and Akhtaruddin et al. (2009). In contrast, Ho and Wong (2001) were unable to prove such an association.

In case of Kuwait, there are no regulations that organise the proportion of non-executive directors on the board, and the Kuwaiti legislator left it to the board's decision to determine the appropriate proportion. Boards of Kuwaiti companies are characterised by a large number of non-executive directors, which may reduce the agency cost. It is expected that they work to maximize the shareholders' wealth and control the opportunistic behaviour of executive directors. The following hypothesis is suggested to examine the proportion of non-executive directors on the board and the extent of voluntary disclosure:

H14: There is no positive significant relationship between the proportion of non-executive directors on the board and the extent of voluntary disclosure in Kuwaiti corporate annual reports.

Audit Committee (Audc)

An audit committee is one of the dynamic monitoring mechanisms that companies should have to assist the board in its internal responsibilities as well as to enhance its effectiveness. The responsibilities of an audit committee include overseeing the process of financial reporting. Consequently, the existence of an audit committee enhances the internal control system, which improves the quality of disclosure (Forker, 1992) as well as the reliability degree of CARs (DeZoort, 1997; Wolnizer, 1995). It is necessary to consider which factors make this committee more effective. Wallace and Zinkin (2005) argued that audit committees act effectively when they include a small number of members, ranging between three and six. Chtourou et al. (2001) and Xie et al. (2001) provided evidence that getting involved in extra monitoring activities leads the audit committee to be more active and efficient. Similarly, DeZoort and Salterio (2001) reported that the committee should be independent, with sufficient experience and knowledge, well-educated in financial aspects to be able to effectively perform the monitoring role. On a different point, the structure and responsibilities of committee should be in harmony with corporate governance codes.

The earlier literature (e.g. Ho and Wong, 2001; Barako et al., 2006; Yuen et al., 2009; Al-Shammari and Al-Sultan, 2010) indicated a positive association between the presence of an audit committee and the extent of voluntary disclosure. In contrast, Forker (1992) reported no association in the United Kingdom.

In Kuwait, the CCL does not obligate listed companies to establish an audit committee; however, the CBK’s regulations mandate companies under its supervision, such as investment companies, to establish this committee (see Chapter 4, Section 4.5.2.3). Nevertheless, there are number of companies listed on the KSE which have established these committees, and most audit committee members are non-executive. Given the impact of the audit committee on voluntary disclosure practices, it is expected that the existence of an audit committee would encourage the company to disclose more information. Moreover, it is predicted that the board of directors tends to improve monitoring systems and lessen the amount of information withheld from stakeholders such as company’s shareholders, leading to an improvement in the level of company transparency. The following hypothesis tests the association between the presence of an audit committee and the extent of voluntary disclosure in this study:

H15: There is no positive significant relationship between the presence of an audit committee and the extent of voluntary disclosure in Kuwaiti corporate annual reports.

Family Members on the Board (Fmem)

Family members consist of executive and non-executive directors and may influence the amount and quality of information released by companies. In addition, they may have significant power to affect the process of electing the chairman and also other board of directors. They may control the process of appointing key management such as the CEO and senior managers. Applying the agency theory, Fama and Jensen (1983) suggested that when the company's capital is widely held, this would lead to a potential conflict of interest between managers and shareholders. To reduce this potential conflict, the company attempts to disclose more information. In contrast, companies with more concentrated ownership are expected to disclose less information since there is less demand for information (Jensen and Meckling, 1976). There is a common concept that substantial owners of companies are usually less interested in public disclosure since they have much greater access to internal company information than the other owners (Adhikari and Tondkar, 1992). It can be concluded that the higher the percentage of family, or family companies, on the board, the lower the motivation to release information to the public. Thus, the amount of voluntary information provided by these companies is expected to be lower. On the other side, Chen et al. (2008) argued that family owners have greater litigation and reputation cost concerns. In addition, potential investors suppose that companies dominated by family owners are unattractive investment opportunities. Consequently, based on the proposition of signalling theory, these companies have a great motivation to disclose more information to prove them a promising investment opportunity, protect and build their family reputation in the business community, and promote their company's success. Within legitimacy theory, it is assumed that active companies with family members on the board may be of concern in the eyes of the public and government. Thus, they have a greater motivation to legitimise themselves by releasing more information and being more transparent.

Hossain et al. (1994) and Chen and Jaggi (2000) found a positive association between ownership structures, measured in the ten largest shareholders, and the extent of voluntary disclosure in Malaysia, while the available research evidence from disclosure literature (e.g. Ho and Wong, 2001; Haniffa and Cooke, 2002; Ghazali and Weetman, 2006) revealed a negative association between these variables. However, Al-Shammari

(2008) and Al-Shammari and Al-Sultan (2010) reported no association between the percentage of family members on the board and the extent of voluntary disclosure in Kuwait.

One important phenomenon distinguished in Kuwait is that several listed companies are controlled by the family system. As reported in the TNI (2008a), almost 33% of listed companies have at least two board members from the same family. Some of "the top families" hold up to 100% of a company's board seats. The findings have also revealed that the top ten families own different proportions of companies listed on the KSE. It can be suggested that "families with the largest number of board seats will be ranked as the most powerful" (TNI, 2008a:26). In the case of Kuwait, the KSE requires individuals, companies, or bodies to disclose their ownership in listed companies when the percentage of ownership is 5% or more (see Chapter 4, Section 4.5.3). On the other side, there is no information regarding the number of shareholders. It can be predicted that companies with a high percentage of family members on the board have less motivation to release information to shareholders since they believe that information is private or that the demand for company information is low. Thus it is important to explore the influence of this variable on the extent of voluntary disclosure. This discussion suggests the following testable hypothesis:

H16: There is no negative significant relationship between the percentage of family members on the board and the extent of voluntary disclosure in Kuwaiti corporate annual reports.

Ownership Structure

Within the context of corporate governance, the key topic frequently addressed is the effect of ownership structure on the extent of disclosure practices. Ownership structures have been empirically studied in corporate governance literature from different dimensions such as foreign ownership, institutional ownership, government ownership, managerial ownership, and block holder ownership. This study tests one dimension of company capital structure only, namely: government ownership.

Government Ownership (Govo)

There is a number of perspectives regarding government ownership. Companies with a high level of government ownership have a better opportunity to finance their operations and expansions since they usual obtain the required funds from their government. In this case, these companies do not need to attract investors, so it can be suggested that they have less motivation to disclose additional information. An alternative view is that higher government ownership in companies puts them under pressure to take some non-profit issues, such as “social and environmental responsibilities”, into consideration as part of their social contract, as well as the main business objectives. Thus, these companies are predicted to disclose more information to the public. From a perspective of legitimacy theory, the public keeps an eye on the activities of organisations, more specifically of companies in which government has a high percentage of ownership, so it is expected that this type of company tends to disclose additional information.

Empirical research provides mixed evidence on the impact of government ownership on voluntary disclosure practices. Suwaidan (1997), Eng and Mak (2003), and Jiang and Habib (2009) presented evidence of a positive relationship between the extent of voluntary disclosure and government ownership in Jordan, Singapore, and New Zealand, respectively. In contrast, Naser et al. (2002) and Yuen at al. (2009) found no significant association.

Government and family ownerships are two major shareholder groups which own significant stakes in companies listed in the KSE as an example of an emerging market. Government ownership is considered a feature of the KSE. In addition, the government owns a number of leading companies through a number of governmental agencies. In the context of large shareholders (institutions, government bodies, and large individual shareholders), government ownership is the only large shareholder type affecting dividend decisions (Al-Kuwari, 2010). Thus, government ownership by these agencies may have a significant influence on company disclosure policy, since they have a noticeable presence on the board of directors in themselves or through their representatives, as well as having greater access to internal information from formal channels than other types of shareholders. The presence of government members on the board would increase the confidence level of investors in the capital market. However, the state shareholding companies may have high principal-agency problems as a result of the contradictory objectives between the profit goals of the company on one hand and the non-profit goals of the community on the other. In the context of state owned shares, it has been argued that company value increases as the size of the government ownership stake increases (Tian, 2001). However, it could be expected that companies with a government shareholder stake may face agency problems as a result of the separation between ownership and control, as in other companies with different ownership structure. This may lead to an increase in the amount of information withheld from stakeholders such as the shareholders of a company. In this respect, the following is hypothesised:

H17: There is no positive significant relationship between the extent of voluntary disclosure and government ownership in Kuwaiti corporate annual reports.

Ruling Family Member on the Board (Rmem)

There are some aspects distinguishing the GCC countries' boards, such as Kuwait, from other countries. The ruling family controls 4.1% of the board seats of listed companies, receiving the highest rank among the top ten families in terms of the number of board seats held by one family. The selection of the ruling family variable derives from signalling theory considerations. For example, ruling family members tend to distinguish their board and their company, as well as themselves, as directors qualified to run a business, and this could be achieved through different mechanisms such as superior company performance and disclosure policy. Taking into consideration the potential impact of such members, it may affect the company's strategies and policies such as on disclosures. So a possible causal association is expected between the presence of a ruling family member on the board and the extent of voluntary disclosure. Consequently, the following hypothesis is proposed to test this relationship:

H18: There is no positive significant relationship between the presence of a ruling family member on the board and the extension of voluntary disclosure in Kuwaiti corporate annual reports.

5.16.2 Company Characteristics

Company Size (Csize)

From the perspective of agency theory, agency costs exist in companies as a result of the separation of management from principles. This problem is more likely to increase in large companies. Larger companies attract greater attention and are more visible to government authorities and the public than smaller ones. Larger companies may also be subject to more rules regarding social and environmental responsibilities. Moreover, managers of larger companies are more likely to work to obtain the confidence and interest of investors, as a result of the continuing need to finance their operations and projects, than smaller companies. On the other side, managers of smaller companies have an incentive to disclose less information than larger ones since this may affect their competitive position. Watts and Zimmerman (1978) suggested that managers of larger companies have more incentives than smaller ones to disclose more information to enhance their companies' reputations.

A wide set of studies tests the relationship between company size and the extent of voluntary disclosure. Most disclosure literature considered company size an essential determinant of voluntary disclosure levels, with a positive association between company size and extent of voluntary disclosure being found in a large number of studies (e.g. McNally et al., 1982; Cooke, 1989a, 1991; Ferguson et al., 2002; Al-Shammari, 2008; Hossain and Hammami, 2009). In the context of company size, a number of proxies such as number of employees, market capitalisation, and total assets are used in different studies to measure this variable. However, there is no common principle to select the best measure of company size (Hassan et al., 2006). An extensive review of disclosure literature concludes that total assets is considered a common proxy of this variable and will be used in the current study. Based on the above discussion, the following hypothesis investigates the association between company size and the extent of voluntary disclosure.

H19: There is no positive significant relationship between company size and the extent of voluntary disclosure in Kuwaiti corporate annual reports.

Type of Auditor (Taud)

Audit firm size is considered an important factor affecting the amount and quality of information disclosed in CARs, even though financial statements and their components are the responsibility of the company's management. Watts and Zimmerman (1986) argued that the process of auditor choice may help to mitigate the conflicts of interest within management and ownership. Larger audit firms play a vital role in minimising the opportunistic behaviour of a company's managers through monitoring (Jensen and Meckling, 1976). Moreover, larger audit firms are characterised as being independent from their clients, so this may have a positive impact on information disclosure. Moreover, the independence of auditors may help to meet users' needs as well as serving to protect their own reputations. On the other side, larger audit firms are correlated with clients that release more information in their annual reports (DeAngelo, 1981).

Signalling theory, considered complementary to agency theory (Morris, 1987), suggests that the process of auditor choice may be employed as a signal of company value as well as a signal to the capital market regarding the quality of information included in CARs (Datar et al., 1991). Prior empirical studies from developed and developing countries found a positive association between audit size and the extent of voluntary disclosure in CARs (e.g. McNally et al., 1982; Xiao et al., 2004; Agca and Onder, 2007; Wang et al., 2008; Al-Shammari, 2008). On the other side, some studies found no such association (for example, in Switzerland: Raffournier, 1995; in Malaysia: Haniffa and Cooke, 2002; in the Kingdom of Saudi Arabia: Alsaeed, 2006).

Under CCL requirements, each listed company should have at least two independent external auditors (see Chapter 4, Section 4.6.5). With regard to this law, foreign audit firms are not allowed to practise the auditing profession in Kuwait unless affiliated with a local firm (for more details see Chapter 4, Section 4.6). Consequently, audit firms are mainly divided into two groups: large audit firms affiliated with one of the Big 4, while the other group carries out auditing tasks without affiliation with one of the Big 4. Based on theoretical perspectives, the following hypothesis is proposed to test the association between type of auditor and the extent of voluntary disclosure.

H20: There is no positive significant relationship between type of auditor and the extent of voluntary disclosure in Kuwaiti corporate annual reports.

Leverage (Lev)

Leverage explains the proportion of debts in a company's capital structure. It also indicates the ability of the company to meet its obligations represented in interest charges and principles' repayments. Thus, the management of a company should balance two important factors, financial risk and return, before making financing decisions. According to agency theory, if a company has large debts in its financial position statement, this would lead to increased monitor costs and so the company tends to release more voluntary information in order to lessen these agency costs (Jensen and Meckling, 1976; Wallace et al., 1994; Depoers 2000). To protect debt holders, companies tend to increase the level of monitoring through voluntary disclosure in their annual reports (Hossain et al., 1995). In contrast, Camfferman and Cooke (2002) argued that such an effect could be different and could depend on the power of elements (the debt holder, banks or capital markets). Moreover, the agency costs of leverage can be controlled through the restrictive covenant that could be included in debt contracts instead of employing more disclosure in published annual reports (Eng and Mak, 2003).

Empirical results are mixed. A number of studies found a significant positive association between leverage and the extent of voluntary disclosure in annual reports (e.g. Hossain et al., 1995; Ferguson et al., 2002; Al-Shammari, 2008). In contrast, Meek et al. (1995) provided no evidence of such an association. Some studies found no statistically significant association between leverage and voluntary disclosure (e.g. Chow and Wong- Boren, 1987; Raffournier, 1995; Chen and Jaggi, 2000; Haniffa and Cooke, 2002). In the Kuwaiti business environment, banks are considered to be a primary source of company funds, and they play an important role in corporate borrowings. Moreover, the regulatory bodies, such as the CBK, concentrate on a company's debts. In this regard, companies with higher leverage may face more demands from regulatory bodies regarding their debts in order to assess their financial positions to discover their ability to meet their financial obligations as well as to continue in business − the "going concern principle". For these justifications, it is expected that companies with higher leverage will disclose more voluntary information than companies with lower leverage. Thus the following hypothesis can be suggested:

H21: There is no positive significant relationship between leverage and the extent of voluntary disclosure in Kuwaiti corporate annual reports.

Type of Industry (Tind)

It is expected that the type of industry in which a company practises its operations and activities could influence management decisions regarding the amount of information released in its annual reports. Wallace et al. (1994) argued that companies involved in a specific type of industry may face some situations which have a dramatic impact on their disclosure practices and reporting. Moreover, Owusu-Ansah (1998) argued that if a company operates in a sensitive and regulated industry, "the nature of work" could affect its disclosure practices, while Ball and Foster (1982) suggested that industry membership is an appropriate proxy for capturing sensitivity to the political costs which may not be captured by other proxies. A number of previous studies provided evidence that the type of industry explained variations in voluntary disclosure (e.g. Cooke, 1998b, 1991; Meek et al., 1995; and Haniffa and Cooke, 2002; Leventis and Weetman, 2004). In other words, these studies proved that companies in the manufacturing sector tend to disclose more information than non-manufacturing companies. On the other hand, studies conducted by (Raffournier, 1995; Naser et al., 2002; Eng and Mak, 2003; Alsaeed, 2006) did not provide evidence regarding this association. In order to test the association between type of industry and the extent of corporate voluntary disclosure the following hypothesis is tested:

H22: There is no significant relationship between type of industry and the extent of corporate voluntary disclosure in Kuwaiti corporate annual reports.

Profitability (Prof)

From the perspective of agency theory, Inchausti (1997) stated that the management of larger profitable companies tends to employ information to receive personal benefits. Consequently, they may disclose more information to justify their position and compensation (Singhvi and Desai, 1971). Thus, it can be expected that less profitable companies may disclose less information in their annual reports to hide poor company performance from market participants, more specifically their shareholders. Another motivation can be derived from signalling theory, which suggests that highly profitable companies may disclose more information to the public to distinguish themselves from companies with low profitability, regarding their superior performance. Also, it can be interpreted that larger profitable companies are more likely to disclose more information in their published annual reports to the public to enhance their sense of their performance (Galani et al., 2011). It should be noted that stakeholder theory suggests that the purpose of disclosing information is to satisfy all stakeholders, not just focusing on the company's shareholders. Previous disclosure studies have shown mixed results regarding profitability influencing disclosure practices in corporate annual reports. A positive association was found in some studies (such as Naser and Al-Khatib, 2000; Haniffa and Cooke, 2002; Naser et al., 2002; Suwaidan et al., 2004; Wang et al., 2008), while it was insignificant in others (such as Raffounier, 1995; Meek et al., 1995; Alsaeed, 2006; Hossain and Hammami, 2009) or negative in yet other studies (Chen and Jaggi, 2000). Drawing on the theoretical and empirical evidence from disclosure literature, the following hypothesis has been used to test the company profitability:

H23: There is no positive significant relationship between profitability and the extent of corporate voluntary disclosure.

Company Growth (Cgrow)

Signalling theory predicates that there is an information asymmetry problem between companies and principles. So, it can be assumed that high growth companies would voluntarily disclose information as a signal to market participants of their superior performance and promising growth opportunities. Moreover, signalling theory indicates that company management has more incentives to reveal good information to the market to enhance its value. With regard to opportunistic behaviour, agency theory also implies that the managers of these companies will be interested in releasing such information to the public to obtain personal benefits such as compensation as well as supporting the continuance of their positions. Smith and Watts (1992) and Gaver and Gaver (1993) argued that information asymmetry and agency costs are more highly correlated with growth companies than non-growth ones. In this context, Core (2001) indicated that high growth companies employ more voluntary disclosure; however, they may have greater information asymmetry than low growth companies. Thus, companies tend to lessen the occurrence of information asymmetry as a result of high growth by releasing more voluntary information (Frankel et al., 1999). On the other hand, fast growing companies attempt to pay fewer dividends as well as needing to find finance providers from the outside market, so they have a strong incentive to disclose more information to the public (Rozef, 1982). Naser et al. (2006) found a positive and significant association between growth and variations in corporate social disclosure by companies listed on the Doha Stock Exchange. Given the effect of company growth on the voluntary disclosure practices, the following hypothesis is proposed to test the company growth and the voluntary disclosure practices' association:

H24: There is no positive significant relationship between growth and the extent of corporate voluntary disclosure in Kuwaiti corporate annual reports.

Cross Listing (Crossl)

A common phenomenon of capital markets is the growing number of companies that are listed, whether on the home capital market or abroad. There are several advantages that companies can obtain from listing on foreign capital markets. Licht (2001) argued that one important benefit of listing abroad is to be seen to be credible in their commitment to a better legal regime. However, financial motivation is considered the most important reason. Biddle and Saudagaran (1991) noted the key advantages to listing on foreign capital markets as follows: financial, marketing and public relations, political, employee relations. It is commonly agreed that companies, which have a dual listing, face a greater burden and costs. These costs occur as a result of differences among countries in accounting and auditing practices, disclosure, financial reporting, and listing requirements (Biddle and Saudagaran, 1991). Thus, it is expected that companies with dual listing face more pressure to release additional information than in their home market regime (Lang et al., 2003).

In general, the level of corporate disclosure in developed countries is higher than in developing countries. This may lead companies with dual listing to disclose more information than companies listed only on the home capital market since they are more familiar with the disclosure concept. Using signalling theory, companies with dual listing, as a benchmark, may employ their experience in the application of foreign disclosure policy and disclose additional information to distinguish themselves from other companies in the home capital market.

It is predicated that a company which lists its shares in more than one capital market will deal with a wider set of stakeholders and may create diversity in its policy of dealing with them, reflecting a trend in stakeholder theory. It should be noted that the disclosure policy may be captured by the effect of culture and the norms of society in which a company exercises its operations. A number of disclosure studies revealed a positive association between extent of voluntary disclosure and listing status (Hossain et al., 1995; Meek, 1995; Cooke, 1998; Ferguson, 2002).

At the end of 2005 and 2008, the total number of Kuwaiti companies listed on the Bahrain Stock Exchange (BSE) constituted three out of 45 companies [7%] and two of 49 companies [4%], respectively; and these Kuwaiti companies represented 43% and 33% of registered foreign companies on this market, respectively. In addition, the number of Kuwaiti companies listed on another Gulf market, the Dubai Financial Market (DFM), was two out of 30 companies [7%] by the end of 2005; however, Kuwaiti companies made a remarkable jump in 2008, when they had greater weight in the DFM as a result of having 16 out of 65 listed companies [25%] on this market (Annual reports [2005 and 2008] for BSE and DFM) (for more details, see Section 4.8). It can be proposed that companies with dual listing tend to disclose more information in their annual reports. Therefore, the following hypothesis is developed to explore this relationship:

H25: There is no positive significant relationship between cross listing and the extent of voluntary disclosure in Kuwaiti corporate annual reports.

At the end of this chapter, a summary of the independent variables and their proxies are shown in Table 5.8.

To verify the research hypotheses, the research model takes the following form:

VDIND = $\beta_0 + \beta_1$ Bsize + β_2 Crossd + β_3 Rdual + β_4 Nexed + β_5 Audc + β_6 Fmem, β_7 Govo + β_8 Rmem + β_9 Csize + β_{10} Taud + β_{11} Lev + β_{12} Tind + β_{13} Prof + β_{14} Cgrow + β_{15} Crossl + ε

5.17 STATISTICAL TECHNIQUES TO ASSESS VOLUNTARY DISCLOSURE PRACTICES

Prior to performing the regression analysis, many assumptions will be examined. These include: normality, absence of multicollinearity, homoscedasticity, non-autocorrelation, and the regressors are exogenous. In addition, it is also checked through Hausman test whether or not the model will use random effects or fixed effects. If the assumptions are violated, certain precautions will be taken or alternative analyses will be conducted based on the violation.

1. Normality

Each variable used in the analyses was examined for normality, which will be defined as having a skew between +2 and -2 and kurtosis between +7 and -7 (Kline, 2005). If normality is not met, transformations will be made to the variables based on guidelines from Tabachnick and Fidell (2006). The results of previous tests suggest a data set of this study violated the normality assumption, and so the data was transformed using a logarithmic transformation.

2. Absence of Multicollinearity

To assess for multicollinearity among the independent variables, Pearson and Spearman correlations will be conducted between all the variables in the regression. Correlation coefficients greater than .80 and .90 would indicate that multicollinearity is present (Stevens, 2009). If so, the variables with the large correlation coefficients will be averaged together to create a single variable or removed. Another check will be done to assess for multicollinearity through Variance Inflation Factors (VIFs). VIFs will be calculated for each of the independent variables. Those above 10 would indicate that multicollinearity is present and that the variable should be removed. The results of both tests suggest that the multicollinearity does not exist among the variables.

3. Heteroscedasticity

Among the assumption checks for the regression model, was one for heteroscedasticity. Heteroscedasticity is present when the variance of errors differs at different values of the independent variables. For the regression assumption to be met, the variance in the residuals should be equal among all values of the predictor variables of the regression. This would mean that the distance between the observed value and the predicted value would be consistent throughout the data set. Heteroscedasticity occurs when the distance between the values varies among the points of the data set. This can lead to an error in the model chosen to predict the outcome (Stevens, 2009).

Typically, a residual scatterplot is examined to compare the observed residuals with the predicted values. For the residuals to display homoscedasticity, the points should be rectangularly distributed on the graph around the origin (0, 0). Any patterns among the points indicate heteroscedasticity. However, a simple examination of the plot shows no clear met/not met distinction, making it open to misinterpretation. Another way of checking for the presence of heteroscedasticity is through the Breusch-Pagan test and White's (1980) test, which is significant if the variance in the residuals does not follow the chi square distribution with the number of predictors as the degrees of freedom. The results of the both tests indicate that the heteroscedasticity does exist. Since the important assumption of homoscedasticity is not met for the regression, it is appropriate to use the General Least Square (GLS) regression (Beaver, 1997).

4. Autocorrelation

Autocorrelation can occur when using repeated or panel-type data. It is when same-variable observations are correlated between each other. This is typically present when the data are repeatedly gathered from the same source in multiple times. Using data that is related to each other violates the assumption of independence among the observations. The Durbin-Watson test can be used to detect autocorrelation in a data set. Its results range from zero to four. Values that are close to two represent no autocorrelation present. As the values become closer to zero, a positive autocorrelation is indicated; as they get closer to four, a negative autocorrelation is indicated. Durbin's alternative test and the Breusch-Godfrey test are also used to test for autocorrelation. Both of these use the chi square distribution, and significance indicates the presence of autocorrelation. The results of the three previous tests show that data do not exhibit the presence of autocorrelation.

5. Endogeneity Problem

The issue of endogeneity rises when some of the independent variables may also be determined by outcome variable [dependent variable]. The endogeneity also occurs when a potential external shock affects both dependent and independent variables. In addition, endogeneity takes place when relevant explanatory variable(s) are missing. Moreover, the endogeneity may also occur as a result of potential error in measuring variables. In short, when the model fails to satisfy the orthogonality condition, it is concluded that the model is endogenous. In case of the presence of endogeneity, the model produces inefficient and spurious results (Baum, 2006). Therefore, the detection of endogeneity through standard statistical test(s) is required. In case of the presence of endogeneity, different models such as Generalized Method of Moments (GMM-IV) and Two Stage Least Square 2SLS may be applied. In order to test the presence of endogeneity GMM C test and Wu-Hausman test are applied. The results of these tests indicate that endogeneuity problem does not exist in the regression model.

6. Random/Fixed Effects Models

The random effects model for panel data assumes that the individual predictors are random variables that are uncorrelated with each time point. The fixed effects model for panel data allows for the individuals predictors to be correlated at each of the time points. The Hausman test can be conducted to discover which type of model should be used. It compares the subset of coefficients at each one of the time points for both model types. The null hypothesis of the test assumes that each predictor at each time point is uncorrelated with the other time points. The alternative is that the predictors are correlated and that the fixed effects model should be used. The result shows that the random effects should be applied as a more appropriate model.

Based on the above discussion, the main statistical analyses applied in the second part of this research are as follows:

A. Descriptive analysis: This includes the analysis of the overall mean values, standard deviation, minimum, and maximum for all variables in the model.

B. Multivariate analysis: Given the test results for normality, heteroscedasticity, and Hausman, GLS regression-random effects are used as the original model and followed by two sensitivity tests: fixed effects and pooled regression – robust with best for heteroscedasticity.

5.18 SUMMARY AND CONCLUSION

The main objective of this chapter is to present the research methods adopted in this study. The chapter presents the main methods used to investigate the attitudes of groups: interview and questionnaire. After a discussion of the advantages and disadvantages of previous methods, it was decided that a self-administered questionnaire method, as a quantitative approach, was the most suitable for the empirical investigation related to the first part of study. Justifications of the chosen method among others are presented. The reliability and validity of a research instrument is evaluated through the Cronbach's coefficient alpha, the opinion of academics, and piloting. The outcomes of a self-administered questionnaire are discussed and reported in Chapter 6.

The chapter also introduces the rationale for the design of a voluntary disclosure index to assess the variation in disclosure practices among a period of study (2005 to 2008) and determines the extent of disclosure in CARs of non-financial companies. The disclosure index comprises 49 voluntary disclosure items, which are selected based on the disclosure literature and applicability to the Kuwaiti business environment; all items included in the index are given equal weight. The index items are divided into four main categories to help examine different sections of an annual report as well as the level of disclosure of different types of information included in an annual report. By employing two techniques: Cronbach's coefficient alpha and the opinions of accounting experts, the validity of the index was confirmed.

This study examines the association between a number of explanatory variables and disclosure level, and this association is formed based on disclosure theories identified in Chapter 2, the relevant studies discussed in Chapter 3, and reporting and disclosure regulations applied in Kuwait presented in Chapter 4. It covers 52 non-financial companies with a total of 206 investigated observations. Thus, it can be concluded that the study follows the deductive approach which requires that research hypotheses be built and developed upon a theory. Chapter 7 reports how the explanatory variables influence a company's voluntary disclosure levels.

Table 5.8: Summary of the Variables and their Proxies

Variable	Proxy	Expected sign
Dependent variable		
Overall voluntary disclosure index	The ratio of the total actual items disclosed by a company in its annual report to the maximum number of voluntary items a company is expected to disclose	
Independent variables		
Non-executive directors on the board	The proportion of non-executive directors to the total number of directors on the board	+
Cross directorship	The proportion of directors with cross directorships in other companies to the total number of directors on the board	+
Family members on the board	The proportion of family members to the total number of directors on the board	-
Board size®	The total number of directors on the board	
Government ownership	The percentage of shares owned by the government	+
Role duality	1 if the chairman is also the CEO and 0 otherwise	-
Audit committee	1 if the audit committee exists and 0 otherwise	+
Ruling family	1 if there are ruling family on the board and 0 otherwise	+
Cross listing	1 if the company is listed on other markets and 0 otherwise	+
Company size	Total assets at the end of the financial year	+
Leverage	The ratio of total liabilities to total assets	+
Company growth	The percentage of change in company's assets	+
Profitability	Return on total assets (ROTA)	+
Type of industry®	1 if the company is a manufacturing company and 0 otherwise	
Type of auditor	1 if companies being audited by accounting firms are associated with one of the Big 4 and 0 otherwise	+

®According to disclosure literature, it has been suggested that these variables have significant effect On the voluntary disclosure practices, however, since the results of previous studies are mixed, the current study did not give the direction of this association.

CHAPTER SIX: THE RESULTS AND ANALYSIS OF USERS' PERCEPTION TOWARD INFORMATION IN CORPORATE ANNUAL REPORTS

CHAPTER SIX

THE RESULTS AND ANALYSIS OF USERS' PERCEPTION TOWARD INFORMATION IN CORPORATE ANNUAL REPORTS

6.1 INTRODUCTION

This chapter presents the analysis of the perception of respondents in Kuwait regarding the importance of annual reports and the usefulness of accounting information. Beyond that, the questionnaire survey is intended to seek opinions on the usefulness of adding some voluntary items to enhance the quality of voluntary disclosure in annual reports of companies listed on the KSE. Moreover, it investigates the factors and procedures that may increase confidence in the capital market and improve the protection of capital market participants. To accomplish these objectives, four groups were invited to participate in this questionnaire: Financial Advisor (FA), External Auditor (EA), Market Regulator (MR), and Accounting Academic (AC). The sections of this chapter proceed as follows. Section 6.2 deals with background information on the respondents. It also presents and discusses the main outcomes of the questionnaire analysis. A summary and conclusion of this chapter's discussion is provided in Section 6.3. At the end of this chapter, a summary of objectives, research questions, and hypotheses is presented in Table 6.21.

6.2 SURVEY RESULTS

6.2.1 Respondents' Demographic Aspects

It is essential to give a general description of participants' personal background information before presenting the outcomes of this survey. Respondents were requested to provide information regarding their place of work, user groups, employment record, and qualifications.

Originally, the total number of questionnaires distributed to four groups of respondents was as follows: Financial Advisors (FA) 60, External Auditors (EA) 50, Market Regulators (MR) 60, and Accounting Academics (AC) 50, respectively. The questionnaire was submitted in person, and the main objectives along with the contents of the questionnaire were discussed with the respondent. At the end of the survey, 143 out of 220 questionnaires were collected. Consequently, the analysis of data in this study is based on 143 usable responses which were fully completed with a response rate of 65% of total questionnaires distributed.

Figure 6.1 provides detailed information about the distribution of respondents according to their user groups. It indicates that the largest percentage of user groups participating in this survey was the FA group, followed by the AC, EA and MR groups.

It is obvious from these results that the MR group's response rate was lower than that of the other three target groups. This finding was expected and consistent with the fact that the MR group, as a part of the Kuwaiti accounting community, in the Middle East, tends to be more secretive and reluctant to participate in a survey since they believe their personal opinions represent the official view of their respective governments, which could create a conflict of interest. This is consistent with Gray's (1988) view that developing nations are classified as secretive. In Arab countries such as Egypt, for example, it has been argued that secretive and conservatism policies are deeply rooted in Egyptian culture (Abd-Elsalam and Weetman, 2007).

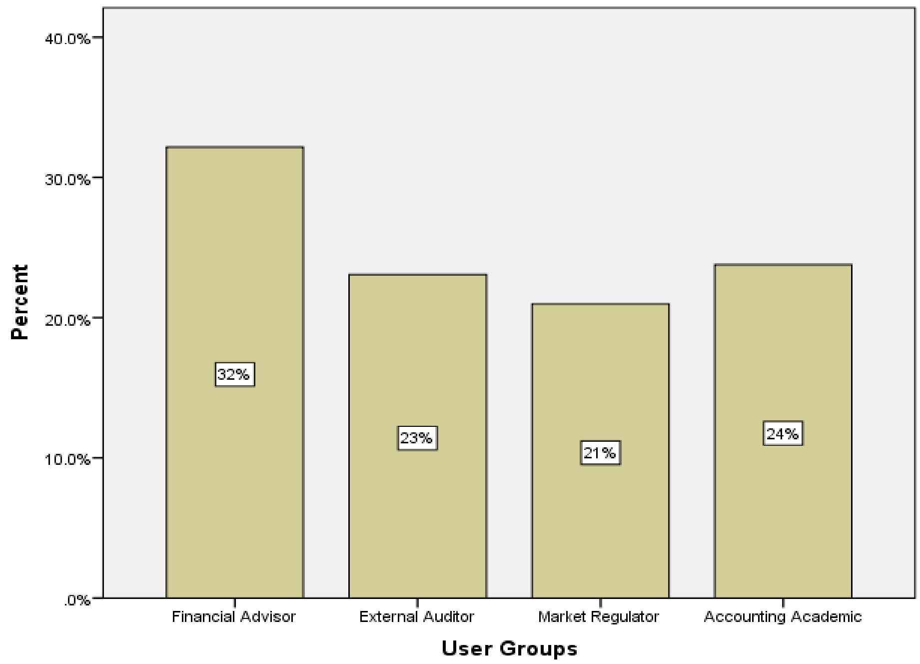


Figure 6.1: The Distribution of Respondents According to their User Groups

Respondents were asked about their place of work and their responses are presented in Table 6.1. As can be seen, the majority of participants worked in the private sector (62%), while 38% worked in the public sector. When asked about the length of their work experience in the field, Table 6.1 shows that the vast majority of respondents had more than 10 years' experience. This finding was expected because in most cases working in the role of FA, EA, MR, and AC requires considerable work experience. Table 6.1 also illustrates the distribution of respondents based on their highest academic qualification. Half of the participants hold a Bachelor degree, 27% a PhD degree, and 22% a Master's degree. Regarding professional qualification, the distribution of respondents in Table 6.1 shows that about 39% of the participants hold a professional accounting/business certificate, such as the Certified Public Accountant (CPA) from Kuwait/USA, or the Certified Internal Auditor (CIA)**.** The high percentage of certificate holders could be explained by the fact that individuals in high-level positions, such as EA, are usually required to possess such qualifications.

Table 6.1: The Distribution of Respondents

Place of Work	**%**
Government	38
Private	62
Total	100
Years of Experience	**%**
Less than 5 years	13
6-10 years	22
More than 10 years	65
Total	100
Academic Qualification	**%**
Diploma	1
Bachelor	50
Master	22
PhD	27
Total	100
Professional Certificate	**%**
No	61
Yes	39
Total	100

6.2.2 The Primary Sources of Information for Kuwaiti User Groups

As mentioned in Chapter 5, the second section of the questionnaire consisted of three parts related to the following subjects: (1) sources of information, (2) content of corporate annual reports (CARs), and (3) the qualitative characteristics of corporate information.

To explore the importance of information sources, the participants were given nine different sources that are commonly used to obtain the information needed for making economic decisions and/or recommendations regarding a listed company (see Appendix 4). The chosen sources of information were as follows: corporate annual report (CAR), corporate interim report (IR), company's website (CW), KSE's website (KSEW), newspapers and magazines (NM), market rumours (MR), personal expectations (PE), recommendations from a friend (RF), and advice from specialists (AS). The respondents were asked to rate, in terms of their importance, the previous sources of information by employing a five-point Likert scale, ranging from “extremely important” to “not at all important”.

Descriptive Analysis

Table 6.2 presents the overall mean scores of the importance of nine sources of information and its standard deviation (SD), with the results of Kruskal-Wallis (K-W) tests being represented by p-value. It should be noted that the sources are ranked based on their mean scores in descending order, and this technique will be employed in the rest of the questionnaire responses. As indicated in Table 6.2, user groups rated CAR (as expected), IR, AS, and PE as the four most important sources of information (in that order) for the process of making economic judgements.

In the context of CARs, Gray et al. (1995:45) stated that *“the annual report is a significant element in the overall disclosure process, given that it is the most widely disseminated source of [company] information”.* The finding of the importance of CAR as a primary preferred source of information for users in Kuwait, is consistent with previous empirical studies of developed countries (e.g. Chenhall and Juchau, 1977; Chang and Most, 1977; Lee and Tweedie, 1981; Vergoossen 1993; Epstein and Pava, 1993; Ho and Wong, 2004; Stainbank and Peebles, 2006). Moreover, the result of this study is in line with similar studies in emerging markets, (e.g. Abu-Nassar and Rutherford (1996) in Jordan; Abdul Rahman (2001) in Malaysia; Naser et al. (2003) in Kuwait; Mirshekary and Saudagaran (2005) in Iran; Al-Attar and Al-Khater (2007) in Qatar; Al-Ajmi (2009) in Bahrain; Zoysa and Rudkin (2010) in Sri Lanka; Dahawy and Samaha (2010) in Egypt; Nassirzadeh (2011) in Iran). A strong consistency in results confirms the argument of the Financial Accounting Standard Board (FASB) (1978) that the CAR is considered a main information source for both internal and external users in making informed decisions. However, there is no common consensus that information included in these annual reports can serve all user groups/users in making their judgements (Ho and Wong, 2001; Meek and Thomas, 2004).

It is also important to note that the IR result is consistent with those reported by Al-Mahmoud (2000), Al-Hajji (2003), Al-Mutairi (2004), and Al-Yaqout (2006). In addition, Naser et al. (2003) reported that user groups in Kuwait used the corporate interim report (IR) as a major source of information about the company; however, they ranked it fifth. One financial advisor pointed out:

> *"The interim report, for quarter annual or the first/second months, is considered an important instrument which assists in following and assesing company performance. At the same time, it gives some space to forecast for the next financial period."*

A comparison of the AS result with surveys (e.g. Al-Mahmoud, 2000; Abdul Rahman, 2001; Mirshekary and Saudagaran, 2005), conducted in developing economies provides slightly different results. The result is inconsistent with findings documented by Nassirzadeh (2011), who revealed that Iranian external users do not rely on AS for making economic decisions. One possible explanation for the variations in results is that the participants have different educational backgrounds, and different lengths of experience. Conversely, the respondents hold a neutral outlook on the importance of the MR and CW as sources of information, reflected by the overall means of 2.76 and 2.71, respectively. The low rate of MR, showing it as a less reliable source in users' viewpoint, was documented by Abu-Nassar and Rutherford (1996), Al-Ajmi (2009) and Nassirzadeh (2011) in their surveys of Jordanian, Bahraini, and Iranian users, respectively. These results are also consistent with those documented by Mirshekary and Saudagaran (2005), Al-Yaqout (2006), Al-Abdulqader et al. (2007), Zoysa and Rudkin (2010), and Dahawy and Samaha (2010) for emerging markets. This may be due to the fact that the respondents, as well-educated and professional, depend heavily on more reliable sources rather than on one such as this. The result of CW can be attributed to the fact that it does not meet the user groups' needs. One financial advisor indicated that:

> *"In most cases companies' websites do not provide any valuable and up-to-date information about companies' performance and activities. Moreover, some companies do not have websites."*

This comment is consistent with the findings of Al-Shammari (2007:16), who investigated the use of the Internet for disseminating financial reporting by companies listed on the KSE in 2005, revealing that: *"...77 (110 of the 143 companies) had websites. However, 30 (33) of companies did not provide any financial information."*

Table 6.2: The Importance of Different Sources of Information

Source of information	Whole Sample			K-W
	Mean	SD	Rank	P-Value
Corporate annual report (CAR)	4.818	.3870	1	
Interim report (IR)	4.273	.6630	2	
Company's website (CW)	2.713	1.059	9	**
KSE's website (KSEW)	3.497	1.113	5	***
Newspapers and magazines (NM)	3.231	1.019	6	**
Market rumours (MR)	2.761	1.128	8	
Personal expectations (PE)	3.619	.838	4	
Recommendations from a friend (RF)	2.832	1.017	7	
Advice from specialists (AS)	4.007	.764	3	

Note. * $p < 0.10$; ** $p < 0.05$; and ***$p < 0.01$. These criteria will be used for remaining tables.

The result here also suggests that respondents are neutral in respect of NM as a source of information. This can be explained by the fact that specialised magazines that meet the aspirations of well-educated and professional people do not exist in Kuwait. Although daily newspapers include a specialised section covering international and domestic business news, this is not enough to satisfy sophisticated readers. In this respect, an accounting academic argued that:

> *"Most local newspapers and magazines concentrate on local and GCC region business news; however, the international newspapers and business magazines are more comprehensive, have specialised publications, more cover of the local and international economic events. Moreover, they provide more accurate and credible information than the local ones."*

In this sense, one financial advisor declared:

> *"There is a shortage of newspapers and magazines which are specialised in the business field and are published in the English language; for this reason it is difficult to depend on this type of information source even though it is considered as a crucial instrument in developed countries where it is more developed compared to Kuwait."*

6.2.2.1 Other Sources of Information Used by Participants

The differences in opinions among users regarding the importance of information sources indicate the variety of information needs as well as the failure of some sources to provide the amount of information required for making economic judgements. Therefore, users employ several sources of information. To explore these, additional space was provided, at the end of section two, for participants to suggest any other sources of information not included in the questionnaire. Some respondents referred to other sources which are necessary to have a clearer vision about a specific economic event or a particular company; they are as follows. Three members of financial advisory group agreed with the sentiment that:

> *"It is preferable to directly contact companies and more specifically make personal interviews (e.g. by phone or face to face) with CEO/key management such as financial managers as an essential source of information when making economic decisions. This source of information also helps to get information related to the company's current and future projects, its major customers and its suppliers etc."*.

Another financial advisor indicated that:

> *"The CBK's website is considered one of most important and useful sources of information to obtain annual and semi-annual statistical reports etc., published by the CBK. It could help to more deeply understand the Kuwaiti economic status and market conditions"*.

It is worth noting that the MR group is similar to the FA group to some extent in terms of the nature of their information needs and the sources of information on which they depend. One market regulator who shared the same view reported that: *"Periodic statistical reports published by governmental bodies form one important information source which assists in the decision process"*. On the other hand, another market regulator pointed out that:

> *"The work scope of monitoring bodies is broad, so we require companies to submit internal audit reports in order to verify the reliability of financial reporting and compliance with laws and regulations"*.

Two financial advisors noted that: *"Analysis reports, which are published by consulting companies and leading listed companies regarding assessing the KSE performance for different periods, are considered important sources of information"*. That view was not supported by another financial advisor, who made a criticism that:

> *"In general, analysis reports in Kuwait are usually discussed and investigated after the financial crises and they do not provide warning signs or give prior indications for the possible occurrence of such crises"*.

Websites earned a special place in the views of Kuwaiti users as a relatively important information source since they provide information needed by various user groups for making economic decisions. A set of financial advisors gave examples of frequently used websites: (e.g. *zawya*, *Gulf base*, *Bloomberg*, *CNBC News*, and *Reuters*).

Possible reasons for the Kuwaiti user groups' dependence on different sources is that some sources may not provide current company information or enough information to meet their needs. Thus, it can be concluded that users vary regarding the importance attached to different information sources, and reasons for this are associated with a number of factors such as the nature of the job, the type of decisions, the required information and its availability.

Hypothesis Testing

A further advanced statistical analysis is required to assess the extent of difference in how four user groups perceived the importance of these sources (H1). Since our data is ordinal, the previous objective can be approached by using a non-parametric test called the Kruskal-Wallis (K-W) test. These K-W tests were independently employed for each of the nine different sources of information.

The results of the K-W tests are summarised in Table 6.2. It can be concluded that there are no statistically significant differences among user groups regarding the CARs, IRs, MR, PE, RF, and AS. However, there are statistically significant differences among users about CW, KSEW, and NM. Hence, the results of the study (with the exception of CARs, IRs, MR, PE, RF, and AS) do not support the hypothesis that there is no significant difference among user groups in the perceived importance of different sources of information. In order to highlight these significant differences among user groups, further non-parametric tests called Mann-Whitney U tests (M-W) were conducted between all possible pairs of groups, to determine the nature of the significant differences found through the K-W tests. Consequently, these tests were carried out for six possible pairs of user groups and for nine sources of information.

Table 6.3 presents the mean scores for each user group and illustrates the consensus among each pair of user groups. The results of M-W tests show that the FA pairing with MR and AC, as well as the MR and AC pairing, are similar in their agreement regarding the importance of CW as a source of information. However, there is statistically significant difference among the EA group and the other three groups regarding the perception of the importance of CW, which was confirmed by the overall mean score for each group. This may be due to the fact that the EA group believes this source of information to be more useful than the other groups do. With regard to KSEW, FA and EA groups have a similar view regarding the importance of this source. An interesting result: KSE’s website is a significantly more important source of information about the company for the MR group than for FA and EA and AC groups, reflected in the overall mean score for each group. One possible explanation is that MR group members consider that information published on the KSE's website meets the information needs of market participants. The FA group differs significantly from the AC group regarding the importance of KSEW. On the other hand, results indicate significant differences among the EA and AC pairing about the perceived importance attached to KSEW. They also show no significant difference between the MR group and the three other groups as well as the FA and EA groups regarding the relative importance attached to NM. However, the highest level of significant differences belonged to the FA and AC pairing and the EA and AC pairing regarding the agreement level about the importance of NM as a source of information. The remarkable difference in importance may be due to members of FA and EA being more interested than AC members in tracking the daily company news and economic events.

Table 6.3: Comparison of Importance of Sources of Information by User Group

Sources of information	**Means by Subject Groups**				**M-W Test**					
	FA	EA	MR	AC	FA (sig) with EA	FA (sig) with MR	FA (sig) with AC	EA (sig) with MR	EA (sig) with AC	MR (sig) with AC
Company's website	2.74	3.12	2.50	2.47	*			**	**	
KSE's website	3.46	3.76	4.17	2.71		**	**	*	***	***
Newspapers and magazines	3.43	3.33	3.23	2.85			**		**	

6.2.3 The Importance of Corporate Annual Report Sections

The objective of Question 2 in Section Two was to explore the perceptions of target groups regarding the importance of different sections of the CAR. This could help determine which parts of annual reports user groups rely on when making decisions and/or recommendations. Therefore, the CAR was divided into nine parts as follows: chairman's letter/message (CLM), management report/management discussion and analysis (MRD), independent auditors' reports (IAR), statement of financial position (SFP), income statement (IS), statement of cash flow (SCF), statement of changes in owners' equity (SCOE), accounting policies (AP), and notes to the financial statements (NFS). Participants were asked to rate the importance they attach to each of these sections CAR on a five-point scale where five indicates "extremely important" and one indicates "not at all important".

Descriptive Analysis

Based on the overall mean scores, most CAR sections were perceived as important to user groups, with the exception of the CLM and MRD, which fall in the neutral rating, and this was reflected by overall means of 3.18 and 2.68, respectively (see Table 6.4). From Table 6.4, for the whole sample, it can be seen that the three most important sections of the annual report were the SFP, IS, and SCF, respectively. These findings are similar to those documented by Al-Mubarak (1997), Al-Mahmoud (2000), Al-Hajji (2003), Al-Razeen and Karbhari (2004, 2007), and Zoysa and Rudkin (2010) in their surveys of Saudi Arabian, Kuwaiti, and Sri Lankan users, in which they revealed that user groups rated SFP and IS as the most important and primary sections of a CAR. However, comparing this study's results with those of a previous study conducted in the KSE, Naser et al. (2003) reported that users attached less importance to SFP compared with IS and SCF, respectively. Additionally, the results of the current study are inconsistent with those of Chang and Most (1985), Vergoossen (1993), Epstein and Pava (1994), Epstein and Anderson (1994), Abu-Nassar and Rutherford (1996), Abdul Rahman (2001), Al-Mutairi (2004), Ho and Wong (2004), Al-Abdulqader et al. (2007), Al-Ajmi (2009), and Nassirzadeh (2011), who revealed that the IS was ranked the most important section of the annual report. These differences may be explained on the grounds that most of these studies focused on investor groups, who are interested in information related to a company's performance. In addition, most investors tend to invest in profitable companies and such information is provided by IS. Concerning the results of financial statements, this may reflect the confidence of users in these statements since they are prepared in accordance with sophisticated standards (IFRS).

The low rate of CLM can be explained by the fact that the information included in this statement may not be relevant to users' needs. Although this result contradicts the result documented by Jamil et al. (2009), who declared that CLM is an important section in the CAR and a useful device for Malaysian institutional investors in investment decision making, it is nevertheless consistent with other studies in developing countries (e.g. Mirshekary and Saudagaran, 2005; Dahawy and Samaha, 2010). Therefore, it can be concluded that the CLM section was perceived to be less read and the less preferred part among other parts of annual reports in the view of users. This is in line with results reported by Abu-Nassar and Rutherford (1996) and Al-Ajmi (2009) for developing countries. Similar results were obtained in other empirical studies (e.g. Al-Mutairi, 2004; Al Attar and Al-Khater, 2007; Al-Abdulqader et al., 2007; Zoysa and Rudkin, 2010; Alzarouni et al., 2011). In contrast, the current finding is inconsistent with other studies (e.g. Lee and Tweedie, 1981; Day, 1986; Anderson and Epstein, 1997; Bartlett and Chandler, 1997; Stainbank and Peebles, 2006).

The low importance of MRD reported in this study is consistent with results reached by Epstein and Pava (1993, 1995). Similar findings also were reported by Al-Attar and Al-Khater (2007), who surveyed user groups in Qatar. Another possible justification of the low rating given to CLM and MRD is the quantity and quality of information included in these sections. In the case of Kuwait, it provides a brief summary about company achievements for the last financial years and includes little information about its future plans. One financial advisor argued that: *"Information released in the management report and the chairman's letter should be improved to include more significant information regarding a company's future performance and a management's vision about expansion plans."*

It should be noted that IAR, based on the outcomes of mean important values, was ranked the sixth important section of the CAR in the target group's view. This reflects some users attaching less importance to this section and is probably due to the fact that the company board intervenes in the appointment of external auditors, which may affect their independence, as mentioned in Chapter 4.

Table 6.4: Perceived Importance of Different Sections of Corporate Annual Report

Different sections of corporate annual reports	Whole Sample		Rank	K-W
	Mean	SD		P-Value
Chairman's letter/message (CLM)	2.678	1.085	9	***
Management report/Management discussion and analysis (MRD)	3.175	1.146	8	***
Independent auditors' reports (IAR)	4.455	.803	6	**
Statement of financial position (SFP)	4.811	.393	1	
Income statement (IS)	4.790	.457	2	
Statement of cash flow (SCF)	4.755	.534	3	
Statement of changes in owners' equity (SCOE)	4.573	.666	5	
Accounting policies (AP)	4.427	.764	7	**
Notes to the financial statements (NFS)	4.720	.523	4	

Hypothesis Testing

Table 6.4 presents the results of K-W tests conducted for each of the nine different sections of CAR to determine any significant differences among the four groups regarding the importance of these sections (H2). The results indicate significant differences among examined groups concerning four sections of the CAR only, at the level 5%: the CLM, MRD, IAR, and AP. Consequently, the results (with the exception of SFP, IS, SCF, SCOE, and NFS) do not support the research hypothesis that there is no significant difference among user groups in the importance they attach to various sections of a CAR. The results imply that user groups differ in the importance attached to different sections of a CAR. Table 6.5 presents descriptive statistics by each group for the aforementioned four sections. The M-W Test was used to gauge the extent of differences in how user groups perceived the importance of these four sections.

The results indicate that EA group differs significantly from all other groups, in that it appears to place a greater weighting on the CLM section than all other groups. However, the results indicated no statistically significant differences among the FA and MR pairing, the FA and AC pairing, and the MR and AC pairing regarding the importance of the CLM section. The EA group placed greater emphasis on the importance of MRD and IAR sections than all other groups. Conversely, the results revealed no statistically significant differences among the FA and MR pairing, the FA and AC pairing, and the MR and AC pairing regarding the importance of these two sections. On the other hand, the AP section was significantly more important for EA and MR groups than for FA and AC groups. The high level of reliability that EA and MR in Kuwait attached to the IAR and AP can be interpreted on the grounds that these sections reflect the extent to which companies comply with reporting regulations.

Gietzmann and Trombetta (2003) claimed that, by adopting a specific accounting policy, company management can send signals to stakeholders. In addition, it may employ accounting systems as a communication channel or signalling mechanism to affect the view of stakeholders such as investors (Nelissen, 2007). On a different point, it may help investors as market participants to make informed decisions (Watts & Zimmerman, 1990; Holthausen, 1990). Fung et al. (2003) provide evidence that accounting policy and voluntary disclosure, as communication channels, are considered to complement each other. The results showed no statistically significant differences in the FA and AC pairing. The results also indicate a remarkable similarity between the EA and MR pairing.

Table 6.5: Comparison of Importance of Sections of Corporate Annual Report by User Group

Different sections of corporate annual reports	Means by Subject Groups				M-W Test					
	FA	EA	MR	AC	FA (sig) with EA	FA (sig) with MR	FA (sig) with AC	EA (sig) with MR	EA (sig) with AC	MR (sig) with AC
Chairman's letter/message	2.24	3.67	2.53	2.44	***			***	***	
Management report/Management discussion and analysis	3.09	4.00	2.90	2.74	**			***	***	
Independent auditors' reports	4.26	4.85	4.57	4.24	***	*		**	***	
Accounting policies	4.13	4.70	4.73	4.29	***	***			*	**

6.2.4 Qualitative Characteristics of Corporate Information

The third question in Section Two aims to identify and evaluate the extent of significant difference or agreement existing among user groups about a set of qualitative characteristics of information that could affect the usefulness and quality of the CAR as a source of information. To achieve this objective, the respondents were requested to indicate their degree of agreement or disagreement on whether accounting information included in CARs possesses six characteristics (see Appendix 4). According to Samuels et al. (1999:193), "*Good-quality accounting information is necessary to ensure that capital markets remain efficient*". Botosan (1997:324) argued that the disclosure quality of such information is considered to be "very difficult to assess". Hence, to reach this objective, a Likert scale was employed for the answers to this question, extending from five, "strongly agree", to one, "strongly disagree".

Descriptive Analysis

The results in Table 6.6 indicate that most respondents (85%) either agree or strongly agree that accounting information included in CARs has the characteristic of being "consistent with accounting methods over time". In addition, a high proportion of respondents (76% and 71%, respectively) believed that accounting information found in CARs is "capable of making a difference in a decision" and possesses "comparability of information". It is not surprising that information released in annual reports possesses 'comparability' as a useful criterion, since CARs are prepared based on uniform standards (IFRS), giving users, such as investors, the chance to make a comparison among investment opportunities.

These results may reveal that user groups feel satisfied with current accounting information included in Kuwaiti corporate annual reports in terms of these previous characteristics. They are inconsistent with the finding of Abu-Nassar and Rutherford (1996), who discovered that lack of comparability and lack of consistency are considered major weaknesses in the view of user groups of annual reports in Jordan. In contrast, respondents were generally neutral in their views concerning the reliability criterion expressed in terms of “representational faithfulness and neutrality of information”, with an overall mean of 3.27. It has been argued that unreliable information could play an important role when reliable information is not available to users (Imbun and Ngangan, 2001).

These results suggest that participants show general concern toward the level of credibility of information released in the annual reports of Kuwaiti listed companies, and this has been an important area of concern to user groups since the study conducted by Naser et al. (2003) in Kuwait. These results are also consistent with those of previous studies in emerging economies (e.g. Abu-Nassar and Rutherford, 1996; Mirshekary and Saudagaran, 2005; Dahawy and Samaha, 2010; Alzarouni et al., 2011), which concluded that a lack of trust in information appears to be a major problem facing the different user groups. The strong consistency in results may be due to the fact that Middle Eastern countries are similar in a number of characteristics such as socio-economic environments, and financial reporting is poorly regulated (Alzarouni et al., 2011). This suggests that participants of this study were unsatisfied with the current level of transparency of information provided by listed companies in their annual reports and so these reports are somewhat not be trusted by external user groups such as investors. In the context of qualitative characteristics, Stainbank and Peebles (2006) stated that comparability, faithfulness, and relevance are considered dominant characteristics for evaluating the usefulness of accounting practices in the viewpoint of South African users. It is important to mention that caution should be taken when interpreting the findings and making a comparison with different studies in different countries for various reasons: the differences in sample size, user groups, time frame of the study, and type of countries.

On the other side, the analysis results showed a low level of agreement (20%) among user groups regarding the “timeliness of corporate annual reports”. This was reflected by the low reported mean for all groups and supported by a high standard deviation. Interestingly, the findings for the long delay in publishing CARs and the lack of availability of annual reports are similar to those observed in some emerging countries (Abu-Nassar and Rutherford, 1996; Mirshekary and Saudagaran, 2005; Dahawy and Samaha, 2010; Zoysa and Rudkin, 2010). Thus, it can be inferred that, as well as the users of these reports facing similar problems, developing countries are similar in their financial reporting environment.

On the basis of this result, it appears that user groups assess the qualitative characteristics based on their perspectives of current accounting practices in the business environment. This corresponds with the reality that some companies listed on the KSE are not able to submit their audited annual financial statements at the end of March for the financial year to a monitoring body (e.g. the KSE). For this reason, some listed companies' shares are temporarily suspended from trading at the KSE. The KSE's website declared that 36 and 26 listed companies did not submit their audited annual financial statements to the KSE at the end of March for the financial years, 2009 and 2010, respectively. One financial advisor argued that:

> *"Delay in published corporate quarterly/annual reports could be one obstacle that prevents consulting companies from providing a good service for their clients or publishing up-to-date reports about the status of the KSE in public media."*

With regard to the publication of annual reports and their timeliness, a number of financial advisors and accounting academics who participated in this survey suggested that they:

> *"...prefer and encourage regulators to allow listed companies to publish their annual reports, as a full set, in an electronic form via their websites after receiving a final approval from external auditors. This could help all users to have equal opportunity to access this information at the same time and this could speed up the availability of this source of information."*

In this regard, a number of financial advisors and accounting academics indicated that they *"prefer the publication of corporate annual reports within 60 days after year-end".*

Table 6.6: Users' Opinions of the Qualitative Characteristics of Accounting Information

Characteristics	Level of agreement					Whole Sample		Rank	K-W
	1 %	2 %	3 %	4 %	5 %	Mean	SD		P-Value
Capable of making a difference to your decision	0.0	6.3	17.5	67.8	8.4	3.78	.683	2	
Available on a timely basis	5.6	66.4	7.7	17.5	2.8	2.45	.940	6	
Faithfully represents what really happened or existed (or representational faithfulness of information)	2.8	16.1	36.4	40.6	4.2	3.27	.882	5	***
Unbiased (neutral: cannot favour one user group over another)	3.5	17.5	29.4	47.6	2.1	3.27	.897	4	
Comparable (you can compare one company with another)	0.7	7.7	20.3	62.9	8.4	3.71	.758	3	
Consistent over time	0.7	2.8	11.2	77.6	7.7	3.89	.595	1	***

Hypothesis Testing

To examine whether the different user groups, statistically, have similar or different perceptions on whether accounting information provided in CARs possesses qualitative criteria that may affect the quality of these reports (H3), K-W tests were conducted for each of six qualitative characteristics separately to test this hypothesis. Table 6.6 reveals that the significant differences between the respondents' opinions concentrated on two criteria of information, namely: "representational faithfulness of information" and "consistence of the information with accounting methods over time" only. Thus, the null hypothesis was not supported for the previous criteria only.

As depicted in Table 6.7, the results of M-W tests revealed that the EA group believes that information provided in the annual reports possesses the "representational faithfulness of information" criterion more than the FA and AC groups. On the other hand, the MR group is more in agreement that information provided in annual reports has "representational faithfulness of information" than the AC group. These results are expected since the EA group plays an important role in preparing the annual reports and the quality of information contained in these reports. In addition, the MR group believes that companies comply with the IFRS and other local regulations when they prepare financial reports and also they deem these requirements concentrate on improving the transparency of information disclosed in annual reports. However, a high similarity was found between the FA and MR pairing and the FA and AC pairing regarding this criterion.

Conversely, the EA and MR groups attached a high degree of consensus to the "consistency" criterion (companies using the same accounting methods over financial years) than the FA group. In addition, the EA group is in more agreement on the existence of companies' consistent use of accounting principles from one accounting period to another than the AC group. However, results indicated that consensus between the pairings of FA and AC, EA and MR, and MR and AC is relatively high in this matter.

Table 6.7: Comparison of Agreement Level of Qualitative Characteristics of Corporate Information by User Group

Characteristics	**Means by Subject Groups**				**M-W Test**					
	FA	EA	MR	AC	FA (sig) with EA	FA (sig) with MR	FA (sig) with AC	EA (sig) with MR	EA (sig) with AC	MR (sig) with AC
Representational faithfulness of information	3.087	3.727	3.400	2.971	***			**	***	*
Consistency of the accounting methods over time	3.696	4.152	4.000	3.794	***	**			**	

6.2.5 Voluntary Disclosure Practices in the KSE

One main objective of this survey is to explore the usefulness and materiality of voluntary disclosure in CARs. Thus, the third section of the questionnaire concentrated on different aspects of voluntary disclosure as follows.

6.2.5.1 Level of Voluntary Disclosure

To explore the perception of user groups regarding the level of voluntary information in annual reports of listed companies, the participants were asked to rate the extent of the current level of voluntary disclosure on a five-point Likert scale, where five indicates "very high" and one indicates "very low".

Descriptive Analysis

Analysis indicates relatively high levels of consensus between user groups with regard to the current level of voluntary disclosure investigated. This is clearly reflected by the mean score, which registered less than two, as well as the low value of standard deviation. From Table 6.8, most respondents (87%) agree that the level of voluntary disclosure is low. It should be noted that *"lack of adequate disclosure can create ignorance in the securities market and can result in misallocation of resources in the economy"* (Baumol, 1965, cited in Chandra, 1974:733).

This result is consistent with the existing voluntary disclosure literature for Kuwait (Al-Shammari, 2008; Al-Shammari and Al-Sultan, 2010; Alanezi, 2011), which revealed the overall level of voluntary disclosure as 15%, 19%, 22%, respectively, among Kuwaiti listed companies. Although there are noticeable improvements in the level of voluntary information disclosure, it is still considered lower than observed in other developing countries, such as 31% and 33% in Malaysia and Saudi Arabia, respectively (Ghazali and Weetman, 2006; Alsaeed, 2006). A senior auditor with a Big 4 audit firm indicated:

> *"I have been working in Kuwait as an external auditor for more than ten years and I have noticed that there are some improvements in the quantity and quality of voluntary information released in corporate annual reports".*

Table 6.8: The Perceived Level of Voluntary Disclosure

Statement	Percentage					Whole Sample		K-W
	1 %	2 %	3 %	4 %	5 %	Mean	SD	P-Value
Voluntary disclosure of annual reports	27	60	13	0.0	0.0	1.86	0.623	.279

Hypothesis Testing

To determine any significant differences of view among sophisticated user groups on the current level of voluntary disclosure (H4), K-W tests were carried out. The results reveal no significant differences among user groups' views on the current level of voluntary disclosure released in the CARs. Accordingly, the null hypothesis 4 is supported by the survey results.

6.2.5.2 Usefulness of Voluntary Disclosure

The CAR provides two types of information: mandatory and voluntary for different users such as present and potential investors, consulting companies, and creditors. This information is assumed to be useful to users of annual reports in making informed economic decisions. The second question in Section Three aims to explore the aspects in which VD can be useful in the perspective of various user groups. Thus, respondents were asked to indicate their level of agreement with each of nine statements. A Likert scale was used to calibrate the response, with five indicating "strongly agree" and one indicating "strongly disagree".

Descriptive Analysis

Overall, respondents were in agreement regarding all the proposed statements related to the usefulness of VD, and the overall mean values, which were 3.76 or above, provide remarkable support for these results. Specifically, they indicate that voluntary disclosure was useful in three areas, namely: "improving the usefulness of the annual report as a source of information for decision making", followed by "improving the level of confidence in decision making", and then by "supports minority investors in monitoring their investments". Overall, the results, in terms of investment, are in line with those of Chang and Most (1985), Al-Mahmoud (2000), Naser et al. (2003), Al-Hajji (2003), and Al-Yaqout (2006), who revealed that the information provided in annual report helps in making investment decisions and in assessing corporate performance over time.

Table 6.9: Users' Perceptions on the Usefulness of Voluntary Disclosure

Statements	Whole Sample		Rank	K-W
	Mean	SD		P-Value
Improving the usefulness of the annual report as a source of information for decision making	4.364	.564	1	
Improving the level of confidence in decision making	4.315	.523	2	
Supporting minority investors in monitoring their investments	4.119	.644	3	**
Assisting in making new or additional investments	3.951	.632	6	

Helping users to make comparisons regarding a specific company's performance over periods of time, such as the last five fiscal years	4.021	.726	4	
Helping as a benchmark in comparing the company's performance with competitors	3.832	.796	7	
Helping as a benchmark in comparing companies' performance on the KSE	3.762	.796	9	
Aiding in preparation of more ratios and analysis	3.979	.707	5	
Enhancing the ability of users to forecast the expected revenues, profits, and cash flow of a company	3.776	.859	8	

Hypothesis Testing

K-W tests were carried out to discover whether there is any significant difference in views among target groups for each of the identified purposes or benefits of voluntary disclosure (H5). The results indicate significant differences among the groups, at the .05 significance level, concerning the usefulness of VD in "supporting minority investors in monitoring their investments" only. Consequently, the result does not support this proposition. Overall, this result lends some support to that of the previous question regarding the level of voluntary disclosure. Thus, the general conclusion drawn is that the current level of voluntary disclosure in the CARs may not meet the expectations of user groups such as minority investors, which implies a disclosure gap between the providers of information and its users. In other words, this may suggest that the information provided by Kuwaiti listed companies is insufficient for users' requirements. This confirms that demand for financial reporting and disclosure arises from information asymmetry and agency problems (Healy and Palepu, 2001).

In addition to K-W tests, pairwise Mann-Whitney U tests were conducted between all possible pairs of groups, to ascertain which group(s) differ(s) from the others. Table 6.10 shows a relatively high level of consensus between FA, MR, AC groups regarding whether VD could contribute to helping minority investors monitor their investment. Based on a mean weight to this statement by each group, it can be inferred that the MR group assigned the highest usefulness mean to this statement, whilst the EA group assigned the least usefulness mean to it. This may be because of general concern from the EA group about the current voluntary disclosure level and the types of voluntary information included in the annual reports.

Table 6.10: Comparison of the Perceived Usefulness of Voluntary Disclosure by User Group

Statement	Means by Subject Groups				M-W Test					
	FA	EA	MR	AC	FA (sig) with EA	FA (sig) with MR	FA (sig) with AC	EA (sig) with MR	EA (sig) with AC	MR (sig) with AC
Supporting minority investors in monitoring their investments	4.20	3.85	4.30	4.12	**			**	**	

6.2.5.3 List of Proposed Voluntary Items

It is expected that various annual report user groups are varied in their perspectives and purposes, generating variation in information needs. Empirical evidence suggests a difference in how users rate the importance of information items and their disclosure from developed and developing economies (Ngangan et al., 2005). Moreover, the disclosure of additional information may enhance the quality of annual reports and increase the confidence of capital market participants, such as investors, in their investee companies. On the other hand, improvement in the quality of information could be useful in planning and making decisions as well as in investing more capital in stock markets. Therefore, Question 3 of Section Three presents a list of 29 proposed items, with the various classes of corporate voluntary disclosures categorised into: corporate governance practices, human resources information, social and environmental corporate responsibilities, and goods/services to customers (see Appendix 4).

To determine the types of information and identify the information that sophisticated users recommend should be released by preparers of annual reports, respondents were asked to register their level of agreement or disagreement that releasing these items may improve the quality of voluntary disclosure in Kuwaiti CARs. To achieve this objective, an item-by-item procedure was carried out to assess the mean values of 29 items of voluntary information for all respondents. Also, a five-point scale was used which ranged from five for “strongly agree” to one for “strongly disagree”. A summary of the responses is provided in Table 6.11. Table 6.12 presents descriptive statistics related to the respondents’ level of agreement on these items. It also provides the results of the K-W tests, while Table 6.13 reveals the results of the M-W tests.

Descriptive Analysis

Table 6.11 shows that all proposed information items in the questionnaire were perceived as being useful, in the view of the majority of respondents, to be contained in the CARs. This was reflected by the mean scores which were 3.61 or above. The following items of information are considered the most useful and rated as the top 10 voluntary items in the view of respondents:

1. Description of major products/services produced
2. Cross directorship
3. Names of senior executive management
4. Names of non-executive board members
5. Biography of senior executive management
6. Biography of board members
7. Types of board committees
8. Developments regarding products/services
9. Receiving awards as a result of increase in the quality of the company's products/services
10. Conservation of energy and material resources' consumption in company operations

Table 6.11: Level of Agreement of Proposed Voluntary Items by Means

Items of information	Mean	Rank
Description of major products/services produced	4.40	1
Names of board members who have directorships in other Kuwaiti and/or overseas listed companies	4.34	2
Names of senior executive management	4.29	3
Names of non-executive board members	4.27	4
Biography of senior executive management (education qualifications and practical experience)	4.26	5
Biography of board members (education qualifications and practical experience)	4.25	6
Types of board committees	4.22	7
Developments regarding products or services	4.20	8
Receiving awards as a result of increase in the quality of the company's products or services	4.15	9
Conservation of energy and material resources' consumption in company operations	4.13	10
Conservation of natural resources (e.g. recycling) and waste management	4.11	11
Sponsoring public health and social projects	4.10	12

Complying with national standards and national regulations concerning health and safety at work	4.06	13
Description of marketing network for finished goods/services	4.06	13
Board committees’ responsibilities	4.04	15
Contribution by companies of products/services to support the national economy	4.02	16
Name of board committees’ members	4.00	17
Remuneration per member and other benefits per member	3.95	18
International Organization for Standardization (ISO) regarding environmental audit/ISO14000	3.95	18
Sponsoring educational seminars and conferences	3.92	20
Process for appointing board committees’ members	3.92	20
Giving financial assistance to employees to obtain or build upon academic/professional qualifications	3.92	20
Responsibilities assigned to executive members	3.86	23
Number of employees trained yearly	3.83	24
Budget assigned to training and development programmes	3.75	25
Top management’s salaries per key manager and other benefits per key managers	3.73	26
Part-time employment of students	3.73	26
Number of training hours covered by each employee	3.71	28
Providing low cost health insurance for employees	3.61	29

These findings are consistent with those of Al-Ajmi (2008, 2009), who found that Bahraini users of financial reports prefer companies to disclose information related to the name of board directors and other relevant information that helps to explain the relationship between the board and the company. Similarly, Naser et al. (2003) reported that user groups in Kuwait attached a certain degree of agreement to a list of directors and management names; however, they are not ranked at the top of the list based on their mean scores, in contrast to what was documented by Al-Mutairi (2004). On the other hand, Stainbank and Peebles (2006) found that users did not give a high ranking to information related to the corporate governance report. On a different point, Ho and Wong (2004) found that investment analysts in Hong Kong rated the responsibilities of directors/senior management item as low importance in annual reports. Overall, the process of comparison of different studies should be treated with caution as there are differences in the time frame of research, the sample size, the examined information items, the user groups, and the type of country.

The current study's results can be interpreted as showing that user groups strongly believe that listed companies should release much information related to corporate governance practices in their annual reports, and this suggests how interested respondents are in CG and the importance of it being applied in the Kuwaiti business environment. It is expected that the low level of CG disclosure indicates that listed companies' exercise of global good practices in CG is slight. On the other side, it can be concluded that respondents believe it is vital that this type of information is included in CARs to build up the confidence of annual report users regarding corporate information as well as to express corporate success.

The responses of user groups indicated that releasing information about "the summary of products/services produced", as an indicator by companies, is useful information to users of annual reports, such as present and potential investors, for assessing the ability of companies to generate their major income from operations. Naser et al. (2003) also found strong agreement among target groups on the importance of disclosing detailed company product information. In addition, investment users in Hong Kong view that as one of the most important items of voluntary information for making decisions (Ho and Wong, 2004). Also, these results partially support the studies of Mirshekary and Saudagaran (2005) and Dahawy and Samaha (2010), which surveyed external users in emerging markets.

With regard to the disclosure of corporate environmental responsibility information, the result suggest that respondents would prefer companies to release in their CARs some information related to their environmental responsibility instead of concentrating on revealing performance information. In addition, the result indicated that listed companies should take more significant roles in "conservation of energy and natural resources" to justify their existence within the society through their compliance with society values. This is consistent with the prediction of legitimacy theory. This result gives some empirical support for the conclusions reached in previous studies (e.g. Naser and Abu Baker, 1999). In contrast, this result does not support the findings of Stainbank and Peebles (2006), who declared that environmental report received low ranking from South Africa users.

Table 6.11 shows the following four information items rated as the lowest desired by the user groups in terms of their usefulness to be disclosed in Kuwaiti listed companies' annual reports to enhance the quality of corporate voluntary disclosure:

1. Top management's salaries per key and other benefits per key managers
2. Part-time employment of students
3. Number of training hours covered by each employee
4. Providing low cost health insurance for employees

User groups assigned a low level of agreement regarding "number of training hours covered by each employee". With regard to human resources information, the results from the present study are similar to those in a number of previous studies (e.g. Naser et al., 2003; Al-Mutairi, 2004; Mirshekary and Saudagaran, 2005; Dahawy and Samaha, 2010). The lowest rating of the "part-time employment of students" item could be attributed to the respondents' deeming that the education service is free in Kuwait at the same time the Kuwaiti government gives financial support to university and college students. It is also expected that user groups do not give the highest weight of agreement to providing information related to "low cost health insurance for employees" because they believe that the Kuwaiti government provides a free health service for all citizens as well as at a reasonable price for foreigners.

Above and beyond the descriptive statistical analysis represented by mean and SD scores, separate K-W tests were conducted to explore any significant differences in the level of consensus among the four groups regarding the usefulness of proposed voluntary items to be included in the CARs (H6). Furthermore, the M-W tests were used for six possible pairs of user-groups to find differences among them. The following sections present the results of K-W and M-W tests for proposed information items and test the research hypothesis. In general, the K-W test results revealed statistically significant differences among the four user groups regarding 14 out of the 29 (48%) voluntary items included in the questionnaire. However, for the 15 remaining items (52%), which were divided into five different types of voluntary disclosure, no significant differences were found. This suggests that respondents rated these items as being useful for inclusion in Kuwaiti listed companies' CARs to improve the quality of VD, and they may constitute an area of interest and focus for the participants in this survey. The hypothesis of no difference between target groups is not supported, with the exception of 15 items.

Table 6.12: Level of Agreement of Proposed Voluntary Items by Category

Items of information	Whole Sample			K-W
	Mean	SD	Rank	P-Value
A. Information Related to Board				
Names of non-executive board members	4.27	0.571	2	
Biography of board members (education qualifications and practical experience)	4.25	0.697	3	***
Names of board members who have directorships in other Kuwaiti and/or overseas listed companies and/or oversees listed companies	4.34	0.649	1	
Remuneration per member and other benefits per member	3.95	0.981	7	
Types of board committees	4.22	0.683	4	**
Board committees' responsibilities	4.04	0.934	5	
Names of board committees' members	4	0.839	6	*
Process for appointing board committees' members	3.92	0.931	8	**
B. Information Related to Key Management				
Names of senior executive management	4.29	0.698	1	*
Biography of senior executive management (education qualifications and practical experience)	4.26	0.757	2	*
Responsibilities assigned to an executive members	3.86	1.018	3	
Top management's salaries per key managers and other benefits per key managers	3.73	1.144	4	
C. Information Related to Employee				
Complying with national standards and national regulations concerning health and safety at work	4.06	0.674	1	*
Providing low cost health insurance for employees	3.61	1.000	6	
Giving financial assistance to employees to obtain or build upon academic/ professional qualifications	3.92	0.792	2	*
Number of training hours covered by each employee	3.71	1.013	5	
Budget assigned to training and development programmes	3.75	0.93	4	

Number of employees trained yearly	3.83	0.833	3	**
D. Social and Environmental Information				
Conservation of natural resources (e.g. recycling) and waste management	4.11	0.583	2	
Conservation of energy and material resources' consumption in company operations	4.13	0.56	1	
International Organization for Standardisation (ISO) regarding environmental audit/ISO14000	3.95	0.808	4	
Sponsoring public health and social projects	4.1	0.653	3	
Part-time employment of students	3.73	0.841	6	
Sponsoring educational seminars and conferences	3.92	0.779	5	*
E. Information Related to Products/Services				
Description of major products/services produced	4.4	0.595	2	***
Description of marketing network for finished goods/services	4.06	0.743	5	***
Contribution by companies of products/services to support the national economy	4.02	0.791	6	*
Developments regarding products or services	4.2	0.667	3	
Receiving awards as a result of increase in the quality of the company's products or services	4.15	0.695	4	*

A. Board of Directors Items

Table 6.12 (part A) shows that significant differences among the groups regarding four voluntary items: "biography of board members", "types of board committees", "names of board committees' members", and "process for appointing board committees' members". Consequently, M-W tests were conducted to explore the nature of these differences found through the K-W tests. M-W tests demonstrated that FA and MR groups have a higher level of agreement than the EA group that "biography of board members" should be included in CARs as useful voluntary information which may enhance the quality of corporate voluntary disclosure (see Table 6.13-part A). However, the results revealed no significant differences among the pairings of FA and MR, FA and AC, and EA and AC for the level of agreement attached to this item. M-W tests also revealed that the reported differences in views were statistically significant between the MR and AC pairing regarding the usefulness attached to this item. The MR group has a significantly higher level of agreement than FA and EA groups that "types of board committees" should be included as useful voluntary information. Conversely, the pairings of FA and EA, FA and AC, EA and AC, and MR and AC have similar levels of agreement regarding the usefulness of this item.

Regarding "names of board committees' members", the FA group is in higher agreement than the EA group concerning the usefulness of disclosing this item in the CARs; it also receives higher agreement from members of the MR than from the EA groups. This indicates that MR and FA groups are more interested in exploring the board committee composition and as well as the structure of the board for different economic decisions. In contrast, the pairings of FA and MR, and FA and AC are similar in their views regarding this item as is the case between the EA and AC, and the MR and AC pairings. With regard to the information item, "process for appointing board committees' members", MR and AC groups assigned higher agreement than the EA group that it is useful to include this information, which is considered one of the most important CG mechanisms. In addition, there is significant difference between the FA and MR, and the FA and AC pairings. However, a clear similarity exists between how FA and EA groups as well as between MR and AC groups rate the usefulness of this item.

An interesting result is that the four previous items received a higher rating from the MR group than the other groups, implying that regulator group members are more interested in companies adopting and practising the best CG since they may believe in the importance of CG mechanisms in improving healthy relationships between owners and management, besides the other benefits of these mechanisms such as company value. Regarding the materiality of information about board members, one financial advisor stated:

> *"We highly recommend companies disclose more information in their annual reports which clarify the volume of business between the company and their board members since we believe in most cases the decision of disclosure is dominated by the board".*

Another financial advisor gave an example regarding this critical information:

> *"Some listed companies rent buildings to run their business, related to board members who are considered the major shareholders without announcing this information in their annual reports".*

These comments are consistent with a prior study undertaken by Al-Ajmi (2009), who claimed that investors using corporate reports in Bahrain believed it is important that companies disclose this type of information in their annual reports. Another response from an academic at Kuwait University reported the following:

> *"I have reviewed the names of external auditors and the names of board members for a set of listed companies; I can conclude that some companies audit by external auditors who are relatives of some members of the board, which is not allowed by the regulations of the auditing profession in Kuwait".*

The above results and responses clearly show that Kuwaiti listed companies do not provide a lot of information about their corporate governance practices. These results can be interpreted on the grounds that, as well as seeming wary of revealing such information, companies have little incentive to voluntarily disclose information to meet the needs of users of annual reports regarding this issue. In short, user groups prefer the disclosure of information pertaining to that area in the annual report and, more specifically, corporate governance disclosures including the structure of the board, board committees, and ownership structure.

B. Key Management Items

As can be seen from Table 6.12 (part B), for the whole sample, the results of statistical K-W tests revealed significant differences in perceptions regarding: "names of senior executive management", and "biography of senior executive management". Therefore, M-W tests were carried out to verify the nature of these differences found through the K-W tests.

With regard to names of senior executive management, M-W test results indicate that FA group members differs from the EA group in their views with respect to this item, but the FA group agrees with MR and AC groups on the relative usefulness of this item. There is remarkable difference between EA and MR groups on this item; however, the results do not show any significant difference between EA and AC groups and between MR and AC groups. As shown in Table 6.13 (part B), EA group do not rate "biography of senior executive management" as highly as FA and MR groups. A statistical difference was found to exist between the FA and AC pairing concerning this item. However, FA and MR groups have similar opinions regarding the rating of usefulness of voluntary information in the CARs, as do EA and AC groups, and MR and AC groups.

It is noteworthy that, among the other examined groups, members of the MR group give the highest rate to these two types of disclosure (parts A and B), which may suggest that this group considers it important to disclose such information in the CARs to meet the needs of stakeholder groups and that it is the right of stakeholder groups to know more about a company's CG practices. In addition, the MR group may be more aware of the importance of CG mechanisms in strengthening market participants' confidence.

C. Human Resources Items

Significant differences in perception among the four groups were found concerning the usefulness of "complying with national standards and national regulations concerning health and safety at work", "giving financial assistance to employees to obtain or build upon academic/professional qualifications", and "number of employees trained yearly" information items to be included in the CARs (see Table 6.12-part C). To provide empirical evidence on the variation in perception among groups, M-W tests were employed. As found in Table 6.13 (part C), members of the FA group award a much higher score to the "complying with national standards and national regulations concerning health and safety at work" item than the EA group, while the EA group has a similar view to other groups (MR and AC). On the contrary, the pairings of EA and AC and of MR and AC are similar in their perceptions concerning this information. However, the EA group differs greatly from the MR group. There is no significant difference between FA, MR, and AC groups, but members of the EA group show a lower level of agreement to disclosing "giving financial assistance to employees" as a voluntary information item in CARs than FA and MR groups, whilst they are similar to AC. The analysis of "giving financial assistance to employees" leads to the same conclusion as the previous item.

With regard to "number of employees trained yearly", the MR group rated this item for inclusion in the corporate reports more highly than FA and EA groups. In contrast, the pairings of FA and AC and of MR and AC are close in their opinion regarding the usefulness of this voluntary item. Significant differences in the rating of this item were found to exist between the FA and EA pairing and the EA and AC pairing. Some participants in this questionnaire provide evidence that the disclosure of this type of voluntary information is increasing and becoming of material interest to listed companies over time. One external auditor reported that:

> *"Several listed companies have started paying attention to disclosing information related to their employees; this action could be attributed to building their reputation and image among other listed companies".*

The above comment clearly proves that signalling theory provides an explanation for companies seeking to disclose additional information voluntarily in annual reports. Similarly, one external auditor documented that:

> *"Images are the typical technical approach which is usually used by companies to release employee information".*

One accounting academic who shared the same opinion indicated that:

> *"Usually companies concentrate on releasing information about awards of elite employees in their works, celebration of training courses, and the board and key management participate with employees' social and religious events to build up their reputation".*

Using the prediction of signalling and legitimacy theories, one financial advisor also indicated another type of voluntary information which listed companies disclose:

> *"Financial listed companies are interested in the dissemination of information related to the percentage of Kuwaiti employees and encouraging the employment of this category of staff rather than other categories. In my opinion, the reasoning behind this is an indicator of its commitment (compliance with the national regulations, e.g. the CBK's instructions), regarding the appointment of citizens, as well as a message to the community that they are interested in and prefer to appoint Kuwaitis than other nationalities".*

This implies that banks and investment companies may disclose this type of information to match the regulator's, stakeholders', and society's expectations. It is worth mentioning that Kuwaiti listed companies employ public media "newspapers" to publish this type of information about their employees, specifically the recent events. This could be explained by the fact that companies are expected to use different channels of communication to give signals to interested parties and/or target groups. This source of information helps to regularly monitor company position and activities as well as keeping stakeholders up to date on significant events. Moreover, companies may use this type of source to disclose this type of information for business incentives and reducing political costs.

D. Social and Environmental Items

The results of K-W tests show statistically significant differences between user groups regarding the role of the company in "sponsoring educational seminars and conferences" item only (see Table 6.12-part D). Therefore, M-W tests were undertaken to define these differences. The results of M-W tests in Table 6.13 (part D) showed that this item receives stronger agreement from the MR group than the EA group. Conversely, FA and MR groups and FA and AC groups have similar attitudes about the usefulness of this item to be included in CARs. The results also revealed that pairings EA and AC, and MR and AC are similar in their perceptions regarding this item. In contrast, similarity in rating does not exist in the FA and EA pairing. Overall, the results of parts C and D indicate that user groups are more likely to want companies to release detailed information about their social activities as proof of their social accountability. In the corporate voluntary disclosure context, specifically corporate social and environmental responsibility, one market regulator stated:

> *"It is noticeable that listed companies tend to increase their disclosure of social and environmental issues as a part of their responsibility toward the community and they report their social and environmental practices in different sources of information such as annual reports and newspapers".*

Listed companies are active in releasing more information about their social and environmental practices. That view is supported by a financial advisor who indicated that:

> *"There is a strong degree of competition among listed companies to publish information related to their social and environmental practices, specifically between leading companies from banking and services sectors (e.g. telecommunication companies), in newspapers. The reasons for this competition can broadly be attributed to give a good image about the company and board, increase of competitive position of the company in the market, increase deal and value of their shares, and political and social motivations."*

Following official published announcements in daily newspapers, some companies disclose through their chairmen that they comply with local regulations in areas in which their activities operate and that they fully meet society's expectations in terms of religious norms and values. For example, one listed company in the service sector announced that it complies with local regulations and the social contract regarding boycotting dealing with various products produced by some countries as well as not dealing with products that do not match the values of religion (published in *Al-Watan* newspaper 8 and 9 August, 2010) (Al-Watan, 2010a, 2010b). This lends support to the prediction suggested by legitimacy and stakeholder theories that companies attempt to release more information regarding their social and environmental responsibilities in order to continue successful business.

E. Product/Services Items

There are statistically significant differences among user groups regarding four proposed information items, namely: "description of major products/services produced", "description of marketing network for finished goods/services", "contribution by companies of products/services to support the national economy", and "receiving awards as a result of increase in the quality of the company's products/services" (see Table 6.12-part D). The results of M-W tests, as shown in Table 16.13 (part-D), suggest statistically significant differences among FA and EA groups and FA and AC groups about the usefulness of the item, "description of major products/services produced" to be included in CARs. Moreover, the results indicated statistically significant differences between MR and EA groups and MR and AC groups, while there was a high level of consensus between FA and MR groups and EA and AC groups.

With regard to "the description of marketing network for finished goods/services" information, the AC group has a significant lower mean value in their rating of the usefulness of involving this item in annual reports than any of the other user groups. In addition, the results revealed significant differences in the MR and EA pairing about this item. More specifically, the MR group registered significantly higher agreement than the EA group with respect to this item, while no significant differences in views were found among the pairings of FA and EA, and FA and MR.

Concerning "contribution by companies of products/services", there is no difference between FA, AC, and EA groups in the usefulness attached to this item, while there is significant difference among the pairings of FA and MR, EA and MR, and MR and AC. There is significant difference between three pairings, FA and MR, EA and MR, EA and AC, in relation to "receiving awards". In contrast, the pairings of FA and EA, FA and AC, and MR and AC hold a similar view on the usefulness of this item. A general conclusion is that Kuwaiti users are probably more interested in the release of information about social corporate responsibility in the annual reports to satisfy their information needs.

Table 6.13: Comparison of Rating of Proposed Voluntary Items by User Group

Items of information	Means by Subject Groups				M-W Test					
	FA	EA	MR	AC	FA (sig) with EA	FA (sig) with MR	FA (sig) with AC	EA (sig) with MR	EA (sig) with AC	MR (sig) with AC
A. Information Related to Board										
Biography of senior executive management (education qualifications	4.37	4.03	4.57	4.03				***		**

and practical experience)										
Types of board committees	4.11	4.18	4.47	4.18		**		**		
Names of board committees' members	4.02	3.79	4.30	3.91	*			***		
Process for appointing board committees' members	3.80	3.64	4.20	4.09		*		**	**	
B. Information Related to Key Management										
Names of senior executive management	4.35	4.21	4.30	4.21	**			*		
Biography of board members (education qualifications and practical experience)	4.46	4.06	4.40	4.06	***		*	**		
C. Information Related to Employee										
Complying with national standards and national regulations concerning health and safety at work	4.17	3.85	4.17	4.03	**			*		
Giving financial assistance to employees to obtain or build upon academic/professional qualifications	3.98	3.58	4.20	3.91	*			**		
Number of employees trained yearly	3.83	3.48	4.13	3.88	*	*		***	*	
D. Social and Environmental Information										
Sponsoring educational seminars and conferences	4.00	3.67	4.17	3.85	*			***		
E. Information Related to Products/Services										
Description of major products/services produced	4.54	4.27	4.67	4.09	**		***	***		***
Description of marketing network for finished	4.13	4.06	4.30	3.76			**	**	**	***

goods/services										
Contribution by companies of products/services to support the national economy	3.93	3.91	4.33	3.97		**		**		*
Receiving awards as a result of increase in the quality of the company's products or services	4.02	4.06	4.37	4.24		*		**	*	

Regarding the quality of voluntary information, one financial advisor argued that:

> *"We are not looking for companies to disclose a lot of voluntary information as much as we prefer to obtain useful information which helps us to make investment decisions and/or recommendations".*

In this context, one accounting academic made a general criticism:

> *"To be able to use the voluntary information to make comparisons between companies regarding their performance, we need to standardise the types of voluntary information that could be released by companies in their annual reports".*

That view is shared by another accounting academic who indicated:

> *"The KSE could set out a list of voluntary information, as an optional list, and a clear system that listed companies may use and follow as a guideline when they would like to voluntarily reveal information about the company's aspects."*

This criticism can be answered with careful consideration of the definition of disclosure. Disclosure is actually a two-way mirror: mandatory and voluntary. Voluntary disclosure is defined as information, released in CARs, that is not specified by reporting requirements. Therefore, the existence of a guideline and standardisation on disclosure practices, as an indicative list, would transfer different categories of voluntary disclosure to categories of mandatory information. However, regulatory bodies may encourage listed companies to disclose more important information to users of annual reports to minimise the variations and the lack of voluntary disclosure among companies, so this may help to make an effective comparison between them.

6.2.6 Factors Affecting Corporate Information Transparency

According to Fung et al. (2003:36) "*transparency is an effective regulation only if it influences the performance of targeted organizations in the direction of a specified policy goal*". In the context of transparency, Nelissen (2007:15) claimed that "*when a market is transparent, all the players in the market possess the same information and* *thus have the same knowledge regarding some asset. However, the capital market is not a perfect one and therefore it is not entirely transparent*". Thus, it is expected that corporate transparency enhances confidence in the fairness of the capital markets and the value of listed companies. It has been argued that more voluntary disclosure of information increases the transparency of the company, reducing the information asymmetry between the company and outsiders (Cheung et al., 2010). Hence, the disclosure gap could be reduced by improving the level of disclosure as well as the level of information transparency provided by companies in their annual reports. To achieve this objective, information disclosed by companies should be reliable and comprehensive (Jaggi and Low, 2000).

The impetus of this question was to explore a set of factors that may influence the level of transparency of information released by KSE listed companies, in the view of user groups. Therefore, respondents were requested to rate their degree of agreement or disagreement about these factors (see Appendix 4). A five-point scale was used, where five indicates "strongly agree" and one indicates "strongly disagree".

Descriptive Analysis

It could be determined from Table 6.14 that the factors listed in the questionnaire received a considerable level of agreement from participants. This is clearly shown by the mean scores of factors, which reported above or around four and were confirmed by standard deviation (SD) scores. For the whole sample, the three main factors that may affect transparency on the KSE in the view of subject groups were as follows: "increasing mandatory disclosure requirements", "application of corporate governance best-practices", and "external auditors' reputation". The first two results are consistent with the view of Osei (1998), who stated that listed companies fulfil the regulations related to information disclosure, so it is expected that tighter disclosure requirements and corporate governance mechanisms have an important role in enhancing the transparency of information, leading to more protection of market participants, particularly minority shareholders (Meier-Schatz, 1986), and the fostering of confidence in capital markets as well. Thus, it is assumed that mandatory disclosure regulations have a beneficial impact on providing a better quality of information and this may promote confidence and fairness among market participants as well as facilitating informed decision-making. This is consistent with the main recommendations of international bodies regarding minority shareholder protection in Kuwait as an example of emerging markets (see Chapter 4, Section 4.5.1.1).

On the other hand, it is expected that the non-disclosure of important information may negatively influence investors' confidence in the capital market. In contrast, timely and accurate public disclosures of information enhance the economy's efficiencies (Baamir, 2008). Thus, it can be suggested that *"well-established disclosure requirements would in turn make fraudulent acts difficult to commit"* (Al-Wasmi, 2011:209).

Moreover, it is argued that the lack of CG guidelines and the lack of transparency levels contribute to the occurrence of financial crises such as the Asian crisis (Stiglitz, 1998; Harvey and Roper, 1999). Consequently, one important characteristic of a good capital market is the establishment of a good CG regime that may provide suitable protection for companies' shareholders' rights and maintain high levels of transparency and information disclosure (a Corporate Governance Survey of Listed Companies and Banks across the MINA, International Finance Corporation, 2008).

On the other hand, the result of "external auditors' reputation" lends support to the disclosure literature, showing that large audit firms are considered an important mechanism to reduce agency costs "the potential conflicts of interests". In addition, the role of auditors in auditing and monitoring companies' accounts contributes to minimising the opportunistic behaviour of company managers. Moreover, it seems that large audit firms are correlated with companies releasing more information in their annual reports (Jensen and Meckling, 1976; Watts and Zimmerman, 1983). Signalling theory suggests that companies acquire two types of benefits from their engagement with large audit firms. Firstly, the selection of an audit firm serves as "a good signal" for companies to strengthen their value and image among other companies. In this sense, Titman and Trueman (1986) and Craswell and Taylor (1992) stated that listed companies tend to select a Big 6 audit firm. Secondly, this selection serves as a signal that their financial statements are prepared in accordance with the IFRS and audited by an independent external auditor, which is also a signal to the participants of capital market of the quality of their annual report's contents. However, as mentioned in Chapter 4 (see Section 4.6.5), in Kuwait, an external auditor's appointment mostly depends on the recommendations of the board which represents the major shareholders of the company. As a consequence of this mechanism, the concept of independence may be impaired and so the regulatory authorities should revise the regulation related to this issue to strengthen the role of the auditor as a means to improve information transparency. This confirms the fact that the more voting shares held, the greater the potential power of the shareholder (Tricker, 2012).

Overall, groups of users registered least agreement with “the ability of market participants to assess the reliability of companies’ disclosure policies” and “capital market confidence” with mean values of 4.09 and 3.94, respectively. These results can be interpreted on the basis that user groups have some doubts about the disclosure policies adopted by companies, and an effective and efficient regulatory body “the capital market” may lead to improvement in the degree of information transparency. For example, one daily newspaper published news that a listed company won a tender. At the same time, the KSE denied this on its website; on a later day, the KSE confirmed this news. Such events influence the transparency of information (published in *Al-Watan* newspaper and on KSE’s website, 3 and 4 January, 2011) (Al-Watan, 2011a, 2011b). An interesting comment from a director with one of the “Big 4” audit firms stated that: *“The confidence of the capital market stems from transparency of information”*.

Table 6.14: Level of Agreement on Factors Affecting Corporate Information Transparency

Factors	Whole Sample		Rank	K-W
	Mean	SD		P-Value
Board reputation	4.31	.859	6	*
Senior executive management reputation	4.32	.793	5	
Company reputation	4.32	.737	4	
External auditors’ reputation	4.33	.870	3	
Capital market confidence	3.94	.866	9	
Source of information	4.18	.766	7	
Increasing mandatory disclosure requirements	4.52	.740	1	**
The ability of market participants to assess the reliability of companies’ disclosure policies	4.09	.592	8	
Application of corporate governance best practices	4.48	.701	2	

Hypothesis Testing

The K-W tests have been performed to identify whether there are statistically significant differences among target groups in terms of the usefulness attached to proposed factors (H7). The results suggest significant difference between the selected groups regarding two factors only, and this difference was related to "board reputation" and "increasing mandatory disclosure requirements" (see Tables 6.14). Thus, H7 is supported by the research results, with the exception of the two previous factors.

The results presented in Table 6.15 show no significant difference in opinion between the pairings of FA and EA, and FA and AC regarding the factor "board reputation", while there is a clear difference between FA and MR groups and EA and MR groups regarding this factor. However, EA and AC groups as well as MR and AC had a similar view about this factor. The results also indicated that members of the FA group gave more attention to this factor than the other three groups, implying that it plays an important role in their decisions. The MR group has a stronger belief that "increasing mandatory disclosure requirements" positively affects the level of corporate information transparency than EA and AC groups. However, there were no significant differences between the FA group and all other groups and EA and AC groups with regard to this factor. The transparency of accounting information in the Kuwaiti business environment has been characterised by the questionnaire participants in different aspects. A market regulator argued that *"accurate disclosures of information and on a timely basis are the dynamics of transparency. In addition, the existence of adequate laws and regulations regarding disclosure permits higher levels of transparency".* Another response from an audit partner with one of the "Big 4" audit firms implied that:

> "*The stringency of information transparency policies are influenced by different factors such as regulatory, political, economic, and competitive environment and the stage of capital market development. It may also be affected by ethics and norms of community, and principles of religion".*

Table 6.15: Comparison of Rating of Information on Factors that Affect Corporate Transparency by User Group

Factors	Means by Subject Groups				M-W Test					
	FA	EA	MR	AC	FA (sig) with EA	FA (sig) with MR	FA (sig) with AC	EA (sig) with MR	EA (sig) with AC	MR (sig) with AC
Board reputation	4.52	4.39	4.10	4.15		**		*		
Increasing mandatory disclosure requirements	4.61	4.39	4.80	4.29				***		**

6.2.7 Accounting Regulations in Kuwait

As discussed in Chapter 4, a number of international organisations, as well as academic researchers, have criticised the surveillance and enforcement bodies of the KSE since they intermingle with each other regarding their responsibilities and duties toward the KSE, and they have a shortage of powers. The first question of Section Five aims to explore the compatibility and consistency of the views of sophisticated users of annual reports with the conclusions of empirical studies that have been conducted to evaluate the legislative, regulatory, and financial reporting environment in Kuwait. It also aims to determine the importance of separating overseeing aspects from surveillance and trading aspects amongst regulatory bodies. To accomplish these objectives, all groups were given five options to convey their perception of importance, a five-point scale was used, five being "extremely important" and one "not at all important".

Descriptive Analysis

Table 6.16 presents the results of collected data regarding the importance of the separation of monitoring and surveillance among Kuwaiti regulatory bodies. The perception of importance "to reduce overlapping in the surveillance and enforcement functions among regulatory bodies of the KSE" is high (M = 4.11). This suggests high consistence with empirical research which, as discussed in Chapters 3 and 4, was conducted in Kuwait (e.g. Al-Shammari, 2005; Alanezi, 2006; HI and IIF, 2007). It should be noted that well-organised regulatory bodies have a positive impact on the verification of compliance with financial reporting and disclosure requirements and therefore this helps to guarantee the quality and quantity of accounting information included in CARs. In this regard, Fung et al. (2003:44) claimed that:

> *"The lesson of the recent financial disclosure crisis is abundantly clear. Without constant political oversight, careful attention to the benefits and costs surrounding disclosers and users, awareness of the impact of changes in the market and regulatory environments surrounding the disclosure system, and vigilant and well-funded enforcement efforts, the disinfecting power of disclosure soon fades".*

Hypothesis Testing

As can be seen from the result of K-W tests, there were no significant differences among the user groups (see Table 6.16). Thus, the result supports the null hypothesis that there is no statistically significant difference among user groups regarding the importance to "reduce overlapping in the surveillance and enforcement functions among regulatory bodies of the KSE" (H8). This indicates that the participants confirm the presence of interference in the work of the KSE's regulatory bodies. It also suggests that the responsibilities of the KSE Committee should be limited to administrative and organisational aspects of the Stock Exchange alone. However, monitoring and legislative tasks shall be assigned to another independent body such as a proposed Capital Markets Authority (CMA), as discussed in Chapter 4 (Section 4.3.6).

Table 6.16: Importance of Separation of the Monitoring and Surveillance among Regulatory Bodies

Statement	Whole Sample		K-W
	Mean	SD	P-Value
The importance level related to reduce overlapping in the surveillance and enforcement functions among regulatory bodies	4.11	.972	.509

The second question of this section explores the extent of agreement with added or modified procedures. These procedures were proposed by international organisations and developed to investigate their usefulness to strengthen the confidence of the KSE. Respondents from all groups were given five choices to express their level of agreement, using a five-point scale where five is "strongly agree" and one is "strongly disagree".

Descriptive Analysis

Table 6.17 shows general agreement that all proposed regulations and procedures in the question were considered crucial for enhancement of the KSE's confidence, in the opinion of participants. This can clearly be observed by the overall mean values of all statements, which reported above 4.45. On the other side, results indicate that "the improvement of skills of regulatory bodies' staff" was unanimously selected as the most useful procedure that can contribute to enhancing the confidence of the KSE, followed directly by "the Capital Markets Authority (CMA) should act as an independent body" and "an increase in the national disclosure requirements".

The establishment of the CMA is considered an important step toward avoiding the overlap of jurisdiction between the KSE, CBK, and MCI, and this is strongly consistent with the result of the previous question and the main outcomes of Chapter 4 (Section 4.8). For example, it should be efficient in terms of its capability to set rules and regulations which were not taken into account by the legislator. As another example, the CMA must have the ability to develop frameworks based on changes in the circumstances of the capital market, and rules can be developed to match and keep pace with the rapid developments taking place in other capital markets. It should not be overlooked that the establishment of the body and the selection of its members must be separate from the political process. In this sense, Fung et al. (2003:36) declared that: *"Systems that do not keep pace with changing markets and public priorities can become counter-productive".*

There is also a high level of consensus among the respondents about the importance of an "increase in the national disclosure requirements". This could be attributed to some listed companies not fully applying the law related to the disclosure of ownership structure and related parties. This also gives an indicator of weak laws enacted or published in this regard. Moreover, it could be interpreted that the failure of regulatory bodies to ensure the implementation of such laws is a result of the lack of qualified staff with enough practical experience to take over these tasks. The second reason is the shortage of staff, as mentioned in Chapter 4 (see Section 4.8). In general, these results move in the same direction as Al-Wasmi's study results (2011:115), regarding the regulations and laws that regulate the GC practices in Kuwait, which revealed that *"the related parties' transactions must be governed by provisions that ensure more transparency through imposing more disclosure requirements as regard the related parties transactions, which is in turn enhancing the supervision of non-controlling shareholders".* In this sense, it can be stated that good law may reduce the principle-agent problem (La Porta et al., 1997).

In effect, disclosure rules regarding "ownership structure and related-party transactions" may facilitate the control of self-dealing transactions and prevent opportunism or abusing in someone exercising her/his rights. On the other hand, disclosure requirements are considered a source for creating confidence in capital markets (Fung et al., 2003). According to Bushman and Smith (2003:1), *"Developing and maintaining a sophisticated financial disclosure regime is not cheap. Countries with highly developed securities markets devote substantial resources to producing and regulating the use of extensive accounting and disclosure rules that publicly traded firms must follow"*. In a disclosure context, a financial advisor indicated that "*there are three types of violation usually listed companies fall into as follows: related parties disclosures, breaching its main activities, and delay in submission of audited financial statements in a timely manner according to the laws governing this issue".*

In contrast, "an upgrade of the KSE website" and "setting up more precise/systematic procedures for listed companies", among other procedures, were rated the least preferred procedures, in the point of view of user groups, to foster the confidence and competitive status of the KSE.

Given that, it can be concluded that most user groups strongly believe that the proposed legislations were areas of concern, indicating that crucial steps should be taken by the Kuwaiti legislative and regulatory bodies to strengthen the confidence of the capital market as well as its competitive position among other emerging markets. In other words, the regulatory bodies of the KSE should commence a number of efforts and take major steps to develop and better regulate the KSE's regulatory environment as well as develop a legal framework related to the economic environment. For example, as addressed in Chapter 4, the CMA should be granted the power to act as an independent and neutral body; it should also be distanced from any political pressures. In this respect, it has been suggested that regulatory bodies such as the CMA should work as a single, independent authority away from the political sphere (Carmichael et al., 2004). The CMA should also have the power to set new regulations and/or amend existing regulations regarding the trading transactions in the KSE, listing rules, and disclosure requirements and so on. This may lead to achieving optimal protection of capital market's participants. Moreover, these regulations shall be precise and consistent with other existing resolutions such as the CCL in order to avoid any potential contradiction.

Table 6.17: Level of Agreement of Proposed Regulations' Influence on the Confidence Level of the KSE

Statements	Whole Sample		Rank	K-W
	Mean	SD		P-Value
The Capital Market Authority should act as an independent body to give strength to the monitoring function of the KSE's performance	4.66	.691	2	
The improvement of skills of regulatory bodies' staff that enhance the bodies' abilities to supervise and monitor in order to verify extent of compliance by KSE participants	4.67	.637	1	
An increase in the national disclosure requirements (e.g. ownership structure and related-party transactions)	4.59	.642	3	***
An upgrade of the KSE website to provide financial data and current company-specific information on a more timely basis	4.51	.542	4	
Setting of more precise/systematic procedures for listed companies to disclose information through the company/KSE's website	4.47	.637	5	*

Hypothesis Testing

K-W tests have been carried out to determine whether there are statistically significant differences in the amount of agreement among user groups regarding the assessment of a set of proposed statements or regulations (H9). As can be seen from Table 6.17, the results of K-W tests were significant at the 1% level with a value of .000. So, it can be concluded that there were significant differences between the selected groups regarding "an increase in the national disclosure requirements" and "setting up more precise/systematic procedures for listed companies to disclose information through the company/KSE's website statement" only. Hence, the results of the study support the hypothesis for all except the two previously proposed statements.

M-W tests were conducted to test the nature of the significant differences found through the K-W tests. The results (see Table 6.18) indicate that FA and MR groups have significantly higher degrees of consensus than EA and AC groups regarding the need for "setting up and/or revision of regulations regarding the national disclosure requirements on listed companies". In other words, there were statistically significant differences among the pairings of FA and EA, and of FA and AC, as well as among MR and EA, and MR and AC pairings with regard to this statement. It can be concluded that FA and MR groups strongly believe that disclosure proposals, in other areas such as disclosure on large transactions and major shareholders, would contribute to the build-up of public confidence in the KSE and that the application of tighter disclosure requirements would push the capital market toward better participants' protection and rights.

There is no statistically significant difference between the FA group and the other three groups on the usefulness of "setting up more precise procedures for listed companies to disclose information" as well as EA and AC groups, while the greatest differences between groups is between EA and MR groups and AC and MR. The results show that MR and FA groups assigned a high usefulness mean above 4.50 on this statement, indicating strong agreement on the usefulness of setting up more procedures to organise the dissemination of company information.

Table 6.18: Comparison of Rating of the Influence of Regulations on the Confidence Level of the KSE by User Group

Statement	Means by Subject Groups				M-W Test					
	FA	EA	MR	AC	FA (sig) with EA	FA (sig) with MR	FA (sig) with AC	EA (sig) with MR	EA (sig) with AC	MR (sig) with AC
An increase in the national disclosure requirements (e.g. ownership structure and related-party transactions)	4.83	4.39	4.77	4.32	***		***	***		**
Setting of more precise/ systematic procedures for listed companies to disclose information through the company/KSE's website	4.52	4.30	4.70	4.35				**		**

Based on respondents' answers, it can be stated that the development of the audit and accounting profession and the development of the annual reports' environment have a positive impact on, as well as playing a significant role in, improving the quality level of annual reports as well as the transparency level of information provided in them. Moreover, participants' responses and comments clearly show that the regulations regarding the audit profession need to be more organised and activated on the one hand and that there is a need for more co-operation between the regulator bodies and accounting and audit firms on the other. This could increase the level of investment in the KSE and make it a more competitive capital market among others in the region and Middle East. Thus, the results of Questions 1 and 2 in Section Five show convergence with the main conclusions of Chapter 4 concerning a need to improve the KSE's regulatory and legislative environment.

The last question of this section aims to explore the views of user groups regarding the ability to apply some issues which were recommended by an international organisation (e.g. The HI and the IIF CG survey (2007) in Kuwait; see Chapter 4) and developed based on their importance for the growth of the capital market. Moreover, these issues were recognised as an important gap in the development of the legislative and economic environments in Kuwait. To achieve this end, subjects were asked to rate the degree of difficulty of ten proposed statements on a five-point scale, five being "no difficulties" and one “very difficult”. Table 6.19 provides a summary of responses.

Descriptive Analysis

Looking at the means in Table 6.19, survey respondents show considerable worry on the ability of application of “restriction of the role of family members in senior management” and “a mechanism should be established that would stimulate a public offer when ownership exceeds 35”. This was clearly reflected by the mean scores, which reported around 2.75 or less. This may be due to the fact that the Kuwaiti legislator grants companies the freedom to recruit appropriate persons for their management, and regulations like these need to be revised or some existing resolutions cancelled in the CCL to avoid any possible contradiction.

On the contrary, respondents show limited concern regarding the ability of application of eight remaining statements. For example, the result of “investor education programmes” is consistent with the view that investors, as shareholders in Kuwait, an example of an emerging market, suffer from lack of experience regarding the capital market issues, their duties and rights as shareholders, and the best corporate governance practices and benefits (Al-Wasmi, 2011). So there is a need for such programmes to educate them. A number of participants noted some critical remarks that should be taken into account by the regulators of the capital market as follows: one Accounting Academic commented on the educational programmes:

> *“There is no problem in setting up educational programmes, but the problem lies in the acceptance of the proposed ideas and suggestions in these programmes by participants, since the acceptance of proposed recommendations is usually dominated by a number of factors such as interest of parties, cultures, norms, and educational level of the participants of the capital market”.*

One financial advisor revealed that:

> *“The educational programmes should be directed to develop the knowledge of individual investors who should learn many important issues such as which companies’ shares they can buy, when they can buy shares and the logical reasons which lead to changing the prices of companies’ shares instead of depending on imprecise news and rumours to buy/sell shares”.*

One market regulator highlighted the role of government in corporate governance and suggested that:

> *“The principles of corporate governance are imported through international bodies and developed capital markets, so it is normal that there are some obstacles in applying these principles. In addition, regulatory bodies of the KSE need to consider the possibility of practically applying corporate governance. They should also link with the*

ability of the participants involved and be consistent with the local regulations and rules. Hence, it is important to run some orientation and educational seminars in order to understand the perceptions of expert and well-educated persons regarding the proposed frameworks".

On the other hand, one external auditor provided a useful suggestion for the way in which most auditors view the Kuwait Association of Accountants and Auditors as follows:

"Regarding the Kuwait Association of Accountants and Auditors, the law did not give it the required legal status as a professional and independent body like the rest of the associations in the region. Furthermore, the law did not provide the required and necessary powers to practise its responsibilities properly, so a Kuwaiti legislator should reconsider with respect to the important role of this association in the development of the accounting and audit profession".

The above responses and results may be explained by the following: there are only limited difficulties in applying these educational programmes and seminars in the Kuwaiti business environment. In addition, the Kuwaiti shareholder needs more attention from regulatory bodies, professional unions, and public associations to be able to understand the shares culture and be aware of the rights guaranteed by the legislator in order to exercise her/his rights in the General Meetings of companies in which s/he owns shares. In fact, the Kuwaiti legislator concentrates on equality and fairness in the treatment of shareholders of listed companies; however, the government and other interested parties still need to promote and activate this culture among Kuwaiti investors.

Regarding appropriate environment for applying the corporate governance code, participants from the financial advisor, external auditor and accounting academic groups have pointed to listed companies needing around three years or slightly less to be able to harmonise with new code requirements.

As mentioned in Chapter 4 (see Section 4.5.2), Kuwaiti law is silent on board composition and the balance between executive and non-executive directors. Based on the CCL, the processes of appointing directors and voting for important resolutions require approval from a specific number of shareholders who attend the General Meeting. However, these issues are governed by major shareholders since they own a significant percentage of the company's shares. Some participants have a different opinion in this regard. One financial advisor indicated that:

"A balance of executive and non-executive directors on the board can be achieved through government ownership since it owns a significant percentage of shares in a number of leading companies listed on the Kuwait Stock Exchange."

In this sense, the appointment of independent and non-executive directors on the company's board is deemed one of the important CG mechanisms that should be considered by regulatory bodies in capital markets such as the KSE. The OECD Steering Group on Corporate Governance suggested that the existent of this type of directors on the board would enhance fairness in making board decisions (2010:10):

> *"The board should consider assigning a sufficient number of non-executive board members capable of exercising independent judgments to tasks where there is a potential for conflict of interest. Examples of such key responsibilities are ensuring the integrity of financial and non-financial reporting, the review of related party transactions, nomination of board members and key executives, and board remuneration".*

Another financial advisor suggested:

> *"The establishing union of minority interest can help to integrate their perspectives, work for their interests, and protect their rights. Indeed, it guarantees the existence of representatives of minority interests in the board rooms and in the General Meeting."*

Table 6.19: Level of Difficulty of Application of Proposed Corporate Governance Mechanisms

Statements	Whole Sample		Rank	K-W
	Mean	SD		P-Value
Corporate governance codes that are designed to strengthen board practices should be implemented, and they should be modified to match the Kuwaiti business environment, if necessary	3.57	.990	7	**
The Kuwaiti Association of Accountants and Auditors should be involved in the process of adopting governance codes	4.17	.966	3	
Education programmes should be set up to enhance the education and awareness of boards regarding the importance of corporate governance	4.35	.841	1	
Education programmes should be set up to foster a culture of shared awareness among investors	4.22	.883	2	
A mechanism should be established that would stimulate a public offer when ownership exceeds 35	2.72	1.207	9	
Senior management and board remuneration should be linked with company performance	4.17	1.000	4	**
One-third of board members should be non-executive, and the majority of them should be independent	3.57	1.248	8	
Independent and non-executive directors should be present to form a quorum for board meetings	3.65	1.182	6	
There should be audit, nomination and compensation committees for all companies listed in the KSE	4.08	1.058	5	*
Restriction of family members' role in senior management	1.99	1.094	10	

Hypothesis Testing

K-W tests were carried out for each of the ten statements to determine whether there were significant differences in the agreement scores among the four groups regarding the possibility of implementing the proposed statements (H10). The results in Table

6.19 show statistically significant differences among respondents regarding their opinions about the possibility of implementing three issues only, namely: “CG codes”, “senior management and board remuneration should be linked with company performance”, and “board committees”. But there were no statistically significant differences in users’ opinions regarding the remaining seven statements. Consequently, H10 is supported by the research findings, with the exception of the previous three issues. To verify the nature of the significant differences found through the K-W tests, M-W tests have been performed between all possible pairs of groups.

It can be noticed from Table 6.20 that the MR group has significantly higher degrees of consensus than FA and EA groups regarding the possibility of implementing the “CG codes”. However, the MR group is similar to the AC group concerning this issue. There are no significant differences among FA, EA, and AC groups.

On a different point, the MR group has significantly higher degrees of consensus than EA and AC groups regarding the ability to apply “linkage of senior management and board remuneration with company performance”. Moreover, the results indicated no statistically significant differences among FA group and other subject groups as well as among the EA and AC pairing regarding this topic. M-W tests illustrated that MR group and the others differ significantly in their perception concerning the ability to “the establishment of board committees”. From this, the fact can be reinforced that the MR group has more faith than the others regarding the possibility of the application of board committees in Kuwait. However, there were no significant differences among user groups, FA, AC, and EA, in terms of this item.

Table 6.20: Comparison of Difficulty of Application of the Proposed Corporate Governance Mechanisms by User Group

Statements	**Means by Subject Groups**				**M-W Test**					
	FA	EA	MR	AC	FA (sig) with EA	FA (sig) with MR	FA (sig) with AC	EA (sig) with MR	EA (sig) with AC	MR (sig) with AC
Corporate governance codes that are designed to strengthen board practices should be implemented, and they should be modified to match the Kuwaiti business environment, if necessary	3.35	3.33	4.07	3.65		***		***		
Senior management and board remuneration should be linked with company performance	4.20	4.06	4.60	3.85				*		***
There should be audit, nomination and compensation committees for all companies listed in the KSE	4.09	3.82	4.47	4.00		*		**		**

6.3 SUMMARY AND CONCLUSION

The main purpose of this part of the study was to examine the importance, of the annual reports of Kuwaiti listed companies and their sections, to the users of information in making decisions and/or recommendations. Moreover, this study explored groups' perceptions toward the usefulness of voluntary disclosure and of proposed voluntary disclosure items to be included in annual reports. Finally, it explored the effect of these proposed factors on information transparency and of different aspects such as regulatory bodies and regulation environment on improvement in KSE confidence. Four user groups were invited to participate in this survey: (1) financial advisors, (2) external auditors, (3) market regulators, (4) accounting academics.

The major findings indicated that the majority of participants strongly agree that annual reports of Kuwaiti listed companies are an important primary source of information in the decision-making process. The statement of financial position was unanimously selected as the most important section of the annual report, followed by the income statement, then the statement of cash flow. Non-financial sections of the reports, such as chairman’s letter and management report, were rated less important. Therefore, it can be concluded that non-financial sections do not provide useful information to help annual report users in making decisions.

Regarding the essential qualitative characteristics of accounting information contained in companies’ annual reports, most respondents considered that corporate information has the following characteristics: “consistency, relevance, and comparability”, which positively influence the quality of annual reports. However, a delay in “timeliness” in publishing annual reports by companies listed on the KSE was clear from the results, possibly indicating great concern among user groups regarding the extended time lag in some listed companies’ current practices. As a consequence, this could affect the quality of information as well as the annual report as a source of information.

The majority of respondents strongly agree that the current level of voluntary information disclosed by listed companies is low. Results clearly implied that voluntary disclosure is useful to users of accounting information in different areas, such as in improving both the usefulness of corporate annual reports as a source of information for decision making and the level of confidence in decision making.

Overall, the analysis of collected data supports all proposed information items included in the questionnaire as being useful to be shown in the CARs. There is a notable level of agreement among target user groups about the need for extra voluntary items to be included. This may help to fill the disclosure gap between the preparers and the information needs of the majority of users, as well as leading to a sense of there being sufficient information. These items were essentially related to different aspects of corporate governance disclosure (e.g. board and key management) and company products/services which respondents expect to improve the quality of disclosure in annual reports. However, the results suggest some differences in the views of respondents regarding the usefulness of specific items.

On the other hand, all the factors included in this questionnaire were seen to affect transparency, in the view of respondents. However, “increasing mandatory disclosure requirements, “application of corporate best practices”, and “external auditors’ reputation” were deemed the three most significant factors affecting the degree of information transparency.

Finally, a well-established legal and regulatory system was considered to be a cornerstone of any capital market, since, by imposing proper penalties, it can provide sufficient protection for market participants against any violation in practices. Results also indicated a consensus among groups regarding the need for both a sophisticated capital market infrastructure and comprehensive regulations to help foster confidence in the capital market and protect market participants. Despite this agreement among respondents, there was a sense of concern and suspicion regarding the ability to apply some of the proposed issues. The next chapter discusses the extent of voluntary disclosure practices in the annual reports of non-financial companies listed on the KSE for the years 2005-2008. It also shows the results of the impact of explanatory variables on voluntary disclosure.

Table 6.21: The Association between Objectives, the Related Research Questions and the Developed Hypotheses

The objective	The related research question	The developed hypothesis
To discover the major corporate information sources for user groups in Kuwait. To determine how annual reports stood among these sources, and to determine how user groups rate annual reports' sections.	1. What is the attitude of user groups towards the importance, to their informed economic decisions, of CARs as a source of information and their sections?	H1 and H2
To investigate the extent to which information included in annual reports possesses qualitative criteria.	2. What are the perceptions of the different user groups regarding the qualitative characteristics of information in the Kuwaiti CARs?	H3
To determine how different user groups evaluate the current level of corporate voluntary disclosure in Kuwait.	3. How do different user groups evaluate the current level of voluntary disclosure in Kuwaiti CARs?	H4
To elicit users' perceptions on the usefulness of voluntary information disclosure such as its vital role in making a comparison with other companies and investment decisions.	4. What are the perceptions of different user groups toward the usefulness of voluntary disclosure?	H5
To determine the usefulness of a set of proposed information items to be disclosed.	5. How do different user groups rate the voluntary information items, and which of these items are preferred or recommended to be disclosed in the Kuwaiti CARs?	H6
To draw a conclusion about the factors that may affect the degree of information transparency provided by Kuwaiti listed companies.	6. What are the most important factors that may affect the degree of transparency of information provided by Kuwaiti listed companies?	H7
To elicit users' perception on the importance of separation of 'overseeing' aspects from 'surveillance' and 'share trading' aspects amongst regulatory bodies.	7. What are the perceptions of the various user groups in Kuwait regarding the importance of reducing overlap in the supervision and monitoring activities among regulatory bodies?	H8

To measure the level of satisfaction of major user groups regarding the usefulness of a number of procedures that should be set out by the Kuwaiti government.	8. What type of regulations or procedures should be set or modified by the Kuwaiti legislator to foster levels of competition and investment in the KSE?	H9
To measure the level of consensus among major user groups about the degree of difficulty associated with the application of some issues related to corporate governance in the Kuwaiti business environment.	9. What type of issues related to corporate governance best practice are considered to be highly difficult to apply in the Kuwaiti business environment?	H10

CHAPTER SEVEN: EMPIRICAL RESULTS: DISCLOSURE LEVEL AND ITS DETERMINANTS

CHAPTER SEVEN

EMPIRICAL RESULTS: DISCLOSURE LEVEL AND ITS DETERMINANTS

7.1 INTRODUCTION

The purpose of this chapter is to discuss the last three objectives of the study (see Chapter 1, Section 1.2). It aims to examine the research hypotheses in relation to a set of factors (CG mechanisms and company characteristics). In other words, it analyses the factors influencing voluntary disclosure practices in Kuwait. This chapter also assesses and analyses the level of and trend of voluntary disclosure practices in the annual reports of Kuwaiti listed companies through using a developed self-constructed checklist for the years 2005-2008. As mentioned in Chapter 5, the checklist consists of 49 information items; they are organised into four main categories of information to cover different forms of voluntary disclosure. The assessment of voluntary disclosures takes three dimensions. Firstly, it provides a comprehensive description and analysis of overall voluntary disclosure. Secondly, it covers the extent to which individual items included in the index are disclosed in the annual reports of the study sample. Thirdly, it focuses on the categories of information.

This chapter is organised as follows. Section 7.2 presents the reliability and validity of the disclosure index. Section 7.3 provides the analysis of voluntary disclosures levels and trends (based on the three dimensions mentioned above). Section 7.4 presents a descriptive analysis of the independent variables. A summary evaluating the validity of the regression models is reported in Section 7.5, while Section 7.6 presents the statistical results and discussion of multivariate regressions. Section 7.7 offers a summary of the regression analysis of the categories of information. Finally, conclusions are summarised in Section 7.8. At the end of this chapter, a summary of objectives, research questions, and hypotheses presented in Table 7.12.

7.2 ASSESSMENT OF THE VALIDITY AND RELIABILITY OF THE DISCLOSURE INDEX

Following the design and construction of a study instrument(s), the most important step is to assess the ability of the instrument to measure what it is intended to measure. This can be achieved through employing reliability and validity tests. It is noteworthy that "*a measure cannot be valid unless it is reliable, but a measure can be reliable but not valid*" (Tharenou et al., 2007:152). In this context, studies attempt to maximise the reliability and validity of their measures, and this is considered an important part of empirical studies (Tharenou et al., 2007).

One of the major objectives of the second empirical study in this research is to assess the overall level of voluntary disclosure and its categories in the annual reports of Kuwaiti companies. Consequently, a disclosure index is a useful technique to assess the extent of information released in annual reports, as it meets the conditions of validity and reliability tests (Marston and Shrives, 1991). Disclosure studies have employed different forms of validity and reliability tests to make useful inferences about the goodness of a measuring instrument.

The objective of this section is to assess the validity and reliability of the voluntary disclosure index (VDIND). The validity assessment is performed by content validity. This refers to whether VDIND includes adequate information items that tap the areas of study interest. Content validity can be estimated through several methods such as a review of literature and discussions/interviews with individuals who have knowledge about the phenomenon under study. Attestation of content validity of the VDIND was carried out and discussed in Chapter 5 (see Section 5.13).

The reliability of an instrument means its ability to provide similar results over time when the study is conducted under similar circumstances (Joppe, 2000). In addition it indicates the capability of different items to hang together as a set in an index measuring the same concept (Sekaran, 2003). The Cronbach's coefficient alpha (α) is a common approach in gauging the reliability of an index and is frequently used in the disclosure literature. It is defined as "*internal consistency reliability among a group of items combined to form a single scale. It is a reflection of how well the different items of information included in the index complement each other in their measurement of different aspects*" (Litwin, 1995:24). It is important to indicate that testing the internal consistency of the disclosure index provides some indications regarding the validity of the disclosure results (Hussainey, 2004). Thus, the reliability of the constructed VDIND was assessed by using Cronbach's coefficient alpha.

Cronbach's alpha reliability is an internally consistent instrument and Cronbach's alpha coefficients are computed upon the average correlation among the items. Therefore, the closer Cronbach's alpha is to 1, the higher value of coefficient alpha indicates the higher the reliability of scale (Sekaran, 2003). Cronbach's alpha was calculated for the full list of items of information (49 items and 206 observations); the alpha value was .79.

According to guidelines by George and Mallery (2003), this is a good subscale when rounded to .80. In other words, the result indicates a good degree of the reliability of the internal consistency of the study's instrument. Table 7.1 presents the Cronbach's coefficient alpha (α) for the VDIND.

Consequently, it can be concluded that the VDIND satisfies the requirements of reliability and validity tests, which provides a considerable degree of confidence and credibility to conduct the second part of this empirical study.

Table 7.1: Cronbach's Alpha for Voluntary Disclosure Index

Scale	No. of items	α
Voluntary disclosure index	49	.79

7.3 THE STUDY RESULTS

7.3.1 The Descriptive Statistics [Dependent Variable]

7.3.1.1 The Assessment of Overall Voluntary Disclosure

Before examining the effect of corporate governance attributes and company characteristics on the voluntary disclosure practices of listed companies, it is wise first to analyse the change in the trend of the overall level of voluntary disclosure over the study period.

Several descriptive statistics are calculated for the overall index (VDIND) including the mean, median, standard deviation (SD), minimum, and maximum of the scores over the years. Table 7.2 shows that the overall levels of voluntary disclosure scores are generally low, although they gradually improve over the years. It also indicates that the mean of overall voluntary disclosure level over the four years is 23%. In other words, on average, a company disclosed 23% of the 49 items included in the disclosure index. In general, this is considered to be low, as compared with disclosure scores reported in literature (see the next paragraph). This result suggests that Kuwaiti companies release specific items of information as well as preferring not to disclose a great deal of information. In addition, Kuwaiti companies are part of the Kuwaiti business environment, so they can be influenced by the culture and norms of the community in which they operate. Therefore, these companies tend to be conservative in their disclosure choices. Dahawy and Conover (2007) declared that national cultural values and secrecy in a country may affect accounting practices, more specifically the policy and extent of disclosure.

The statistical results also provide some useful insights into the change trend on the overall level of voluntary disclosure of non-financial listed companies from 2005 to 2008. Over the course of four years, the level of overall mean voluntary disclosure ranged from 20% in 2005 to 26% in 2008. This indicates some improvements in the overall level of voluntary disclosure in the annual reports of Kuwaiti companies under investigation. The SD ranged from 0.07 in 2005 to 0.11 by 2008. Overall, the minimum score was 10% in 2005 and 2006, while the maximum score was 69% in 2008 with a range of 59%. The high values of the SD and minimum and maximum over the study period suggest a large variation in the amount of information disclosed voluntarily by companies. Figure 7.1 displays the levels of overall mean voluntary disclosure over the years.

When compared with previous studies, the level of overall voluntary disclosure is similar to that shown by Alanezi (2011), who found the average level of voluntary disclosure by Kuwaiti companies in 2007 was 22%. However, it is slightly higher than reported by Al-Shammari and Al-Sultan's (2010) study (19%), which was also conducted in Kuwait. Neverthess, in comparison with other countries, this level of voluntary disclosure is lower than that reported in previous studies (e.g. Leventis and Weetman, 2004 in Greece (37%); Ghazali and Weetman, 2006 in Malaysia (31%); Alsaeed, 2006 in Saudi Arabia (33%); Hossain and Hammami, 2009 in Qatar (37%); Al-Janadi et al., 2012 in Saudi Arabia and UAE (36%)). It is higher than Ferguson et al.'s (2002) Hong Kong study (13%). A comparison among studies must be made with caution, since the checklists of components differ and the studies were conducted in different periods of time.

Table 7.2: Descriptive Statistics for Disclosure Index

Year	No. of Comps.	Mean	Median	SD	Min.	Max.
2005	52	0.20	0.20	0.07	0.10	0.45
2006	52	0.21	0.20	0.07	0.10	0.36
2007	51	0.26	0.24	0.09	0.14	0.53
2008	51	0.26	0.24	0.11	0.12	0.69
Overall (Pooled)	206	0.23	0.22	0.09	0.10	0.69

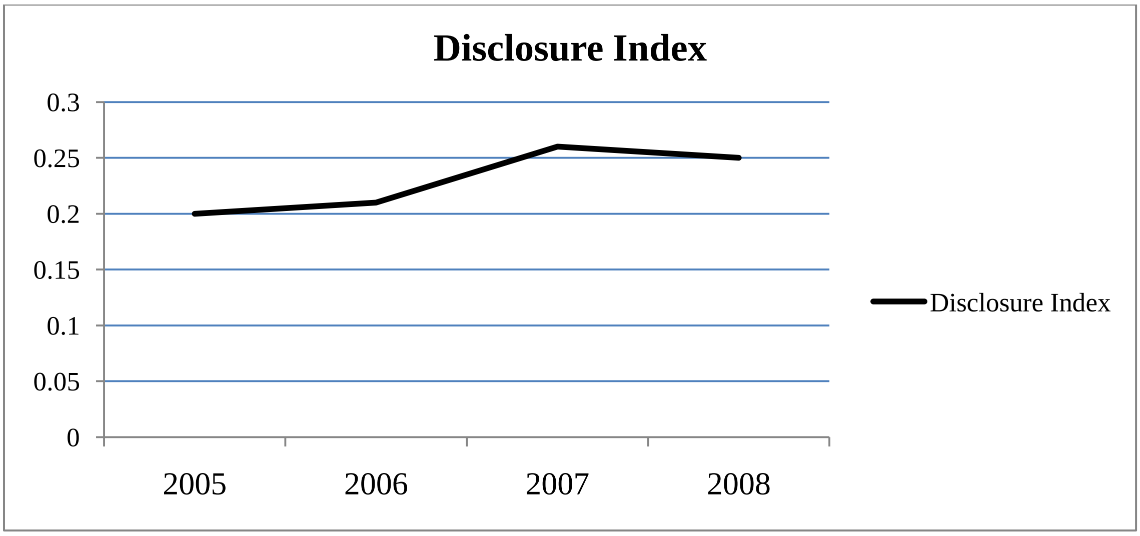


Figure 7.1: Trends of Disclosure Index across Four Years

7.3.1.2 Disclosure Level of the Individual Item

Table 7.3 lists all 49 items comprising the VDIND, which are organised into four categories of information. It also provides the total number of companies reporting each item as well as the level of disclosure of each item. In other words, it presents a frequency distribution of information items. The table indicates the following:

1. The level of disclosure of individual information items ranges from .005% to 97%.

2. Seven items out of the total 49 items, which comprise the VDIND, were disclosed by 80% or more of the examined companies. Examples of such items of information are as follows: “name of directors” and “positions held by executive directors”.

3. Only one item was disclosed by 65% of companies; this was “information on major types of products/services produced”.

4. Four items were disclosed by 45% to 50% of the companies. Examples of such items are: “general outlook of the economy” and “statement of strategy and objectives”.

5. Only one item was disclosed by 39% of companies. This item was: “leverage ratios”.

6. Three items were disclosed by 24% of companies such as “financial highlights/financial summary” (3 yrs/+).

7. Only two items were disclosed by 20% of companies, and these were as follows: “planning for introducing new products/services’ development” and “description of marketing network for finished goods/services”.

8. Thirty-one items, representing 63% of items included in the index, were disclosed by 17% of companies or less.

The above results clearly indicate considerable variations in the disclosure scores of the 49 items, leading to the conclusion of significant variation in the amount of voluntary disclosure by companies in their annual reports as well as the extent of disclosure among the voluntary items included in the index. The next section presents an additional discussion regarding the disclosure practices in the CARs and this is achieved through the analysis of disclosure for the four categories of information that make up the VDIND.

Table 7.3: Number of Companies Disclosing an Item and Disclosure Level of Items

	Voluntary Disclosure Items	No. of comp. disclosing an item	Dis. level of items (%)
A	**Corporate Environment**		
	General Information about the Surrounding Environment		
1	General outlook of the economy	97	0.47
2	General outlook of the industry	182	0.88
3	Information about political developments	18	0.09
	General Corporate Information		
4	Brief narrative history of company/company profile (other than legal history)	98	0.48
5	Description of organizational structure	6	0.03
	Specific Corporate Information and Strategy		

6	Statement of strategy and objectives	93	0.45
7	Discussion of competitive position of the company	23	0.11
	Market Related Information and Investor Relations		
8	Market capitalization at year end	2	0.01
9	Market capitalization trend	1	0.005
10	Share price at year end	8	0.04
11	Share price trend	7	0.03
12	Web page address	188	0.91
13	Geographical distributions of shareholders	2	0.01
B	**Corporate Financial Performance and Future Prospects**		
	Financial Review Information		
1	Profitability ratios	188	0.91
2	Liquidity ratios	102	0.5
3	Leverage ratios	80	0.39
4	Financial highlights/Financial summary (3 yrs/+)	50	0.24
5	Information on the company’s dividends policy	200	0.97
	Forward-Looking Information		
6	Sales (revenues)/profit forecast	4	0.02
7	Adopted basis underlying the forecasts	1	0.005
8	Planning for introducing new products/services development	41	0.20
9	Planned capital expenditure	164	0.80
C	**Corporate Governance Information**		
	Information About Board of Directors		
1	Name of directors	182	0.88
2	Education and/or professional qualifications of the executive directors	3	0.01
3	Education and/or professional qualifications of the non-executive directors	3	0.01
4	Business experience of the non-executive directors	3	0.01
5	Business experience of the executive directors	4	0.02
6	Positions held by executive directors	180	0.87
	Information about Top Management		
7	Top management’s names (e.g. CEO, CFO, COO [Operating Officer], FM, Head of Internal audit [HID])	49	0.24
8	Management’s education and/or professional qualifications	2	0.01

9	Business experience of top management	2	0.01
10	Positions held by top management	49	0.24
11	Responsibilities and authorities assigned to top management	2	0.01
D	**Corporate Social and Environment Information**		
	Employee Information		
1	Recruitment policies (e.g. equal opportunity, diversity, supporting national manpower)	13	0.06
2	Number and categories of employees by department for the last two years/ +	4	0.02
3	Percentage of Kuwaiti employees in the company	4	0.02
4	Company policy on learning & education programme (L & E) and required continuous education programme (CEP) points for each employee	14	0.07
5	Statement on employees' training programme provided by the company	11	0.05
6	Number of employees trained yearly	4	0.02
7	Information about employees' workplace health and safety, also data on workplace accidents	1	0.00
	Community Involvement and Environmental Information		
8	Statement of corporate social responsibility	17	0.08
9	Information on community involvement/participation (e.g. sponsoring/ donations of social, education, health campaigns/programmes)	13	0.06
10	Statement of environmental policy	8	0.04
11	Information on environmental activities/participations (e.g. ISO/ environmental, energy, and recycle campaigns/programmes)	7	0.03
	Product/Service Information		
12	Information on major types of products/services produced	133	0.65
13	Description of marketing network for finished goods/services	41	0.20
14	Contribution by companies of products/services to support the national economy	5	0.02
15	Developments regarding products/services	34	0.17
16	Receiving quality awards as a result of increase in the quality of the company's products/services	16	0.08

7.3.1.3 Categories of Information

The objective of this section is to provide an assessment of disclosure practice scores for each category of information included in the VDIND. As previously discussed, this index is split into four main categories. Category A, including 13 items, concerned the surrounding environment, background of companies, and capital market information (see Table 7.3). As seen from the results reported above, "web page address" was the highest disclosed item of this category by companies under investigation. This was followed by “general outlook of the industry”. In the competitive context, it may be argued that competitors do not pay attention to the disclosure of information regarding the surrounding environment and general corporate information since they do not have a significant value in the concept of competition. However, companies may be able to produce this type of information at low cost and it is already available to the public in other sources of information. These reasons may explain why Kuwaiti listed companies have a high level of disclosure of this information in their annual reports. In contrast, the item of lowest disclosure in this category was “market capitalization trend”, followed directly by “market capitalization at year end”. It is obvious that non-financial companies do not pay enough attention to capital market information since they may believe users of CARs obtained this type of information from other sources such as the KSE’s website or bulletins, or the company’s website. In addition, company management may expect that this information is known by user groups. They may also consider that this type of information is out-dated when annual reports are published. However, CARs are deemed an important source of information for users of accounting information in all capital markets such as the KSE.

Category B, regarding financial information on the company and forward-looking information, included 9 items. Among these, “information on the company’s dividends policy” was the item registering the highest amount of disclosure by companies. This was followed by “profitability ratios”. This is because this type of information is associated with low proprietary costs; also, financial ratios are already produced by companies for internal objectives such as evaluating company performance over the years. The item, “adopted basis underlying the forecasts” showed the lowest disclosure. The second worst item was “sales/profit forecast”. Overall, the group regarding forward-looking information seems the weakest point of voluntary disclosure in Category B. There are two possible explanations for this. Firstly, forward-looking statements involve a lot of assumptions and predictions; Kuwaiti companies do not pay much attention to releasing information about their plans and expectations since they do not want to bear responsibility toward any parties in the case of failure to achieve those expectations. In other words, the most important reason for the weakness in disclosing this group of information is to avoid potential political effect. Secondly, Kuwaiti companies tend not to release forward-looking information for competitive reasons. A further explanation is that, as well as being affected by world economic instability, Kuwait has suffered some internal political instability, making it difficult to give an accurate assessment on projections of future performance.

Category C involved 11 items of information related to the educational and practical background of company key personnel including board of directors and management as elements of good CG. Evaluation of individual disclosure items under this category indicated that the “name of directors” item was disclosed the most by companies in their annual reports over the years. The second most-disclosed item was “positions held by executive directors”. Most of the other items were disclosed by less than 5% of the companies over the years. The exceptions were “top management’s names” and “positions held by top management”. On average, levels of disclosure for category C are about 21% for a period of four years (2005-2008), representing almost 5% of the total items of the index. This category was expected to receive the lowest level of disclosure. From one side, it suggests that the disclosure level of category C neither reaches stakeholders’ aspirations nor satisfies their needs, especially those of minority shareholders, and on the other side, Kuwaiti companies in the sample make limited effort to disclose information regarding CG in their annual reports since they may consider such items as internal information. Therefore, companies listed on the KSE should pay more attention to disclosing detailed information on their CG practices since CG disclosure is a topic of interest to a great deal of users of annual reports. Management will definitely find high demand among shareholders regarding this information.

Category D, which contained 16 items, concerned corporate social and environmental responsibilities. The most highly disclosed item in this category was “information on major types of products/services produced”, while the least-disclosed were as follows: “Information about employees’ workplace health and safety”, “number and categories of employees by department for the last two years/+”, “percentage of Kuwaiti employees in the company”, “number of employees trained yearly”, and “contribution by companies of products/services to support the national economy”. The results also indicate that most non-financial companies do not report or declare information regarding their social responsibilities and environmental policies. A possible explanation is the lack of awareness in Kuwaiti companies concerning their responsibility toward society and the environment. In other words, management may consider this group of information as less important for themselves. Another possible reason is that companies do not pay enough attention to social and environmental responsibilities information since they recognise that it is not relevant to making economic decisions. Given this and based on the fact that the mean of overall voluntary disclosure value is only 23%, it can be suggested that Kuwaiti companies have a long way to go. More effort must be made to achieve competitive levels of voluntary disclosure in annual reports such as those of companies listed on different capital markets.

Table 7.4: Trends of Categories of Information over Time

Year	Category A	Category B	Category C	Category D
2005	0.26	0.34	0.20	0.08
2006	0.26	0.35	0.21	0.09
2007	0.27	0.56	0.21	0.11
2008	0.29	0.54	0.21	0.10
Overall (Pooled)	0.27	0.45	0.21	0.10

Table 7.4 presents a summary of mean values for each category of information over time. Category B had the highest mean score in the VDIND in each year. In other words, it was considered the most frequently disclosed category in CARs, followed by Category A. The direction of disclosure related to the latter category is consistent with previous disclosure studies conducted in developing countries (e.g. Barako, 2007; Al-Shammari, 2008; Hossain and Hammami, 2009). However, companies listed on the Athens Stock Exchange (ASE) disclose more information of this type (Leventis and Weetman, 2004). Regarding the second group under Category B, "the voluntary disclosure level of forward-looking information" was poor; a similar result was found in the disclosure literature of others, such as McNally et al. (1982) and Barako (2007). An interesting result is that Kuwaiti companies released more financial review information than their competitors in Greece (Leventis and Weetman, 2004). Concerning Category C, companies did not disclose a lot of information about their CG practices, a result which is consistent with Barako (2007) and Hossain and Hammami (2009). Conversely, this score is lower than reported in other developing countries (e.g. Al-Janadi et al., 2012). Category D had the lowest mean category in the VDIND in each year. This trend was reported by Al-Shammari (2008) and Hossain and Hammami (2009). This low level of social disclosure is similar to the results reported by Al-Janadi et al. (2012) concerning listed companies in the UAE and Saudi Arabia. However, Kuwaiti

companies tend to release more information about their social responsibilities than other companies listed in the Egyptian Stock Exchange (Samaha and Dahawy, 2010; Samaha and Dahawy, 2011). Year 2008 marked the highest amount of disclosure for Category A, with 2007 marking the high point for categories B and D. Figure 7.2 below confirms the results presented in Table 7.4 and shows considerable variations among the different categories of information over years.

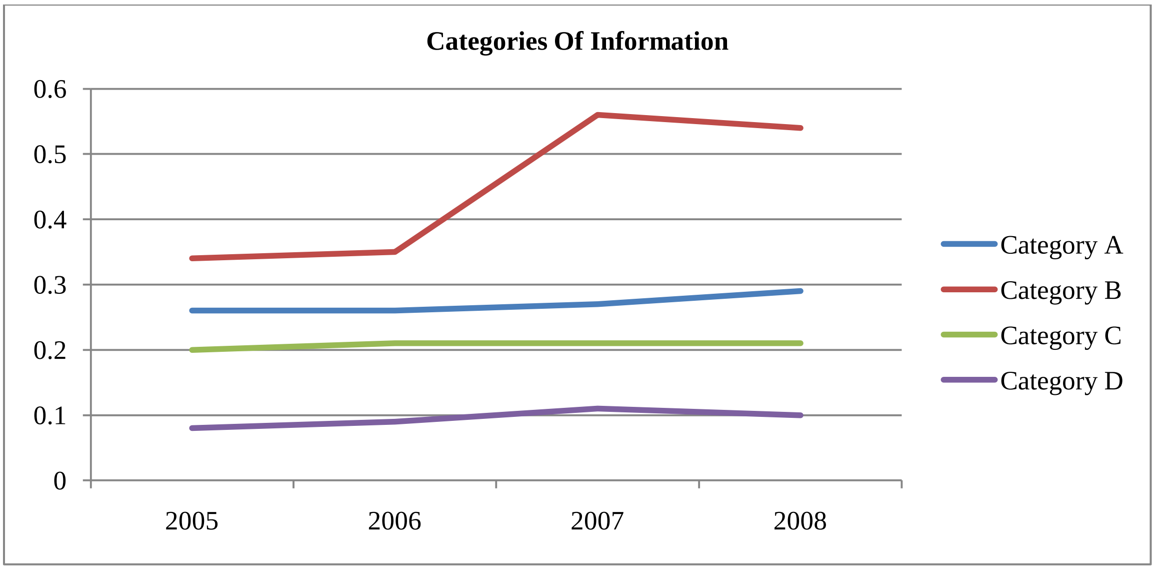


Figure 7.2: Trends of Categories of Information over Time

7.4 THE INDEPENDENT VARIABLES OF THE STUDY

7.4.1 Descriptive Statistics

To conduct the second part of this empirical study, 15 independent variables were used. These were divided into two types: continuous and discrete or categorical variables. The continuous variables were percentages of the corresponding attributes, except for the board size variable which is a count variable (see Table 7.5), whilst the other variables are defined as binary variables, which take on the value one if the corresponding attribute is present and zero if it is absent (see Table 7.6). These variables were selected to determine the factors influencing the voluntary disclosure practices of Kuwaiti companies, which may be called the dependent variable.

Table 7.5 presents descriptive statistics for independent continuous variables for overall period. The percentage of non-executive directors on the board ranged from 60% to 100%. The average was 87% (SD = 9%). This enables the effect of this variable on the extent of voluntary disclosure to be explored, since it is expected that the higher the proportion of non-executive directors on the board the more voluntary information is released by the company. Regarding the cross directorships, these ranged from 0% to 100%, averaging 56% for the sample companies (SD = 34%). This indicates a remarkable percentage of directors who are involved in more than one board. The percentage of family members on the board ranged from 0% to 100%, averaging only 31% for all companies (SD = 20%). This offers a good opportunity to explore the significant role of family members in explaining the deviations in annual reports' disclosures. The total number of directors on the board ranged from three to 11 members. The mean of board size was 6.44, with SD 1.65. The percentage of government ownership ranged from 0% to 30%, averaging only 2%, with SD 7%. Company size ranged from KD 3406 thousand to KD 5500000 thousand, with an average of KD 250048 thousand (SD = 620146.70). Leverage for the companies ranged from 1% to 78%, averaging 37%, with SD 19%. Growth of the companies ranged from only 0.30 times to 42.10 times, averaging only 1.61 (SD = 3.08). The profitability variable ranged from 41% to 66%, averaging only 7%, with SD 12%. The probability statistics indicated a negative return on assets (ROA) as an accounting performance measure, implying that a number of sample companies achieved a loss on specific year/s.

The individual independent variables were examined for normality. Normality is defined as having a skew between +2 and -2, and kurtosis being between +7 and -7 (Kline, 2005). The variables "proportion of government ownership", "company size", "company growth", and "profitability" violated the normality assumption, and had skew/kurtosis values outside the acceptable range. The largest offenders, "company size" and "company growth", were transformed with the natural log to bring them closer to normality. Concerning the logarithm transformation of company size variable, it is a common transformation used in relevant research such as Al-Shammari and Al-Sultan (2010) and Alanezi (2011).

Table 7.5: Descriptive Statistics for Independent Continuous Variables

Continuous Variables	Mean	SD	Skew	Kurtosis	Min.	Max.
Corporate Governance Attributes						
Percentage of non-executive directors on the board	0.87	0.09	-0.25	3.32	0.60	1.00
Cross directorships	0.56	0.34	-0.03	1.75	0.00	1.00
Percentage of family members on the board	0.31	0.20	0.49	3.19	0.00	1.00
Board size	6.44	1.65	0.55	3	3	11
Percentage of government ownership	0.02	0.07	2.95	10.77	0.00	0.30
Company Characteristics						
Company size	250048	620147	5.65	40.08	3406	5500000
Leverage	0.37	0.19	-0.07	2.09	0.01	0.78
Company growth	1.61	3.08	11.61	148.94	0.3	42.1
Profitability	0.07	0.12	-0.18	8.47	-0.41	0.66
Company size (transformed)	11.35	1.37	0.37	3.13	8.13	15.51
Company growth (transformed)	0.25	0.47	3.11	20.92	-1.2	3.74

Turning to discrete variables, descriptive statistics were conducted on the discrete independent variables for each year and overall. Table 7.6 presents the frequency and percentages for these variables. Overall, 43% of the sample companies had the chief executive officer (CEO) appointed as the chairman of the board of directors at the same time. On average, only 17% overall had an audit committee. In 2007, for example, there was a significant increase in the number of sample companies that had established an audit committee. Of companies' boards, 22% included directors who belonged to the ruling family. Overall, only 11% of the companies under investigation are cross listed, or 11% of the research sample is listed on more than one capital market. The results in Table 7.4 also show that cross listing made a sudden jump in 2007 since it increased from 0% to 13% and continued to increase gradually during the years of study. Companies were categorised into two economic sectors: manufacturing and non-manufacturing. While 64% were manufacturing companies, the remaining were non-manufacturing companies. Most of the companies (60%), overall, were audited by an audit firm affiliated with one of the Big 4 international audit firms, which the remaining were not.

Table 7.6: Descriptive Statistics for Independent Discrete Variables

Discrete Variables	2005		2006		2007		2008		Overall (Pooled)	
Corporate Governance Attributes	**No. Comp.**	**%**	**No. Comp.**	**%**	**No. Comp.**	**%**	**No. Comp.**	**%**	**No. Comp.**	**%**
Role duality	23	0.44	24	0.46	22	0.43	20	0.39	89	0.43
The existence of audit committee	3	0.06	3	0.06	14	0.27	14	0.27	34	0.17
The presence of ruling family on the board	14	0.27	13	0.25	9	0.18	10	0.20	46	0.22
Company Characteristics										
Cross listing	0	0.00	7	0.13	8	0.16	8	0.16	23	0.11
Type of Industry	33	0.63	33	0.63	32	0.63	33	0.65	131	0.64
Type of auditor	33	0.63	30	0.58	32	0.63	29	0.57	124	0.60

It must be noted that the results related to the "percentage of non-executive directors on the board", "role duality", and "the establishment of an audit committee" show variation in corporate governance practices among the examined companies, since the Commercial Company Law (CCL) does not specify any corporate governance provisions as guidelines that organise these practices (as discussed in Chapters 4 and 5). This is despite the commissions of capital markets in developed countries and international bodies calling for these mechanisms to be involved as a vital part of the promotion of good corporate governance implementation.

7.5 EVALUATING THE VALIDITY OF THE MODELS

In the previous two sections the statistical analysis aimed at a description of the dependent and independent variables, capturing their main features. In this section, our objective is to explore the impact of the independent variables on the dependent variable. Recall that the dependent variable involved several measures of the voluntary disclosure behaviour of listed companies (the overall disclosure level and measures of four categories of information, as indicated earlier). The independent variables, on the other hand, were several measures of corporate governance attributes and company characteristics, of which nine variables were of the continuous type and six were of the discrete type.

Before choosing a suitable regression model, it is important to carry out a set of regression diagnostic tests to examine the dataset collected; those are represented by the multi-collinearity, variance inflation factors (VIF), heteroscedasticity, and autocorrelation tests. This is followed by the Hausman test to determine the relevant statistical model, as the main method (fixed effects [FE] or random effects [RE] regression models) of performing the analysis of collected data. The next section discusses these issues.

1. Correlation Matrix

Pearson and Spearman correlations are conducted between the independent variables and dependent variable. Pearson correlations are typically conducted between continuous variables, while Spearman correlations are typically conducted between ordinal variables. Spearman correlations are the non-parametric alternative to the Pearson correlation that uses the ranks of the values instead of the values themselves (Pallant, 2010). Table 7.7 presents the output of a correlation matrix for these variables. In this respect, the results of correlations of both types may assist in assessing the linear and non-linear relationships among examined variables.

The Pearson and Spearman correlations agreed on significance and direction (if significant) for all correlations except for the proportion of non-executive directors on the board and board size with the extent of voluntary disclosure. Table 7.7 shows a positive correlation for the Spearman correlation only at the 5% level. Pearson and Spearman coefficients indicate that seven out of fifteen independent variables are correlated with the dependent variable, as represented by the overall level of voluntary disclosure in the annual reports of Kuwaiti non-financial companies. The initial conclusion is that those variables may explain the variation of the VDIND. Three of them are related to corporate governance mechanisms: “percentage of government ownership”, “the existence of an audit committee”, and “the presence of the ruling family”. The other four independent variables are represented by company characteristics, namely: “cross listing”, “company size”, “leverage” and “type of auditor”. Those variables are all positively correlated with the overall level of voluntary disclosure. This implies the existence of potentially useful relationships between the extent of voluntary disclosure and those seven independent variables. In other words, this suggests that, as the independent variables increased, the amount of voluntary disclosure in the CARs also increased.

To examine whether the independent variables in the regression models are dependent on each other, Pearson and Spearman correlations were used again. Table 7.8 presents the correlation coefficients (*r*) of Pearson and Spearman for all independent variables, where Spearman correlations are reported above the diagonal and Pearson correlations are shown below. The table shows that the correlation coefficients of Pearson and Spearman were quite similar except for a limited number of independent variables. For the Pearson correlation, for example, there is a positive correlation between "percentage of non-executive directors on the board" and "type of industry", while the Spearman correlation does not reveal this relationship. As can be seen from Table 7.8, correlation coefficients (*r*) between independent variables range from 0.00 to 0.54 with p-values (*p*) from 0.99 to 0.00. Since the largest correlation coefficient among independent variables is 0.54, this suggests that multi-collinearity does not exist among those variables. In this regard, the multi-collinearity in the data is severe and affects the regression analysis when the correlation coefficient between the independent variables exceeds 0.80 (Gujarati, 2003), or it can be considered that a multi-collinearity problem exists when the correlation between the two variables is 0.90 or above (Bowerman and O'Connell, 2003).

Table 7.7: Pearson and Spearman Correlations: Overall Voluntary Disclosure and Independent Variables

Independent Variables	Pearson (*r*)	Pearson (*p*)	Spearman (*r*)	Spearman (*p*)
Percentage of non-executive directors on the board	0.07	0.34	0.14*	0.04
Cross directorships	-0.02	0.82	-0.06	0.40
Percentage of family members on the board	0.04	0.57	0.04	0.61
Board size	0.08	0.24	0.14*	0.05
Percentage of government ownership	0.42*	0.00	0.28*	0.00
Role duality	-0.07	0.32	-0.01	0.90
The existence of audit committee	0.18*	0.01	0.17*	0.01
The presence of ruling family on the board	0.19*	0.01	0.15*	0.03
Cross listing	0.29*	0.00	0.24*	0.00
Company size®	0.48*	0.00	0.40*	0.00

Leverage	0.33*	0.00	0.32*	0.00
Company growth®	-0.06	0.38	0.01	0.92
Profitability	-0.03	0.63	0.07	0.34
Type of industry	-0.08	0.25	0.02	0.75
Type of auditor	0.18*	0.01	0.20*	0.00

Note. * $p < 0.05$.

® The company size and company growth variables are expressed in natural logarithm.

Table 7.8: Pearson and Spearman Correlation Results

Ser.	Independent Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1	Percentage of non-executive directors on the board	-	0.03	-0.07	0.50*	0.18*	-0.30*	0.07	0.19*	-0.12	0.08	-0.16*	-0.17*	0.00	0.11	-0.03
2	Cross directorships	0.06	-	-0.10	-0.01	0.05	0.08	0.04	0.06	-0.07	0.25*	0.00	0.03	-0.05	-0.01	-0.05
3	Percentage of family members on the board	-0.11	-0.08	-	0.11	0.06	0.16*	-0.09	0.13	0.00	0.05	0.24*	-0.03	0.11	0.04	0.06
4	Board size	0.23*	0.00	0.04	-	0.35*	0.03	0.11	0.22*	0.02	0.38*	0.11	0.01	0.03	-0.01	-0.01
5	Percentage of government ownership	0.13	0.09	0.03	0.30*	-	0.10	0.15*	0.22*	0.27*	0.50*	0.12	0.07	0.10	-0.03	0.10
6	Role duality	-0.32*	0.07	0.19*	0.04	0.06	-	-0.15*	-0.02	0.22*	0.16*	0.09	0.07	0.11	0.07	-0.09
7	The existence of audit committee	0.05	0.03	-0.12	0.12	0.18*	-0.15*	-	0.04	0.09	0.10	0.09	-0.03	-0.04	-0.15*	-0.01
8	The presence of ruling family on the board	0.16*	0.06	0.09	0.20*	0.30*	-0.02	0.04	-	-0.19*	0.28*	0.06	-0.06	0.10	0.02	0.32*
9	Cross listing	-0.11	-0.07	-0.01	0.01	0.11	0.22*	0.09	-0.19*	-	0.33*	0.25*	0.13	0.00	0.01	-0.18*
10	Company size®	0.02	0.27*	0.00	0.36*	0.54*	0.14*	0.09	0.28*	0.34*	-	0.45*	0.24*	-0.12	0.08	0.03
11	Leverage	-0.21*	0.00	0.17*	0.09	0.11	0.09	0.10	0.07	0.24*	0.43*	-	0.03	-0.27*	-0.30*	0.17*
12	Company growth®	-0.13	-0.04	-0.11	-0.05	0.01	-0.02	-0.03	-0.09	0.05	0.16*	-0.08	-	0.38*	0.04	-0.12
13	Profitability	0.01	-0.04	0.14*	0.00	0.06	0.08	-0.04	0.09	-0.04	-0.07	-0.26*	0.30*	-	0.04	0.12
14	Type of industry	0.14*	-0.01	0.07	0.02	-0.12	0.07	-0.15*	0.02	0.01	0.04	-0.29*	-0.07	0.04	-	-0.26*
15	Type of auditor	-0.06	-0.06	0.02	0.01	0.18*	-0.09	-0.01	0.32*	-0.18*	0.04	0.16*	-0.10	0.10	-0.26*	-

Note. * $p < 0.05$.

® The company size and company growth variables are expressed in natural logarithm.

2. The Variance Inflation Factor

Variance inflation factors (VIFs) were further used in the current study to detect the existence of a multi-collinearity problem in the dataset. In other words, this gauges the extent to which every independent variable in the model can be explained by the other independent variables. If VIFs are above 10, multi-collinearity is present (Stevens, 2009). The VIFs ranged from 1.14 to 3.15 for the variables and the mean VIF is 1.52; thus the VIF result verified the absence of multi-collinearity. Table 7.9 below shows the variance inflation factor for each of the explanatory variables.

Table 7.9: Variance Inflation Factors for Independent Variables

Independent Variable	VIF
Percentage of non-executive directors on the board	1.37
Cross directorships	1.24
Percentage of family members on the board	1.20
Board size	1.32
Percentage of government ownership	1.77
Role duality	1.31
The existence of audit committee	1.14
The presence of ruling family on the board	1.41
Cross listing	1.45
Company size®	3.15
Leverage	1.95
Company growth®	1.38
Profitability	1.33
Type of industry	1.40
Type of auditor	1.36
Overall Mean VIF	1.52

Note. ® The company size and company growth variables are expressed in natural logarithm.

3. Heteroscedasticity

To assess for heteroscedasticity in the model, a Breusch-Pagan test and White's (1980) test were conducted. The results of both tests were significant at 1%: χ^2 (1) = 69.31, $p < .001$ and χ^2 (1) = 192.49, p < 0.0002, respectively. This suggests that the assumption of homoscedasticity is not met for the regression.

4. Autocorrelation

To assess for autocorrelation, a Durbin-Watson test was conducted. The results showed a d-statistic of 1.72. A d-statistic of 2 indicates no autocorrelation present, while there is cause for alarm with a statistic of less than 1 (Gujarati, 2003). As the statistic is 1.72, there is no cause for alarm and no autocorrelation is assumed. To confirm these results, a Durbin's alternative test was conducted and the results were not significant, χ^2 (1) = 1.17, *p* = .281, suggesting no autocorrelation present. Further, a Breusch-Godfrey LM test was also conducted; again, the results were not significant, χ^2 (1) = 1.26, *p* = .261, suggesting no autocorrelation present.

5. Endogeneuity problem

To detect for endogeneuity, GMM C test and Wu-Hausman test were employed and the results of statistics were significant. The GMM C and Wu-Hausman tests respectively with χ^2 (11) = 13.83, *p* = 0.243 and F (11) = 1.242, *p* = 0.266 suggest that model is exogenous.

6. Hausman Test for Random or Fixed Effects

A Hausman test was conducted to assess whether a fixed effects model or a random effects model should be used as the main regression model in the present study. The results were insignificant, χ^2 (15) = 11.80, *p* = .694, suggesting that the random effects model is more appropriate to use in this case.

7.6 ANALYSIS OF REGRESSION RESULTS

7.6.1 Random Effects Model (The Main Model)

The random effect (RE) regression model was conducted, and its results, which suggest a significant relationship between the dependent variable (voluntary disclosure) and the core independent variables, are presented in Table 7.10. A Wald test with χ^2 (15) = 125.47 ($p < 0.00$) and 40% (R^2) suggested that the variance in voluntary disclosure is largely explained by the index of independent variables included in the model. The explanatory power of the regression model is considered to be higher than reported by Eng and Mak (2003) [20%], Ghazali and Weetman (2006) [36%], and Chau and Gray (2010) [29.3%]. However, it is lower than reported by other relevant studies, such as Ho and Wong (2001) [42%], Akhtaruddin et al. (2009) [56%], and Al-Shammari and Al-

Sultan (2010) [61%]. The individual predictors in the regression model were examined and their significance levels are also reported.

Unexpectedly, the direction of the association between “cross directorships” and overall level of voluntary disclosure was found significant and negative at the 10% level. This suggests that a company with a higher proportion of directors who have directorships on other companies’ boards tends to have a lower level of voluntary disclosure in their annual reports. The results therefore do not support rejection of the null hypothesis (H12). This contradicts the findings of Alanezi (2011), who reported a positive association between the extent of voluntary disclosure and cross directorships for the listed companies in Kuwait. Also, it is inconsistent with Haniffa and Cooke (2002), who reported no association between those variables. One possible explanation for this is that board members with cross directorships in other companies, who are expected to be knowledgeable about the implementing of voluntary disclosure practices by other companies listed on the KSE, and have the power to apply these practices in their companies, seem to be more interested and focused in monitoring their interests in other companies as well as positively contributing to the company management and board supervision, than in taking benefits from their positions to improve the voluntary adoption of better disclosure policies and practices.

The next significant corporate governance variable in the model was “board size”. It was found to be negatively associated with the overall level of voluntary disclosure, suggesting that as the number of directors on the board increased, the companies tended to have a lower voluntary disclosure level. The null hypothesis (H11) is rejected at 1% level of significance, suggesting a negative correlation in between board size and the level of VD practices. Previous relevant studies showed a positive influence (e.g. Denis and Sarin, 1999; Lim et al., 2007; Akhtaruddin et al., 2009; Ghazali, 2010). In contrast, some empirical studies (e.g. Cheng and Courtenay, 2006; Alanezi, 2011; Samaha et al., 2012) did not reveal a significant effect of “board size” on voluntary disclosure practices. An inference might be drawn that, at a practical level, the priorities, concerns, and responsibilities of company boards in Kuwait, especially companies with larger boards, are to help to improve the performance of the company and activate the role of board supervision. Thus it can be suggested that the larger boards of listed companies in Kuwait do not pay enough attention to the importance of implementing voluntary reporting and its quality.

The “percentage of government ownership” is an important predictor of the extent of voluntary disclosure. It is considered to be the most significant variable among other corporate governance variables and the second most important variable in the model. This result lends to support for the suggestion that “companies with a higher level of government ownership released a higher level of voluntary information in their annual reports”, indicating better corporate governance practices. This association is consistent with the results of Eng and Mak (2003); and Jiang and Habib (2009) regarding Singapore and New Zealand listed companies, respectively. Considering this, the null statement (H17) of no relationship between government ownership and the level of VD is confidently rejected at 1% level of significance. i.e. there exists a positive association between the extent of voluntary disclosure and government ownership in Kuwaiti corporate annual reports. In this respect, it can be stated that the Kuwaiti government should do act to activate its important role in improving the adequacy of voluntary disclosure and its transparency through the remarkable existence of their representatives on boards in a number of leading companies listed on the KSE.

The evidence stemming from the RE regression model leads us to reject the null hypothesis (H13) of no negative relationship between role duality and the extent of voluntary disclosure behavior in Kuwaiti corporate annual reports at 5% level of significance. It suggests that companies appointing the CEO as board chairman are more likely to disclose less information in their annual reports than companies with no such position. Literature offers some empirical evidence concerning the negative relationship between those variables (for example, Haniffa and Cooke, 2002; Gul and Leung, 2004; Chau and Gray, 2010). In contrast, this variable did not appear to be statistically significant in explaining the VD practices of companies (e.g. Arcay and Vazquez, 2005; Cheng and Courtenay, 2006; Ghazali and Weetman, 2006; Yuen et al., 2009; Al-Shammari and Al-Sultan, 2010; Alanezi, 2011). This result leads to the conclusion that the regulator, such as the Capital Markets Authority (CMA), should set a regulation that focuses on separating the positions of the board chairman and the CEO, as an optimal mechanism which is followed by many listed companies in different capital markets and in line with best corporate governance practices. Thus companies will be more likely to be motivated to disclose more information to stakeholders, leading to greater transparency.

Among explanatory variables included in the RE regression model, four predictors belonged to corporate governance (“percentage of non-executive directors on the board", "percentage of family members on the board", "the existence of an audit committee", "the presence of ruling family on the board") were not significant in explaining the variation in voluntary disclosure practices. Therefore, the results' study fails to reject the null hypotheses (H14, H15, H16 and H18) at 10% level of significance. It is noteworthy that "the presence of non-executive directors on the board" and "the existence of an audit committee" are considered important corporate governance mechanisms that a number of international bodies, as discussed in Chapter 4, call for or encourage companies to pay attention to. This is because they have a positive impact on companies and stakeholders in different ways, such as providing adequate protection for minority shareholders' interests and ensuring the timely flow of relevant information to the public. In the case of Kuwait, as an example of an emerging country, the appointment of non-executive directors is more likely due to their personal connections or family ties than their skills, practical experience, and level of academic education. This may affect the directors' effectiveness, as discussed in Chapters 4 and 6. The obtained results seem to confirm the previous conclusions and show some doubt about the reality of the non-executive directors' concept, as independent members, on Kuwaiti company boards. This insignificant relationship may also open the door for Kuwaiti regulatory bodies to pay more attention to the composition of boards and sub-committees in order to activate the crucial role of those variables in improving the monitoring of financial reporting, the level of VD and its transparency, and control systems (e.g. Ho and Wong, 2001; Haniffa and Cooke, 2002; Cheung et al., 2010; Samaha et al., 2012). On this topic, Lim et al. (2007) declared that companies with more independent boards tend to disclose more voluntary information that is forward-looking and strategic.

From the other side, it is expected that the "percentage of family members" variable did not appear to influence voluntary disclosure practices, since family members have the power to obtain all relevant information about the companies by virtue of their positions so they tend not to disclose information above the mandatory requirements in CARs. Thus, Kuwaiti companies with more family members on the board lean more to the conservative side in dissemination of information.

As expected, the results indicated that "cross listing", the second most important company characteristic, was statically related to the extent of voluntary disclosure in the CARs. Therefore, this result is consistent with the proposition that VD may be driven by cross listing. Thus, the null hypothesis (H25) of no positive relationship between cross listing and the level of VD is rejected at 5% level of significance. This suggests "cross listing" had a positive impact on the level of disclosure in annual reports of non-financial companies in the KSE. Consequently, the result is consistent with the studies of Hossain et al. (1995), Meek et al. (1995), Cooke (1998), Ferguson (2002), Gul and Leung (2004), and Cheung et al. (2010). It has been argued that governance practices are significantly influenced by "cross listing" (Arcay and Vazquez, 2005). "Company size" was dominated and strongly associated with the extent of voluntary disclosure, which leads to rejection of the null hypothesis (H19) of no relationship between company size and the extent of VD at 1% level of significance. Among the significant variables, it was the most significant predictor for level of overall disclosure. This is consistent with results in other recent studies, such as those of Ferguson et al. (2002), Gul and Leung (2004), Al-Shammari (2008), Hossain and Hammami (2009), and Chau and Gray (2010).

Lastly, there was a negative association between "company growth" and overall level of disclosure. In other words, as company growth increased, the voluntary information provided by companies in their annual reports tended to decrease. This result does not lend support to the theoretical prediction or mechanism that companies tend to disclose more voluntary information to the public to reduce information asymmetry and agency costs and to obtain more stakeholders' confidence regarding their superior performance and information reported in their annual reports. Moreover, this result does not support the view that a great deal of information is disseminated by companies in other sources of information such as the media, shown later in annual reports (Lang and Lundholm, 1993). Consequently, the null hypothesis (H24) of no positive association between company growth and the level of VD is rejected, suggesting that there is a negative association between the company growth and the VD. The magnitudes of the estimates were used to rank the significant variables with respect to their relative increase/decrease in voluntary disclosure levels. "Company size" appeared to have the largest effect of all independent variables, followed by "percentage of government ownership", then by "cross listing", and so on (see the figures between parentheses in Table 7.10). It should be noted that further discussion and explanation regarding obtaining the previous results will be provided in Section 7.7.

Moreover, none of the other predictors belonging to company characteristics ("leverage", "profitability", "type of industry", and "type of auditor") appear to be significant as well as not appearing to be significant in influencing disclosure behaviour.

However, based on the above discussion, it can be declared that the RE model supports the rejection of the null hypotheses [11, 13, 17, 19 and 25].

Table 7.10: The Results of Random Effects Model vs Fixed Effects Model and Pooled Regression Model

	Random Effects			**Fixed Effects**			**Pooled Regression–Robust with best for Heteroscedasticity**		
Independent Variables	***B***	***Z***	***P***	***B***	***t***	***P***	***B***	***t***	***P***
Percentage of non-executive directors on the board	0.06	0.89	0.37	0.04	0.64	0.52	0.06	1.04	0.30
Cross directorships	-0.03	-1.97 (4)	0.05*	-0.03	-1.80 (4)	0.07*	-0.03	-2.17 (6)	0.03**
Percentage of family members on the board	0.01	0.49	0.62	0.01	0.32	0.75	0.01	0.56	0.58
Board size	-0.01	-2.47 (7)	0.01**	-0.01	-2.14 (6)	0.03**	-0.01	-2.44 (7)	0.02**
Percentage of government ownership	0.25	2.54 (2)	0.01**	0.30	3.00 (2)	0.00***	0.25	1.95 (2)	0.05*
Role duality	-0.02	-2.13 (6)	0.03**	-0.02	-2.22 (7)	0.03**	-0.24	-1.72 (4)	0.09*
The existence of audit committee	0.02	1.35	0.18	0.00	0.31	0.76	0.02	1.03	0.31
The presence of ruling family on the board	0.00	0.22	0.82	0.01	0.64	0.52	0.00	0.24	0.81
Cross listing	0.04	2.28 (3)	0.02**	0.04	2.27 (3)	0.02**	0.04	1.54 (3)	0.13
Company size®	0.03	4.04 (1)	0.00***	0.02	3.43 (1)	0.00***	0.03	3.75 (1)	0.00***
Leverage	0.05	1.26	0.21	0.04	1.17	0.24	0.05	1.46	0.15
Company growth®	-0.02	-2.02 (5)	0.04**	-0.02	-1.80 (4)	0.07*	-0.02	-1.76 (5)	0.08*
Profitability	0.03	0.72	0.47	0.07	1.33	0.19	0.03	0.82	0.41
Type of industry (manufacturing sector)	0.00	-0.28	0.78	0.00	-0.42	0.68	0.00	-0.25	0.81
Type of industry	0.02	1.51	0.13	0.01	1.25	0.21	0.02	1.61	0.11

Note. The figures between the parentheses represent the rank of variables based on *its z/t*-value. The higher the value, the higher the relevance of the variable to disclosure practices. * $p < 0.10$; ** $p < 0.05$; and *** $p < 0.01$. ® The company size and company growth variables are expressed in natural logarithm. Robust standard error is applied in all models.

7.6.2 Additional Tests

7.6.2.1 Fixed Effects Model

The fixed effects (FE) model was conducted for a sensitivity test; its results are reported in Table 7.10. The results for the RE model were compared to the FE model; comparisons of coefficients and p-values for each predictor are presented in the Table 7.10. The R^2 for the FE model was slightly less than the random effects: the fixed effects model's R^2 was approximately 39%, compared to almost 40% for the random effects model. When comparing the RE coefficients to the FE ones, there were differences in the level of significance. The FE model results were similar to that of the RE model with respect to significant variables that affect the disclosure practices, except for "cross directorships", "board size", "the percentage of government ownership" and "company growth" variables. "Cross directorships" and "company growth" showed conservative behaviour under the FE model, but not under the RE model, since they had significant effects on the overall level of voluntary disclosure at the 10% level. Moreover, the outcomes of the FE model showed the coefficient estimates for the "percentage of government ownership" variable significant at the 1% level in the FE model instead of 5% level in the RE model. However, the opposite conclusion can be drawn for the "board size" variable. Aside from this, there were only minimal changes in the beta coefficients; however, the directions of the signs of the estimates of all independent variables in both models were consistent with each other.

7.6.2.2 The Pooled Regression Model

For a further robustness check, the pooled regression model was conducted and its results were compared with the random effects model. The 40% (R^2) value for the pooled robust model was the same as obtained for the RE model. Comparing the RE coefficients to the pooled regression ones shows some differences in terms of the level of significance of the explanatory variables. The results of the RE model were similar to those of the pooled regression model in terms of significant variables that had an impact on disclosure practices, except for some explanatory variables. "Board size" and "the percentage of government ownership" were significant predictors in the RE model with a 1% significance level; however, the level of significance of these variables in the pooled model was 5%. "Duality" and "company growth" were significant predictors in the RE model at the 5% level, but they seemed to have conservative behaviour, since they were significant in the pooled robust model at the 10% level. Lastly, "cross listing" was a significant predictor in the RE model at the 5% level, but not significant in the pooled model. Comparisons of coefficients and p-values for each predictor are presented in Table 7.10.

7.7 REGRESSION ANALYSIS OF VOLUNTARY DISCLOSURE CATEGORIES

Four additional random effects regression models were conducted to determine the factors (independent variables) that may influence the components of voluntary disclosure (Categories A, B, C and D of information were presented as a dependent variable, alternatively; see Section 7.3.1.3 for more information). These investigating factors were related to corporate governance attributes and company characteristics. Table 7.11 presents the coefficient of R^2, beta coefficients, and p-values for the RE regression models.

As can be seen from Table 7.11, the explanatory power, as indicated by the respective R^2, of each regression model varied among the four categories of information. The R^2 ranged from 23% for Category C to 37% for Category D, whereas 25% and 34% were recorded for Categories A and B, respectively. Consequently, these statistics show that the ability of the regression models in explaining the deviation in the individual categories of information as well as the overall level of voluntary disclosures. The empirical findings also showed many differences in significance within the explanatory variables. Moreover, the results indicated that determinants of voluntary disclosure behaviour varied among the four categories of information that are included in the disclosure index. Meek et al. (1995), Al-Shammari (2008), and Chau and Gray (2010) found similar results with respect to listed companies in the US, the UK, Continental Europe, Kuwait and Hong Kong.

With respect to corporate governance attributes, the results of four RE regression models showed that "percentage of non-executive directors on the board" was negatively related to Category A "voluntary disclosure of corporate environment information" at the 5% level but positively related to Category C "voluntary disclosure of corporate governance information" at the 1% level. The positive association indicates that having a higher percentage of non-executive directors on the board positively contributes to improving corporate governance disclosure in CARs. Most importantly, this type of director pays more attention to the importance of CG attributes and so may assist company management to implement best corporate governance practice, helping to provide a higher level of disclosure and greater transparency. The "cross directorships" variable was negatively related to Category A only at the 5% level and not related to any other categories of information. The "board size" variable had a negative association with Category A at the 1% level, whilst it was negatively associated with Category D "voluntary disclosure of corporate social and environment information" at the 10% level. The negative association between the three previous variables and categories of information (A/and D) raises a question about the independence of non-executive directors in the KSE, and the results further suggest that the priority of boards' responsibilities in Kuwait leans to improving company performance and board supervision more than concentrating on improving or enhancing the quality of disclosure and the transparency of information provided annual report users.

"The percentage of government ownership" was positively related to Category D at the 1% level, while the "role duality" variable was negatively associated with this type of voluntary disclosure at the 5% level. A possible explanation for this positive association might be that companies are motivated to disclose such information as it may help them to obtain the necessary financial resources and facilities from government to finance their operations. This type of voluntary disclosure is also consistent with the perspective of legitimacy theory which assumes that companies release information regarding their social performance to obtain the required support to continue their operations within society and guarantee their existence since they comply with social values and expectations. In other words, companies employ disclosure as a device to legitimise their business.

"The existence of an audit committee" was positive and significant, not only for the voluntary disclosure of "corporate financial performance and prospective information" (Category B) at the 1% level, but also for Category C at the 5% level. Agency theory suggests that the audit committee is considered an effective monitoring device which contributes to reducing agency costs as well as improving the level of corporate disclosure (Forker, 1992). These results suggest that "the existence of an audit committee" may improve the level of disclosure and corporate transparency. However, the important issue that should be considered is that the Kuwaiti regulatory bodies must require listed companies from all economic sectors to establish such committees. The other important consideration is the composition of audit committees; members of these committees should have adequate qualifications and practical experience in the business field, and the majority must be independent non-executive directors.

In this study, signalling theory was used to explain the level of voluntary disclosure for categories of information. This theory suggests managers of more highly profitable companies are motivated to disclose more information to distinguish themselves than managers of less profitable companies. In the same view, it is expected that boards with members of the ruling family on them may be more interested in revealing additional information voluntarily in CARs to distinguish themselves than other boards. Although this was found negatively associated with Category D at the 5% level, it was positively associated with Categories A and C at the 1% and 5% levels. This is consistent with the predictions of signalling theory.

With respect to other results related to company characteristics, the "cross listing" variable had a positive association with the disclosure of information in Categories C and D at the 10% and 5% levels. A company with cross listing is expected to be subject to more requirements and so required to release more information than companies which are only listed in the home capital market. Signalling theory predicts that companies with cross listing, being benchmarks, may tend to employ their experience in the application of foreign disclosure policy and disclose additional information to distinguish themselves from other companies in the home capital market. Overall, the results support the predictions suggested by signalling theory.

"Company size", which is considered a significant predictor in a great number of disclosure studies, was positive and statistically significant, at the 1% level, with Categories A and B; however, it was associated with Category D at the 5% level. These results are consistent with the predication of agency theory, in which agency costs rise as a result of separation of management and principles. It has been suggested that agency costs are greater in larger companies (Chow and Wong-Boren, 1987). Consequently, the larger companies tend to release more information in their annual reports to reduce these costs. Another possible explanation may be that large companies are subject to more pressure from different external powers and are required to comply with more regulations than smaller ones so they tend to disclose more information to reduce the political costs (e.g. public intervention), enhance their image (Watts and Zimmerman, 1978), and facilitate external financing. For example, larger companies are more likely to disclose more detailed information regarding recruitment policies (e.g. equal opportunity, diversity, national manpower supporting). Lastly, larger Kuwaiti companies tend to adopt social disclosure practices to enhance the confidence of the shareholders and influence the perception of stakeholders.

"Company growth" was negatively related to Category A only. This was explained on the grounds that this type of information may be available in other sources of information such as the KSE's and/or the company's website so high growth companies do not concentrate on this type of disclosure as it may not add value to the company. The profitability variable (ROA) had a negative association with Category B at the 10% level, whilst it positively associated with the voluntary disclosure of Category D. The positive association can be illustrated by the fact that highly profitable companies have a strong incentive to disclose more information about their social and environmental responsibilities to the public to distinguish themselves in different perspectives: to give a good interpretation of superior performance and to give a good signal regarding the company's contribution to social projects, thereby strengthening the company's reputation.

Lastly, "type of auditor", the measurement of audit quality, was found to be not significantly associated with the different categories of voluntary disclosure except for Category D at the 10% level. Large audit firms are an effective mechanism to reduce agency costs, and they play a key role in monitoring company accounts (Jensen and Meckling, 1976). Audit firms tend to influence the level of information, which predicts that the process of auditor choice may be employed as a signal of company value as well as a signal to the capital market regarding the quality of information included in CARs (Datar et al., 1991). This result may also be interpreted on the grounds that Kuwaiti audit firms positively encourage their clients to discharge information on corporate accountability toward the society. As noted in Chapters 4 and 6, selecting an external auditor for the company is the board's decision, not that of the shareholders who attend the annual meeting. This creates some doubts regarding two concepts: the independence of external auditors as well as their loyalty to act as an agent for shareholders. Conversely, "the percentage of family members on the board", "leverage", and "type of industry" had no bearing on the voluntary disclosure of the four categories of information.

Table 7.11: Regression Results for the Relation between Voluntary Disclosure Categories and Independent Variables

Independent Variables	Category A		Category B		Category C		Category D	
	B	***P***	***B***	***P***	***B***	***P***	***B***	***P***
Percentage of non-executive directors on the board	-0.18	0.02**	0.09	0.41	0.37	0.00***	-0.01	0.96
Cross directorships	-0.05	0.01**	0.00	0.96	-0.03	0.29	-0.03	0.22
Percentage of family members on the board	-0.03	0.38	0.01	0.77	0.05	0.23	0.03	0.54
Board size	-0.02	0.00***	-0.01	0.16	0.01	0.37	-0.01	0.06*
Percentage of government ownership	0.10	0.40	0.21	0.22	-0.27	0.10	0.76	0.00***
Role duality	-0.02	0.13	0.00	0.84	-0.02	0.36	-0.04	0.02**
The existence of audit committee	0.00	0.86	0.08	0.00***	0.06	0.01**	-0.02	0.32
The presence of ruling family on the board	0.05	0.00***	-0.04	0.15	0.06	0.01**	-0.05	0.02**
Cross listing	0.01	0.68	0.01	0.67	0.06	0.05*	0.07	0.02**
Company size®	0.03	0.00***	0.04	0.00***	0.01	0.20	0.02	0.02**
Leverage	-0.02	0.64	0.10	0.12	0.04	0.49	0.07	0.21
Company growth®	-0.05	0.00***	-0.02	0.35	0.00	0.91	-0.02	0.25
Profitability	-0.01	0.87	-0.15	0.07*	0.06	0.43	0.14	0.06*
Type of industry	0.00	0.90	0.01	0.51	0.00	0.80	-0.02	0.42
Type of auditor	-0.01	0.52	0.03	0.19	0.01	0.52	0.04	0.05*
R^2	0.25		0. 34		0.23		0.37	

Note. * $p < 0.10$; ** $p < 0.05$; and *** $p < 0.01$

® The company size and company growth variables are expressed in natural logarithm.

Robust standard error is applied in all models.

7.8 SUMMARY AND CONCLUSION

The purpose of this chapter is to assess the extent and trend of voluntary disclosure levels as well as the categories of information in the annual reports for a sample of Kuwaiti listed companies over the period of the study (2005-2008) by the application of the voluntary disclosure index.

The results of the study revealed that the mean overall voluntary disclosure level over the four years is 23%, which is considered relatively low, as expected in Kuwait as an example of an emerging capital market. However, the overall level of voluntary disclosure gradually improves over the examined period. With respect to the assessment of the disclosure of the index items, the results indicate that there is a remarkable variation in disclosure at this level, leading to the conclusion that there was variation in the level of disclosure practice among Kuwaiti companies listed on the KSE. On average, a company releases 23% of the index items, and only seven items on the index had a disclosure level of 80% or more. Further, 31 items, representing 63% of the index, had a disclosure level of around 17% or less. There was a considerable variation in the disclosure among categories of information. Categories concerning corporate financial performance and prospects (B) and corporate environment (A) were considered the most important types of information that Kuwaiti companies often provide to their shareholders and other stakeholder groups.

The second purpose of this chapter is to identify the factors that affect voluntary disclosure practices in the annual reports of non-financial companies. Using multivariate regression analysis, a number of corporate governance mechanisms were shown to be related with the extent of voluntary disclosure in CARs over the examined period. “Cross directorship” was negatively related to the overall level of voluntary disclosure. This result suggests that company board members, who are also members of boards of other listed companies, in the present study, pay little attention to the level of voluntary disclosure and types of information released in the annual reports. The results support the hypothesis that level of voluntary disclosure is associated with “board size”. However, the results indicated that “board size” was negatively associated with the overall level of voluntary disclosure. In the case of Kuwait, the results do not support the view that the large board would be an effective mechanism to boost the corporate disclosure practices and information transparency released to the public. These results raise some doubts about the role of boards of Kuwaiti companies listed on the KSE, in the adoption of better disclosure practices.

Companies with higher levels of government ownership have significantly higher levels of voluntary disclosure as compared to companies with lower government ownership. This result suggests a trend toward the need to endorse the vital role of government in influencing the decisions and strategies of the boards regarding the adoption of better disclosure policies through their representatives on the boards. As expected, a company with role duality may tend to withhold information from shareholders and have less incentive to voluntarily disclose information in their annual reports. Based on this result, it may be proposed that the appointment of an independent chairman may encourage companies to increase the amount of disclosed information voluntarily to their shareholders, as well as strengthening the board's role in monitoring the CEO's activities. This is consistent with the view of Collier and Gregory (1999).

Other corporate governance variables ("percentage of non-executive directors on the board", "percentage of family members on the board", "the existence of an audit committee", and "the presence of the ruling family on the board") were not significant. This insignificant relationship regarding non-executive directors and the audit committee raises a question about the independence of non-executive directors, as mentioned in Chapter 4, and the composition of the board and sub-committees in developing countries.

Out of seven company characteristics used in this study, "cross listing" and "company size" were found to have a positively significant influence on the overall level of voluntary disclosure only, while "company growth" was the only variable to have a negatively significant impact on the extent of voluntary disclosure.

The findings of the current study also revealed that the explanatory power of the regression models differed among the categories of information. In addition, the determinants of disclosure varied among categories of information. Most importantly, no single explanatory variable can explain the variation in the overall voluntary disclosure and all four categories of information. In addition, some explanatory variables were not associated with the level of overall disclosure; these were positively associated with voluntary disclosure of CG information such as ("percentage of non-executive directors" and "the presence of the ruling family on the board").

It is important to mention that the perspective of agency, political cost, signalling, or legitimacy theory were employed in this study to explain the significant association (should it exist) between the voluntary disclosure practices and independent variables.

Table 7.12: The Association between Objectives, the Related Research Questions and the Developed Hypotheses

The objective	The related research question	The developed Hypothesis
To track changes in the level and categories of voluntary information disclosure during the study periods (2005, 2006, 2007 and 2008).	10. How does the overall level of voluntary disclosure in the annual reports of Kuwaiti companies change during the study period? 11. How do the four groups of information in the level of voluntary disclosure trend for Kuwaiti companies in the years 2005-2008?	
To explore how the overall level of voluntary disclosure depends on the categories of information.	12. How do the levels of voluntary disclosure for the four groups of information correlate with the overall level of voluntary disclosure in the annual reports of listed companies?	
To examine the hypothesized influence of company and corporate governance variables in explaining the variations in the extent of voluntary disclosure in the annual reports of non-financial companies.	13. To what extent do corporate characteristics and corporate governance mechanisms contribute to explaining the variations in the overall level of voluntary disclosure in the annual reports? 14. To what extent do corporate characteristics and corporate governance mechanisms contribute to explaining the variations in the voluntary disclosure levels of each group of information?	H11, H12, H13, H14, H15, H16, H17, H18, H19, H20, H21, H22, H23, H24, and H25

CHAPTER EIGHT: CONCLUSION, IMPLICATIONS, LIMITATIONS, AND SUGGESTIONS FOR FUTURE RESEARCH

CHAPTER EIGHT
CONCLUSION, IMPLICATIONS, LIMITATIONS, AND SUGGESTIONS FOR FUTURE RESEARCH

8.1 INTRODUCTION

The focus of this research has been the voluntary disclosure of information in annual reports. More specifically, it has four dimensions. These dimensions are: [1] and [2] to explore the views of user groups of the annual reports concerning the current voluntary disclosure practices and their perceptions toward the usefulness of proposed information in improving the quality and usefulness of voluntary disclosure in annual reports of Kuwaiti companies listed on the KSE; [3] to evaluate the level of voluntary disclosure and its evolution over the time studied; [4] to determine the impact of a combined set of company characteristics and corporate governance attributes on explaining variations in the extent of disclosure in annual reports. To explore or reach the first two dimensions, a questionnaire survey is used as the primary data source, whilst the secondary data is used to achieve the last two dimensions.

The objective of this chapter is to summarise the main outcomes of the study. In addition, implications and limitations of the current study will be addressed. Suggestions for future research will be stated at the end of this chapter.

8.2 REVIEW OF THE MAIN FINDINGS

8.2.1 Questionnaire Survey [Phase I]

A self-administered questionnaire was designed to achieve the first two above-mentioned objectives. Four major groups were invited to participate in this study: financial advisors, external auditors, market regulators, and accounting academics.

The majority of stakeholders rated CARs (as expected), interim reports, and advice from specialists, as the three most important sources of information for making judgments (in that order). However, the annual report stood as the most important source of information among other examined sources. On the other hand, participants had a neutral opinion on the importance of the company's website as a source of information, implying that this source does not provide current information to Kuwaiti users. Three forms of financial statements (the statement of financial position, the income statement, and the statement of cash flow) are considered the most important sections of annual reports in the view of the stakeholder groups. This indicates that the user groups concentrate more on financial information than on non-financial since this is audited based on a sophisticated system and by professional firms. This result also may reflect the low level of information quality provided in other sections.

Based on the questionnaire results, the issue of timeliness in publishing annual reports is becoming a matter of great concern, which could affect the quality of annual reports as an information source. This also opens the door to thinking about the role of regulatory bodies with respect to this problem. The results also suggest that respondents are neutral in their views regarding the reliability of the contents of annual reports in Kuwait; this could be a potential problem that may undermine the annual report as a communication device between preparers and users.

Concerning the level of voluntary disclosure, most members of stakeholder groups do not feel satisfied with the quantity and/or quality of information provided by companies in their annual reports. User groups also show their desire for more information than companies currently disclose, to improve their decision making and the usefulness of CARs. It may suggest an urgent need for the disclosure gap between users and preparers to be filled. This includes information related to corporate governance (e.g. biographies of board members, key management, and sub-committees), and more details on the company's products/services and corporate environmental and social responsibility. The analysis of collected data indicates a relatively high consensus between user groups concerning most of the items examined. However, disclosure of human resources information (part-time employment of students, number of training hours covered by each employee, and providing low cost health insurance for employees) is considered the least useful in the opinion of user groups.

The study shows a relatively high level of agreement between groups with regard to factors affecting the degree of information transparency provided by listed companies.

However, "increasing mandatory disclosure requirements", "application of best corporate governance practice" and "external auditors' reputation" are rated the most significant factors affecting the degree of information transparency provided by companies to the KSE. Consequently, transparency could be useful because it provides a good opportunity for market participants to have equal access to information. It has been argued that transparency is an important mechanism to promote the orderly and efficient functioning of capital markets (IMF, 2001).

Finally, building a good capital market legal and regulatory framework is considered a prerequisite to any successful capital market, since, by imposing proper penalties, it can provide the required protection of market participants against any violation in practices. The results suggest consensus among groups regarding the need for a sophisticated capital market infrastructure as well as for comprehensive regulations to help foster confidence in the capital market and protect market participants. Respondents perceive the presence of the Capital Market Authority (CMA) as an independent body, the improvement of skills of regulatory bodies' staff, an increase in national disclosure requirements regarding ownership structure and related-party transactions to be the most important procedures for enhancing confidence in the KSE. With regard to the ability to implement proposed corporate governance mechanisms, responses show serious concern about the ability to apply some proposed issues such as restriction of family members' role in senior management.

8.2.2 Disclosure Level and its Determinants − Secondary Data (Phase II)

To achieve the last two main objectives of this study, an unweighted disclosure index was constructed and developed through several stages and this includes the selection of index items which may be relevant to practices in the Kuwaiti business environment. The analysis of the scoring sheet of 49 voluntary disclosure items took place on three different levels: overall level of voluntary disclosure, item by item, and types of voluntary disclosure as the sub-indices. Data on voluntary disclosure and independent variables were hand-collected for 52 listed companies (206 observations) from annual reports and from other complementary sources for the years 2005-2008. Random effects regression, the main model, was used to check the research hypotheses.

Concerning the evaluation of voluntary disclosure practices, the level of overall voluntary disclosure was 23% which is considered relatively low as compared with other studies conducted in developing countries. This could be attributed to the culture of secrecy inherent in Arab communities. However, the overall level of voluntary disclosure gradually improved over the examined period. Moreover, the longitudinal data analysis provides some important insights in that, in 2007 and 2008, the extent of voluntary disclosure was higher than in previous years (2005 and 2006). In terms of information categories, there are remarkable differences in the extent of disclosure among them, with the overall mean of Category B being much higher than those of the others, showing that Kuwaiti companies tend to disclose more information about their financial performance than about other areas. There is also a remarkable variation among the extent of disclosure of individual items on the index and the extent of disclosure over a sample of non-financial companies. Based on these results, it can be stated that annual reports may not provide sufficient information to meet users' needs. Consequently, there is significant room for further disclosure in the annual reports of Kuwaiti listed companies; this could ultimately improve the transparency level of these reports.

With regard to variables significantly associated with variation in disclosure practices, the multivariate analysis reveals that corporate governance attributes affect the disclosure practices adopted by listed companies at the KSE. Four out of eight CG mechanisms are found to be associated with the overall level of voluntary disclosure, three negatively, one positively. Cross directorship, board size, and dualities in positions are negatively related to total voluntary disclosure. In contrast, companies with a high percentage of government ownership tend to disclose more information in their reports. On the other side, disclosure practices are insignificantly influenced by a number of CG attributes (the proportion of non-executive directors, family members on the board, the presence of an audit committee, and the presence of the ruling family on the board). Among company characteristics, company size, cross listing, and company growth are found to be associated with the variation in voluntary disclosure. While the coefficients of the first two variables are positive, and company size is considered to be the most powerful explanatory variable, the coefficient of the third is negative.

Table 8.1 presents a summary of research hypotheses and variables which are found to be significant at the 10% level or less, and the others are not significant at any level under the multivariate analysis.

Table 8.1: A Summary of the Results of Research Hypotheses

Research Hypotheses	Expected Sign	Findings
H11: Board size®		Supported
H12: Cross directorships	+	Not supported
H13: Role duality	-	Supported
H14: The proportion of non-executive directors on the board	+	Not supported
H15: The presence of an audit committee	+	Not supported
H16: The percentage of family members on the board	-	Not supported
H17: Government ownership	+	Supported
H18: The presence of ruling family members on the board	+	Not supported
H19: Company size	+	Supported
H20: Type of auditor	+	Not supported
H21: Leverage	+	Not supported
H22: Type of industry®		Not supported
H23: Profitability	+	Not supported
H24: Company growth	+	Not supported
H25: Cross listing	+	Supported

®According to disclosure literature, it has been suggested that these variables have significant effect on the voluntary disclosure practices, however, since the results of previous studies are mixed, the current study did not give the direction of this association.

At the type of disclosure level, the study's outcomes suggest that the explanatory power of regression models differed among the categories of information. In addition, the determinants of disclosure vary among the categories of information. Most importantly, no single explanatory variable can explain the variation in the overall level of voluntary disclosure and all categories of information. Family member on the board, leverage, and type of industry are found to be insignificant factors in explaining variation among companies concerning the overall total voluntary disclosure and all components/categories of disclosure (Category A: corporate environment, Category B: corporate financial performance and prospects, Category C: corporate governance information, Category D: corporate social and environment information). However, other factors have a clear bearing on the variation in the extent of voluntary disclosure in different categories.

8.3 IMPLICATIONS OF THE STUDY

The current study has several important implications. It contributes to the existing disclosure and corporate governance literature. In terms of annual reports, the study has shown that CARs are rated as the most important source of information for decision making by different user groups. Thus the regulatory bodies in Kuwait should pay more attention to improving the status of such reports and their usefulness to stakeholders such as investors. This may have a positive impact on the quality of decisions.

Knowing the strengths and weaknesses in the qualitative aspects of information may help to upgrade the usefulness of CARs as an information source. In this regard, a considerable number of respondents show a neutral attitude regarding the reliability of the contents of annual reports; and here the role of the authorities and preparers of reports lies in addressing these deficiencies. On the other hand, respondents show concern about the long delay in publishing CARs and the lack of availability of information, which may lead to increased rumours and insider trading. The timely availability of the annual report would reduce unfavourable dealings so market regulations should be strengthened regarding these issues. This will inevitably lead to The majority of users show a high level of agreement regarding the proposed voluntary information items to be included in CARs in order to upgrade the quality of voluntary disclosure. This indicates that the level of voluntary disclosure in CARs does not meet the needs and requirements of users in the Kuwaiti business environment, such as in corporate governance disclosures. In other words, there is a low degree of harmony between the demand for and supply of information. To reduce this gap and provide sufficient information, disclosure requirements should be increased.

The outcomes of the first empirical study are consistent with those of the second one regarding the need for listed companies to disclose much more voluntary information in their annual reports to meet the requirements of stakeholder groups. These two studies may help to determine “what type of disclosure is required”. As such, they may serve as standards-setters in formulating appropriate disclosure requirements for companies on the one side and aid the selection process of items to be released and the design of preparers’ disclosure strategy on the other. Moreover, it can assist preparers to confirm the importance participants attach to voluntary disclosures in their reports.

In order to improve the quality of CARs and enhance the degree of information transparency in the KSE, a strong regulatory system and effective enforcement mechanism is required to ensure compliance with regulations (Rahman et al., 2002). However, this cannot work without the existence of qualified staff with adequate practical experience to take over these tasks. Hence, Kuwaiti regulatory should work to improve their staff's skills by involving them in intensive educational and training programmes. This may improve the implementation of regulations and so increase confidence in the capital market as well as investment rates in the market. On the other hand, Kuwaiti policy makers should also provide educational programmes for shareholders, since they suffer from lack of experience and awareness regarding capital market issues, their duties and rights as shareholders, and the best corporate governance practices and benefits. This may help to strengthen the stability of the investment environment.

Respondents appear encouraged by the existence of the Capital Market Authority (CMA) as an independent body, but Kuwaiti policy makers should take into account the need to revise some existing resolutions, such as some of the provisions included in the CCL, to avoid any potential contradiction. In addition, the CMA should work away from any potential overlaps in the supervision and monitoring activities with other bodies such as the Central Bank of Kuwait (CBK).

The study provides new evidence on the determinants of the variation in the overall level of disclosure in annual reports in an emerging market that has not been widely examined. Government ownership is significantly and positively associated with higher levels of voluntary disclosure. Therefore, Kuwaiti governmental bodies should play an important role in the companies in which they own a significant stake to make them more transparent in their disclosure and ensure they follow better governance through the presence of governmental representatives on their boards.

Unexpectedly, the results of multivariate analysis show two corporate governance mechanisms (cross directorship and board size) are negatively associated with the extent of voluntary disclosure. This may suggest that directors are more concerned about monitoring their interests in other companies than improving the voluntary adoption of better disclosure policies. As expected, role duality is negatively related to the overall level of disclosure, suggesting that the regulatory bodies should require companies to separate the role of chairman and CEO.

Among the corporate governance attributes, the proportion of non-executive directors on the board and the existence of an audit committee play no effective role in improving voluntary disclosure practices amongst listed companies in Kuwait. This may refer to some obstacles which were concluded directly from the main outcomes of Chapter 4. In general, the Kuwaiti legislator does not identify the number of non-executive directors, the balance between executive and non-executive directors, or the concept of independence of non-executive directors. Moreover, an individual can be appointed as a member of the board once s/he owns 1% of the company's capital and/or has family ties with management; these situations open the door for major shareholders to control the appointment of companies' boards in Kuwait. These facts embody the shifting of power from company shareholders, specifically minority shareholders, to the board. Concerning the audit committee, its lack of effectiveness could be attributed to the fact that its appointment may be subject to nepotism since the law remains silent on the establishment and composition of this committee. Thus, these combined factors may undermine the effectiveness of non-executive directors in improving the quality and quantity of disclosure.

These findings have an important implication for improving the role of non-executive directors and audit committees in Kuwait. The time has come to accomplish that; regulatory bodies need to revise regulations concerning board structure and to set up regulations for the establishment and composition of audit committees. These should include a new criterion for the appointment of directors: their independence should be precisely and clearly defined. Directors should also be required to have practical experience and academic qualifications, and to undergo continuous learning and training programmes. These two important corporate mechanisms could strengthen the quality of disclosure in annual reports and their transparency. Based on the above, these outcomes contribute to attracting policy makers' attention to the aspects that should be concentrated on when setting a CG code for directors of listed companies.

The auditor firm size variable also plays no effective role in improving the extent of voluntary disclosure and its transparency, which may be due to the fact that although external auditors are appointed by shareholders during the annual general meeting, majority shareholders control the voting process as they own a significant stake in these companies. Consequently, the appointment of the external auditor is under the control of these shareholders, who are in most cases company directors. The appointment of external auditors may be based on family ties with the board, which is considered another example of a violation of auditor independence. These facts exemplify the shift of power from company shareholders to the board. Therefore, this finding has a major implication for the development of the auditing and accounting profession in Kuwait as an example of an emerging market. To achieve that, the Kuwaiti legislator and regulator should take the necessary steps to stop these practices.

Finally, the results obtained from the panel analysis, as new evidence from a developing country that has not been studied as intensively, indicate that the cross listing and company growth variables are significant at the 5% level. While the coefficient of the former variable is positive as expected, that of the latter is negative, which is opposite to what was expected. This result is inconsistent with signalling theory perspective, which expects high growth companies to disclose more information voluntarily (for more details see Chapter 7, Sections 7.6 and 7.7).

To summarise, the Kuwaiti authorities are advised to take into consideration the above implications, as recommendations, reached after four years of painstaking efforts and careful research. They illustrate the need for an appropriate legal framework and the establishment of a sound CG regime. This may lead to the achievement of three important issues: enhancing the level of confidence in the capital market, providing good protection for market participants' rights, "especially minority shareholders", and encouraging more capital to flow into the KSE. Thus, the Kuwaiti government may qualify as one of the best markets on entering the competition with other emerging markets.

8.4 LIMITATIONS OF THE STUDY

Despite taking systematic stages into consideration when conducting this study, it nevertheless has some limitations, something considered commonplace in social science research. These limitations can be split into two divisions based on the research instruments.

8.4.1 Questionnaire Survey (Phase I)

The survey questionnaire was adopted to elicit the perceptions and beliefs of user groups of annual reports toward the voluntary disclosure information. Only four major groups participated in this study, and other users of CARs were not involved, such as credit bank officers, since the number of banks operating in Kuwait is limited and also banks cannot provide the required number of respondents to make the results statistically meaningful.

Of the 220 questionnaires distributed, 143 were returned with useable responses. This response rate is considered normal when adopting such a research method to assess the perceptions of respondents and in the case where the questionnaire discusses some sensitive issues in the view of subject groups. Moreover, it is a normal reaction in a community which tends to be conservative in expressing opinions, as mentioned in Chapter 6 (see Section 6.2). On the other hand, response bias exists in such a method and so the responses do not necessarily reflect exact beliefs.

It is noteworthy that the outcomes of the questionnaire may not reflect the perspective of the whole accounting community in Kuwait concerning the issues discussed; however, it still represents a valid sample. A number of members of user groups were also not involved as a result of lack of knowledge of the corporate governance concept and its importance or for personal reasons.

8.4.2 Secondary Data (Phase II)

The study was aimed at the whole population of non-financial companies in the KSE, but some companies were excluded for not meeting the study criteria, restricting the total number of companies involved in the current study (for more details, see Section 5.12). Moreover, caution needs to be exercised in attempting in generalise the outcomes of the study beyond the scope of the study population.

The findings of this study need to be interpreted more cautiously since there are a number of limitations associated with this type of research: [1] the personal subjectivity involved in deciding the selection of index items may influence the level of company disclosure and so the index may not cover all items required to evaluate the disclosure. Thus, the comprehensiveness of company disclosures may not be fully and/properly captured by the index (Alzarouni, et al., 2011); [2] personal subjectivity inherent in scoring the annual reports of the sample companies may not be completely prevented, and therefore there is unavoidable subjectivity in the scoring process (Owsus-Ansah, 1998); [3] the comparison of the current study's results with previous disclosure studies should be interpreted with care as a result of their employing different indexes; this includes the difference in classification of disclosure types and the number of items included in each type. [4] in conducting the regression analysis for the sampled companies, there was relatively low number of sample companies that had established an audit committee. This was due to the fact that the CCL did not obligate the listed companies to establish such a committee. However, those companies which regulated by the CBK were obligated to form audit committees. Therefore, this may affect the effectiveness of "the existence of audit committee" in explaining the deviations in annual reports' disclosures. In addition, the results of cross listing variable should be treated with caution due to the limited number of companies in the sample which are cross listing.

8.5 FUTURE RESEARCH

The previous discussion of the study's main outcomes and limitations gives a good opportunity to recommend future research streams. However, most of the ideas for future research are derived directly from the main conclusions of the current study. The following paragraphs present some suggestions for conducting future research on CARs and voluntary disclosure practices.

A study should be directed to make a comparison between the information needs of various user groups and the views and perceptions of preparers of CARs. Further insight could also be gained by comparing Kuwait with other Gulf countries or with Middle Eastern countries with similar socio-cultural, economic, and political attributes. More research is needed to obtain an understanding of the voluntary disclosure behaviour of financial companies.

The notion of the establishment of the Capital Market Authority (CMA) was in its very early stages when this study was conducted; therefore it is important to expand our research, after a reasonable period of time, by assessing the effect of the establishment of the CMA on the extent of voluntary disclosure, as the outcomes of the first phase may be confirmed by examining the perception of users of annual reports toward voluntary disclosure information. This study may include a large number of user groups with a large number of participants in each, who have appropriate knowledge of accounting practices, in order to gain valuable insight to the views and attitudes of diverse user groups in emerging markets such as Kuwait. In addition, this may improve our knowledge on which voluntary items, and why these items, are rated more highly than others by users.

Another potential future research stream is the impact of the chairman's letter or auditors' reports on the judgement and perspective of users, despite their not being rated highly by respondents.

Again, after the CMA has been operating for a reasonable period of time, it is crucial to conduct similar research to gain further understanding of the association between CG mechanisms and voluntary disclosure practices. More specifically, the results of the current study encourage further investigation of the impact of different types of government ownership on the extent of voluntary disclosure. It is interesting in this case to employ panel data to get a full picture amongst these variables. It is important to extend our research by also investigating financial companies, since this research focused on non-financial ones. Further research could be conducted by using similar variables; however, it may examine a larger sample size of non-financial companies. In addition, independent variables that are beyond the scope of the current research (e.g. block holders, or the competence of board members, or the board meetings) could be included.

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APPENDICES

APPENDIX 1: Examples of Studies Investigating the Association between Voluntary Disclosure and Company Characteristics

Study and year	Country	No. of items	Basis of items' selection and type of index used	Variable examined	Major results
McNally et al. (1982)	New Zealand	41	Previous studies in USA and UK, examination of CARs, reviewing the selected items by stockbrokers. Weighted index.	Company size, profitability, growth, audit size, and type of industry	The disclosure level by companies was significantly lower than desirable for external users. In addition, company size was the only significant variable.
Cooke (1989a)	Sweden	146	Previous studies and recommendations issued by IASC and FAR (the Swedish Institute of Authorised Public Accountants). Unweighted index.	Company size, quotation status, parent company relationship, and industry type	There was a significant association between a number of variables [company size, quotation status, and industry type] and the VD level.
Cooke (1991)	Japan	106	Literature and recommendations issued by IASC and the Japanese Institute of Certified Public Accountants. Unweighted index.	Size, quotation status, and industry type	Disclosure behaviour was significantly related to all variables.
Hossain et al. (1994)	Malaysia	78	Similar adapted from Gray et al. (1992) and other previous research. Unweighted index.	Company size, ownership structure, leverage, assets-in-place, size of audit, and listing status	Disclosure of information was statistically correlated with company size, ownership structure, and foreign listing status.

Hossain et al. (1995)	New Zealand	95	Following earlier studies (e.g. Cooke, 1989a; Chow and Wong-Boren, 1987; McNally et al., 1982; Gray et al., 1992). Unweighted index.	Company size, leverage, assets-in-place, type of auditor, and foreign listing status	Significance association for company size, leverage and listing status.
Raffournier (1995)	Switzerland	30	Using a list of items derived from the Fourth and Seventh EC Directives. Weighted index.	Size, leverage, profitability, share listing, ownership structure, auditor's size, industry type, internationality	"Large" and "international" play a significant role in disclosure practices.
Gray et al. (1995c)	US and UK	128	Following previous studies such as Gray et al. (1984) and Tonkin (1989). Unweighted index.	Listing status	Significant variations in disclosure practices among international listed and domestic listed companies. Also, international listing had a significant effect on strategic information disclosure.
Meek et al. (1995)	US, UK and Continental Europe	85	Based on an analysis of international trends and observations of standard reporting practices and taking into account relevant research studies such as Gray et al. (1984) and Tonkin (1989). Unweighted score.	Size, country/region of origin, industry, leverage, multinationality, profitability, and international listing status	Significance for company size, country/region, listing status, and industry. Also, the variables explaining voluntary disclosures vary by information type.

Naser and Al-Khatib (2000)	Jordan	30	Following a set of previous studies. Unweighted score.	Size, profitability, ownership structure, gearing ratio	The depth of disclosure in the board of directors' statement was positively and significantly related to company size, profitability, and gearing, while negatively associated with individual ownership.
Chau and Gray (2002)	Hong Kong and Singapore	113	Following Meek et al.'s (1995) study. Equally weighted index.	Company size, leverage, size of auditors, ownership structure, profitability, multi-nationality	A positive association between the extents of outside ownership with voluntary disclosure, whereas insider and family controlled companies were likely to be associated with lower information disclosure.
Ferguson et al. (2002)	Hong Kong	102	Using lists developed by Meek et al. (1995); Gray et al. (1995) and Hossain et al. (1995). Unweighted disclosure scores.	Company type, size, leverage, industry type, and multiple-listing status	Company size was significantly and positively related to the overall level of disclosure and three types of information (strategic, financial, and non-financial). Also, leverage was significantly and positively related to overall level of disclosure and only with financial information.

Leventis and Weetman (2004)	Greece	72	Based on the disclosure list of Meek et al. (1995) and other prior studies. Unweighted disclosure index.	Corporate size, gearing, profitability, liquidity, industry type, share return, and listing status	The level of disclosure was relatively low. Size had an explanatory power in overall disclosure and in each of the three categories of information. Industry type, share return, and listing status were shown to be associated with different disclosure categories.
Suwaidan et al. (2004)	Jordan	37	The checklist is well reported in previous studies (e.g. Buzby, 1974; Trotman and Bradley, 1981; Al-Basteki, 1997). Equally weighted index.	Company size, profitability, government ownership, risk	The survey companies disclosed roughly 13 % of checklist. Size, profitability and risk were considered explanatory variables to explain the variation in disclosure of social responsibility information.
Naser et al. (2006)	Qatar	34	Drawing from the work of Abu-Baker and Naser (2000) and other studies. Equally weighted index.	Company size, growth, dividends paid, leverage, ownership structure	Variations in social disclosure were associated with company size, leverage, and growth.
Alsaeed (2006)	Saudi Arabia	20	Guided by Meek et al. (1995); Botosan (1997) and Naser and Nuseibeh (2003). Unweighted index.	Company size, debt, ownership dispersion, company age, profitability, liquidity, industry type, auditor type	The level of disclosure lower than the average. Significance for large companies only.

Agca and Onder (2007)	Turkey	87	Following Meek et al. (1995) and Chau and Gray (2002). Unweighted approach.	Company size, leverage, auditor type, ownership structure, profitability, multinationality	All variables, with exception of multinationality, differed in explaining variations in information groups
Al-Shammari (2008)	Kuwait	76	Prior research (e.g. Leventis and Weetman, 2004; Ghazali and Weetman, 2006). Binary approach.	Company size, leverage, profitability, ownership structure, assets-in-place, company age, complexity, internationality, auditor type, industry type	Different explanatory factors (company size, leverage, auditor type, industry type, complexity, and company age) appeared to be associated with different disclosure categories.
Wang et al. (2008)	China	79	Based on earlier studies (e.g. Gray et al., 1995). Unweighted disclosure index.	Company size, leverage, ownership structure, company performance, type of auditor	Voluntary disclosure was positively correlated with the proportion of state ownership, foreign ownership, company performance, and auditor type.
Aljifri (2008)	United Arab Emirates	73	Following the approach of Cooke (1989a).	Company size, debt equity ratio, industry type, profitability	The level of annual report disclosure significantly differs among industrial sectors.

Rizk et al. (2008)	Egypt	34	Previous researches. Equally weighted index.	Type of industry, ownership structure	Significant differences in corporate social disclosure (CSD) among the companies of different industry segments surveyed and variations in CSD were associated with ownership structure.
Hossain and Hammami (2009)	Qatar	44	Disclosure literature and recommended by international financial institutions.	Age, size, profitability, complexity, assets-in-place	Significance association for age, size, complexity, and assets-in-place.
Khasharmeh and Suwaidan (2010)	GCC	45	Relevant literature (e.g. Abu-Baker and Naser, 2000; Suwaidan et al., 2004; Hossain et al., 2006).	Size of the company, government ownership, audit firm, profitability, and risk	Company size and type of auditor were significant factors in explaining variation in disclosure practices.

APPENDIX 2: Examples of Studies Investigating the Association between Voluntary Disclosure in CARs and Governance Characteristics

Study and Year	Country	No. of items	Basis of items' selection	Variable examined	Major results
Ho and Wong (2001)	Hong Kong	20	Deriving from previous literature. Surveying analyst users using five-point scale	The % of independent non-executive directors, the existence of an audit committee, the % of family members, assets-in-place, leverage, industry type, size	The existence of an audit committee, size, and industry were positively related to the extent of voluntary disclosure, while the % of family members on the board negatively influenced disclosure practices.
Haniffa and Cooke (2002)	Malaysia	65	Prior studies (e.g. Hossain et al., 1994; Soh, 1996). Unweighted disclosure index	Board composition, the % of family members, ownership, cultural, assets -in-place, size, profitability, industry, type of auditor, listing status	Disclosure differs in response to family members sitting on the board and non-executive chairman. Disclosure increase was associated with ownership by top 10, foreign investors, size, profitability, and assets–in-place.
Eng and Mak (2003)	Singapore	42	Similar checklists to those of Eng and Teo's (1999) and Eng et al.'s (2001) studies were employed. Weighted disclosure approach	Ownership structure (government and managerial), non-executive directors, growth, company size, leverage, industry type, auditor type, profitability,	Companies with lower managerial ownership and with significant government ownership appeared to disclose more information. However, % of outside directors was negatively associated with disclosure practices. Larger companies and companies with lower debts were more likely to provide more voluntary information in CARs.

Gul and Leung (2004)	Hong Kong	44	Following previous studies (Botosan, 1997; Meek et al., 1995 ; Hossain et al., 1995) and reviewing International Accounting Standards (IASs) and local listing requirements. Equally weighted disclosure index	Board composition (including also proportion of experienced non-executive directors) directors, audit committee, directors' ownership, company size, leverage, liquidity, profitability, type of auditors, domestic/international listing status, industry type	Companies with CEO duality were associated with lower disclosure; however, the higher expert outside directors on the board moderate this association.
Ghazali and Weetman (2006)	Malaysia	53	A set of previous studies (e.g. Haniffa and Cooke, 2002; Hossain et al., 1994). A weighted index	Ownership structure (top 10 shareholders, number of shareholders, directors' ownership, and government ownership), family members on the board, % of non-executive directors (NED), role duality, size, profitability, and leverage	Overall level of disclosure and three categories of information were statistically related to director ownership. Moreover, the extent of voluntary disclosure was associated with family directors as well as company size and profitability.
Barako et al. (2006)	Kenya	47	Based on previous studies such as Hossain et al. (1994)	Board composition, board leadership structure, board size, audit committee, ownership structure, company size, leverage, audit firm, profitability, liquidity, industry type	Voluntary disclosure practices in the annual reports are influenced by corporate governance attributes, ownership structure, and company characteristics.
Cheng and Courtenay (2006)	Singapore	72	Based on Luo et al. (2006). Unweighted index.	Board composition, board size, ownership structure, size, company performance, growth, leverage, listing status	Companies with a higher proportion of independent directors tend to disclose more. In addition, companies with boards dominated by a majority of independent directors were expected to disclose more voluntary information.

Huafang and Jianguo (2007)	China	30	Following previous studies (Botosan, 1997; Meek et al., 1995). Equally weighted index	Ownership structure (block holder, government, managerial), board composition (independent directors, CEO duality), foreign listing, company size leverage, auditor reputation, growth	Companies with higher block holder ownership and foreign listing and large companies had practices of greater disclosure as well as an increase in the % of independent directors on the board, while CEO duality as well companies with growth opportunities were negatively associated with corporate disclosure.
Ghazali (2010)	Malaysia	52	Adopting of Ghazali and Weetman's (2006) checklist. An unweighted disclosure index	Board composition (role duality and NED), family member, board size, government ownership, size, leverage, profitability, and industry	Significance for the % of family members, board size, and the government ownership.
Al-Shammari and Al-Sultan (2010)	Kuwait	76	Relevant studies (e.g. Ghazali and Weetman, 2006; Al-Shammari, 2008). An unweighted disclosure index	Board structure (NED and role duality), audit committee, family members, company size, leverage, auditor type, industry	Significant association for the existence of an audit committee, industry type, and company size.
Samaha and Dahawy (2010)	Egypt		Based on earlier research (Chau and Gray, 2002; Ghazali and Weetman, 2006). Dichotomous procedures	No. of shareholders, block holder ownership, managerial ownership, government ownership, independent non-executive directors, audit committee, profitability, industry type, leverage, type of auditor, company size, liquidity	Lower block holder ownership and managerial ownership, greater independent directors, and the presence of audit committee are linked to greater voluntary disclosure.

Alanezi (2011)	Kuwait	51	Based on previous studies (e.g. Hossain and Hammami, 2009; Donnelly and Mulcahy, 2008 ; Barako et al., 2006; Haniffa and Cooke, 2002)	Cross directorships, CEO duality, board size size, age, leverage, industry	A significant association between only one corporate governance (CG) variable: cross directorships and the extent of voluntary disclosure. Also, company size and age, and leverage were significantly related to voluntary disclosure.
Samaha et al. (2012)	Egypt	53	Using a corporate governance checklist developed by the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISARs)	Board composition, board size, duality in position, ownership structure (director ownership and blockholder ownership, number of shareholders), audit committee	The extent of CG disclosure is lower for companies with a role duality, while is higher for companies with a higher % of NED as well as with a higher % of blockholder ownership.

APPENDIX 3: Comparison of IIF Code and Kuwait's Commercial Companies Law (CCL) & KSE Listing Requirements

	IIF	Kuwait Commercial Companies Law (CCL) and KSE Listing Requirements
Minority Shareholder Protection		
Voting rights		
Proxy voting	Firms are encouraged to allow proxy voting.	A shareholder may appoint another person to attend the meeting as proxy. (CCL Article 155)
One share, one vote principle	"One share, one vote" should be a threshold requirement for new issues.	Every shareholder has a number of votes equal to the number of shares he/she holds. (CCL Article 156)
Cumulative voting	Cumulative voting should be permitted	No provision.
Capital structure		
Takeover/buyout/merger procedures on major corporate changes	Shareholder approval of mergers and major asset transactions should be required. If an offer is made above a reasonable minimum threshold of outstanding stock, a significant portion of that purchase must be through a public offer. Ownership exceeding 35% triggers a public offer in which all shareholders are treated equally. Under a merger or takeover, minority shareholders should have a legal right to sell shares at appraised value.	Mergers, acquisitions and major asset transaction decisions should be passed - only by the general assembly in - extraordinary meetings and require approval from shareholders representing three-fourths of the shares of the company. (CCL Articles 222 to 225)
Takeover/buyout/merger procedures on major corporate changes	Shareholder approval of mergers and major asset transactions should be required. If an offer is made above a reasonable minimum threshold of outstanding stock, a significant portion of that purchase must be through a public offer. Ownership exceeding 35%	Mergers, acquisitions and major asset transaction decisions should be passed - only by the general assembly in - extraordinary meetings and require approval from shareholders representing three-fourths of the shares of the company. (CCL Articles 222 to 225)

	IIF	Kuwait Commercial Companies Law (CCL) and KSE Listing Requirements
	triggers a public offer in which all shareholders are treated equally. Under a merger or takeover, minority shareholders should have a legal right to sell shares at appraised value.	
Capital increases (preemptive rights)	Shareholder approval is required. Any capital increase over a period of one year and above a minimum threshold must first be offered to all existing shareholders.	Shareholder approval is required on any capital increase. In addition, every shareholder has the right to subscribe number of the new shares proportionate the number of shares he/she already holds, in priority to all other applicants. (CCL Articles III, 158)
Share buybacks	Details of share buybacks should be fully disclosed to shareholders.	The company can buy back its shares (Treasury stock) at the available price, provided it does not exceed 10% of outstanding capital. (CCL Article 115) In accordance with the Director General resolution No. (22) of 1987, all listed companies should inform the market immediately (next day) about the general assembly approval, and obtain market approval before any sale or purchase transaction, as well as provide a detailed schedule showing the movement of all sales and purchase transactions every three months. Also see the Ministerial Resolution No. 10 of 1988 which regulates treasury stock transactions.
Shareholder meeting		
	Meeting notice and agenda should be sent to shareholders within a reasonable amount of time prior to meetings.	The shareholders shall hold a general assembly meeting at least once a year. The board of directors however, may call a meeting of the assembly whenever it sees fit. Notice of the meeting shall

	IIF	Kuwait Commercial Companies Law (CCL) and KSE Listing Requirements
		be sent to all shareholders either by registered mail or by advertising in two daily newspapers. The advertisement shall contain an accurate summary of the meeting agenda. The advertisement should be repeated twice. The second advertisement should be published at least one week after the first advertisement, and at least one week prior to the company's general assembly meeting. (CL Article 154). In addition, and as part of the listing requirements, the company must hold its general assembly meeting within 45 days from the approval of its audited financial statements by the stock exchange. The distribution of proposed dividends to all shareholders registered at the general assembly date should be made within 45 days following the general assembly meeting.
Special meetings	Minority shareholders should be able to call special meetings with some minimum threshold of the outstanding shares,	The board of directors should call for a general assembly meeting whenever requested by a number of shareholders holding not less than one-tenth of the capital. (CCL Article 154) An extraordinary meeting may be called by the board when an application in writing is made by shareholders holding not less than one- fourth of the shares of the company. (CCL Article 159)
Treatment of foreign shareholders	Foreign shareholders should be treated equally with domestic shareholders.	The holders of the company's shares shall be deemed members of that company.

	IIF	Kuwait Commercial Companies Law (CCL) and KSE Listing Requirements
		They shall have the same rights and obligations, subject to law. (CCL Article 130)
Conflicts between shareholders	Should have mechanisms whereby a majority of minority shareholders can trigger an arbitration procedure to resolve conflicts between minority and controlling shareholders.	Every shareholder has votes equal to the number of shares he holds and resolutions shall be passed by the absolute majority of the shares represented. Prejudiced parties can refer to the courts. (CCL Article 155)
Quorum	Should not be set too high or too low. Suggested level would be about 30% and should include some independent non-majority-owning shareholders.	The quorum of the general assembly meeting shall be a number of shareholders holding more than half the total number of shares. If this quorum is not present, notice shall be given of a second meeting. The member present at the second meeting, whatever their number may be, shall be a quorum. (CCL Article 155) The quorum of an extraordinary meeting of the general assembly shall be shareholders representing three-fourths of the shares of the company. If this quorum is not present, notice shall be given of a second meeting. The quorum of the second meeting shall be shareholders representing more than half of the shares. (CCL Article 160)
Petition rules/ objection to majority shareholder actions	Minority shareholders should have the right to formally present a view to the board if they own some predefined minimum threshold of outstanding shares.	It is a member's right, to apply to the court for nullifying any resolution of the general assembly or the board of directors which infringes the law, public policy or the articles of the company or its memorandum of association. (CCL item 5 of Article 131)
Structure and Responsibility of the Board of Directors		

	IIF	Kuwait Commercial Companies Law (CCL) and KSE Listing Requirements
Board structure		
Definition of independence	Cannot have a business or personal relationship with the management or company, and cannot be a controlling shareholder such that independence, or appearance of independence, is jeopardized.	CCL regulates the board of directors. (CCL Articles no. 138 to 153)
Share of independent directors	At least one-third of the board should be non-executive, a majority of whom should be independent.	No provision.
Frequency and record of meetings	For large companies, board meetings every quarter, audit committee meetings every 6 months. Minutes of meetings should become part of public record.	The board shall meet at least four times every fiscal year, unless the articles of the company provide for more. (CCL Article 144) A copy of the general assembly minutes of meetings signed by the official authority should be provided to the Stock Exchange within two weeks. The Stock Exchange must immediately disclose to the public all of the significant decisions made. (KLR)
Quorum	Should consist of executive, non- executive, and independent non- executive members.	Unless the articles provide for a greater number or percentage, the quorum of the board of directors shall be half the members of the board, or three members, whichever is greater. (CCL Article 144)
Nomination and election of directors	Should be done by nomination committee chaired by art independent director. Minority shareholders should have mechanism for putting forward directors at Annual General Meeting (AGM) and	No provision for a nomination committee. The members of the board of directors shall be elected by ballot; but the memorandum of association of the company may provide that a number of the members of

	IIF	Kuwait Commercial Companies Law (CCL) and KSE Listing Requirements
	Extraordinary General Meeting (EGM).	the company's first board of directors, not exceeding half of them, shall be elected from among the founders. (CCL Article 141)
Term limits for independent directors	For large companies, re-election should be every 3 years with specified term limits.	Period the articles of the company. The board of directors shall consist of not less than three members and the period of membership shall not exceed three years. This period may be renewed. (CCL Article 538)
Board committees	The board should set up 3 essential committees: nomination, compensation and audit.	Except for audit committees in all companies under the Central Bank's supervision, such committees are not required.
Formal evaluation of board	For large companies, nomination committee must review directors ahead of formal re-election at AGM.	No provision.
	Disclosure	
Immediate disclosure of information that affects share prices, including major asset sales or pledges	Any material information that could affect share prices should be disclosed through stock exchange. Material information includes acquisition/disposal of assets, board changes, related- party deals, ownership changes, directors' shareholdings, etc.	Each company is liable to inform the market directly and immediately about all material information before disclosing the same to the public through newspapers or other media. The company is liable to confirm or deny any news published through media when it may affect share prices. Also under listing requirements, certain major matters require disclosure: The acquisition or disposal of a subsidiary or an associate by the company or any of its unlisted subsidiaries; • The acquisition or disposal of an asset by an amount equivalent to 5% or more of its total assets; • Any contract by an amount of 5% or more of the

	IIF	Kuwait Commercial Companies Law (CCL) and KSE Listing Requirements
		company's paid up capital, and any subsequent amendments; • Any amendments to the company's articles of association; • Any changes in accounting policies, provided that approval from the stock exchange is received; • Any outstanding court cases in which the company is plaintiff or defendant, as well as any court decision taken; • Any changes in the collateral or mortgages of long-term loans, or any loans settled before the due date, or rescheduled. This disclosure is required for any loan equivalent to 5% or more of the company's total liabilities; • Any changes in board members or executive managers; Related-party transactions; • Changes in ownership.
Procedures for information release	Through local exchanges, and as best practice, through company website.	No provision.
Remuneration of directors	Should be disclosed in annual report. All major compensation schemes, including stock options, should be fully disclosed and subject to shareholder approval,	Directors' remuneration should be disclosed in the board of directors' report and the audited financial statements, and it is subject to shareholders' approval in the annual general assembly meeting. In addition, and in the absence of a compensation committee, the CCL determines the maximum and the minimum amount of such remuneration. (CCL Article 150) Regarding stock options,

	IIF	Kuwait Commercial Companies Law (CCL) and KSE Listing Requirements
		both the Ministerial decision no. 337 of 2004, and the Market Director decision no. 2 of 2005 require the prior approval of the Ministry of Commerce and Industry as well as shareholder approval in the general assembly meeting. Also, full details about the stock option program, including the board members share, exercise date, number, of shares assigned, the expected cost upon the exercise of the option, and all other major terms should be disclosed to shareholders in the annual general assembly meeting.
Other responsibilities		
Conflict of interest	Any potential or actual conflicts of interest on the part of directors should be disclosed. Board members should abstain from voting if they have a conflict of interest pertaining to that matter,	The Chairman or other members of the board may not have direct or indirect benefit in the contracts and transactions of the company, unless so authorized by the general assembly. Neither can they participate in the management of a similar company. (CCL Article 151)
Integrity of internal control and risk management system	Should be a function of the audit committee.	As indicated earlier, except for banks and financial institutions audit committee requirements do not exist - however, it is the responsibility of the company's management to maintain art adequate internal control system, and to evaluate and improve the risk management system. In addition, it is the external auditors' responsibility to ensure that a proper internal control system is adopted as well as to evaluate the risk management system.

	IIF	Kuwait Commercial Companies Law (CCL) and KSE Listing Requirements
Investor relations	Should have an investor relations program.	No provision.
Social responsibility and ethics	Make a statement on policy concerning environmental issues and social responsibility.	No provision.
Accounting/Auditing		
Standards		
National/International GAAP	Identify accounting standard used. Comply with local practices and use consolidated accounting (annually) for all subsidiaries in which sizable ownership exists.	As per Ministerial decision no. 18 of 1990, all Kuwaiti companies must adopt the International Financial Reporting Standards (IFRS) in preparing financial statements. Audits should be performed in accordance with the International Standard on Auditing (ISA). In addition, and provided that the disclosure requirement under (IFRS) covers all significant issues in the financial statement, the stock exchange may require additional disclosure (if necessary) in order to improve transparency and to protect shareholders and dealers.
Frequency	Semi-annually audited report at end-FY.	Each company should submit a quarterly condensed reviewed financial statement within. 45 days from the reporting date and a jointly audited financial statement at the end of each fiscal year, which should be submitted within three months from the year end date. (Listing Requirements)

	IIF	Kuwait Commercial Companies Law (CCL) and KSE Listing Requirements
Audit quality	Independent public accountant. As a best practice, auditors should adhere to the global standards devised by the International Forum on Accountancy Development (IFAD).	Under stock exchange requirements, each company should have at least two independent auditors (joint audit), and as indicated above audit should be performed in accordance with the International Standard on Auditing (ISA). (CCL Article 161)
Off-balance sheet transactions	Listing requirements should specify disclosure of off-balance- sheet transactions in the annual report with materiality level for disclosure.	Full details of off-balance sheet transactions should be disclosed in the interim and annual financial statements. (IFRS Disclosure Requirements) The stock exchange has the right to check and investigate the company's books and records, as well as any supporting documents in case any doubt exists or any further information is required. Also, it should be taken into consideration that all banks and financial institutions which represent a major portion of market activities are subject to detailed review by the Central Bank of Kuwait. (KSE Listing Requirements)
Risk factors/ monitoring procedures	Should be statement from audit committee in reports and accounts addressing business risks. Need a mechanism for review by auditors.	No provision.
Audit committee		
Audit committee	For large firms, must be chaired by qualified independent director with a financial background.	Audit committees exist only in banks and financial institutions under the supervision of Central Bank of Kuwait.

	IIF	Kuwait Commercial Companies Law (CCL) and KSE Listing Requirements
Relationship/communication with internal and external auditors	Committee should approve services provided by external auditor. Breakdown of proportion of fees paid for each service should be made available in annual report. As a best practice, communication with auditors should be without executives present. Contemporaneous provision of audit and non-audit services from the same entity should be prohibited	Please see the above item. Contemporaneous provision of audit and non-audit services from the same entity is prohibited.
Transparency of Ownership and Control		
Majority ownership	Significant ownership (20-50% including cross-holdings) is deemed to be control.	Law No. 2 of 1999 regulates the disclosure of interest of 5% and above. Director General Resolution No. 2 of 2006 was issued to regulate the sale procedures for deals that exceed 5% of the company's share capital.
Buyout offer to minority shareholders	Ownership exceeding 35% triggers a buyout offer in which all shareholders are treated equally.	No provision.
Related-party ownership	Companies should disclose directors' and senior executives' shareholdings, and all insider dealings by directors and senior executives should be disclosed.	The company undertakes that the board of directors or any other independent committee (such as an audit committee) will review and approve all material related-party transactions and ensure that they are performed on an arms' length basis. Also, the company is liable to present a full disclosure based on the requirement of IAS 24. In addition, related-party transactions should be approved by shareholders in the general assembly meeting. The company should establish rules in order to prohibit directors and senior

	IIF	Kuwait Commercial Companies Law (CCL) and KSE Listing Requirements
		executives from benefiting from any information before it is announced to the public or other parties. (KSE Listing Requirements and CCL Article 140)
Minimally significant shareholders	Shareholders with minimally significant ownership (greater than 3-10%) of outstanding shares must disclose their holdings.	Please refer to the above item "Majority ownership" under Transparency of Ownership and Control.
Regulatory Environment		
Enforcement powers	The supervisory authority and the exchange must have adequate enforcement powers. Exchanges should have the power to grant, review, suspend, or terminate the listing of securities. Enforcement authorities should have adequate training and an understanding of the judicial process.	Under Article 14 of the Amiri Decree's & By-Law organizing Kuwait Stock Exchange, it is clearly indicated that the violation committee has such enforcement powers.
Independence of supervisory body and of exchange	The supervisory body and the exchange should be independent from government and industry.	Article 1 of the Amiri Decree's & By-Law organizing Kuwait Stock Exchange states that "the Kuwait Stock Exchange enjoys an independent judicial entity with competence and capacity to dispose of its property and funds besides managing the same and shall have the right of litigation.

Source: Commercial Companies Law (CCL) No. 15 of 1960 (as amended) and The HI and The IIF Report (2007)

APPENDIX 4: Users' Perception Toward Information in Corporate Annual Reports: Questionnaire

Dear Sir

I am a PhD student at Durham University in England. Currently, I am conducting research into voluntary disclosure by companies listed on the Kuwait Stock Exchange. The objective of this questionnaire is to elicit the perceptions and expectations of different stakeholder groups of annual reports regarding the importance and usefulness of voluntary information items. The study also examines the perceptions of various users regarding corporate governance best practices. This survey is an important part of the study so your co-operation and participation in answering these questions will be very valuable. I would like to confirm that responses and personal opinions obtained from this questionnaire are for research purposes only and will be treated in the strictest confidence. Finally, please accept my appreciation for your cooperation.

Yours faithfully

Abdullah Al Mutawaa

Lecturer at the Public Authority for Applied Education and Training (PAAET)

Email: Abdullah.almutawaa@durham.ac.uk

Tel:

Section One: Background Information:

JOB DESCRIPTION

1. Please indicate your main place of work

[ ] Government; if yes, please specify ____________________

[ ] Private sector; if yes, please specify ____________________

2. Type of job (Choose one)

[ ] Financial Advisory [ ] Market Regulator

[ ] External Auditor [ ] Academic

3. Employment record (years) [ ] 0 - 5 [ ] 6 - 10 [ ] more than 10

4. The main activities involved in your job:

5. Academic qualifications: (the highest degree or diploma earned)

[ ] Diploma [ ] Bachelor [ ] Master [ ] PhD

[ ] Other (please specify) ____________________

6. Professional qualifications (any professional certificate earned such as CPA, CMA, etc.); if yes, please specify ____________________

Section Two:

Sources of Information and their Importance

1. Please indicate the degree of importance that you perceive the following sources of information might have in affecting your decisions

	Sources of Information	Not at all important	Of little importance	Neutral	Important	Extremely important
1	Corporate annual report					
2	Corporate interim report					
3	Company's website					
4	KSE's website					
5	Newspapers and magazines					
6	Market rumours					
7	Personal expectations					
8	Recommendations from a friend					
9	Advice from specialists					
10	Other sources (please specify) 1. ______________________________ 2. ______________________________ 3. ______________________________					

Content of Annual Reports

2. To what extent do you believe the following sections of corporate annual reports are useful for making decisions?

	Different Sections of Corporate Annual Reports	Not at all important	Of little importance	Neutral	Important	Extremely important
1	Chairman’s letter/message					
2	Management report / management discussion and analysis (MD&A)					
3	Independent auditors’ reports					
4	Statement of financial position					
5	Income statement					
6	Statement of cash flow					
7	Statement of changes in owners’ equity					
8	Accounting policies					
9	Notes to the financial statements					
10	Other (please specify) 1. ____________________ 2. ____________________ 3. ____________________					

The Qualitative Characteristics of Corporate Information

3. Please indicate the extent to which you agree or disagree that information provided in the annual reports of Kuwaiti listed companies has the following features:

	Characteristics	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
1	Capable of making a difference to your decision					
2	Available on a timely basis					
3	Faithfully represents what really happened or existed					
4	Unbiased (neutral: cannot favour one user group over another)					
5	Comparable (you can compare one company with another)					
6	Consistent with accounting methods over time					

If you have any further critical comments about the sources of information in Kuwait and/or your rating of the importance for previous items, please provide them here.

Section Three: Different Aspects of Voluntary Disclosure Practices in the KSE

1. Please use the scale below to rate your perception of level of voluntary disclosure in annual reports.

Very low ☐ Low ☐ Neutral ☐

High ☐ Very high ☐

2. Please indicate to what extent you agree or disagree that the voluntary information disclosed in the annual reports would be useful in the following areas:

	Statements	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
1	Improving the usefulness of the annual report as a source of information for decision making					
2	Improving the level of confidence in decision making					
3	Supporting investors in monitoring their investments					
4	Assisting in making new or additional investments					
5	Helping users to make comparisons regarding a specific company's performance over periods of time, such as the last five fiscal years					
6	A tool used as a benchmark in comparing the company's performance with that of competitors					
7	A tool used as a benchmark in comparing companies' performance on the KSE					
8	Aiding in the preparation of more ratios and analysis					
9	Enhancing the ability of users to forecast the expected revenues, profits, and cash flow of a company					

10	Other (please specify) 1. ____________________________ 2. ____________________________ 3. ____________________________					

3. Please indicate to what extent you agree or disagree that the following information items would improve the quality of voluntary disclosure in corporate annual reports.

	Items of information	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
A	**Information related to board**					
1	Names of non-executive board members					
2	Biography of board members (education and practical experience qualifications)					
3	Names of board members who have directorships in other Kuwaiti and/or overseas listed companies and/or overseas listed companies					
4	Remuneration and benefits per member					
5	Types of board committees					
6	Board committees’ responsibilities					
7	Name of board committees’ members					
8	Process for appointing board committees’ Members					
B	**Information related to key management**					
9	Names of senior executive management					
10	Biography of senior executive management (education and practical experience qualifications)					
11	Responsibilities assigned to executive members					
12	Top management’s salaries and other benefits per key manager					
C	**Information related to employees**					
13	Complying with national standards and national regulations concerning health and safety at work					
14	Providing low cost health insurance for employees					
15	Giving financial support to employees to obtain or build upon academic/professional qualifications					
16	Number of training hours of each employee					
17	Budget assigned to training and development programmes					
18	Number of employees trained yearly					
D	**Social and environmental information**					

19	Conservation of natural resources (e.g. recycling) and waste management					
20	Conservation of energy and material resources' consumption in the company operations					
21	International Organization for Standardisation (ISO) regarding environmental audit/ISO 14000					
22	Sponsoring public health and social projects					
23	Part-time employment of students					
24	Sponsoring educational seminars and/conferences					
E	**Information related to products/services**					
25	Description of major products/services produced and delivered					
26	Description of marketing network for finished goods/services					
27	Contribution by companies of products/services to support the national economy					
28	Developments regarding products or services					
29	Receiving awards as a result of increase in the quality of the company's products/services					
30	If there is any other information, please list 1. ______________________________ 2. ______________________________ 3. ______________________________ 4. ______________________________ 5. ______________________________					

If you have any further critical comments to improve voluntary disclosure (e.g. other voluntary items that should be disclosed in corporate annual reports) and/or your rating of the agreement for previous items, please provide them here.

Section Four: Factors that Might Affect Company's Information Transparency

1. Please indicate to what extent you agree or disagree that the following factors have an effect on companies' information transparency.

	Statements	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
1	Board reputation					
2	Senior executive management Reputation					
3	Company reputation					
4	External auditors' reputation					
5	Capital market confidence					
6	Source of information					
7	Increasing mandatory disclosure requirements					
8	The ability of market participants to assess the reliability of companies' disclosure policies					
9	Application of corporate governance Best practices					
10	Any other factors, please specify 1. ______________________________ 2. ______________________________ 3. ______________________________					

Section Five: Accounting Regulations and KSE's Growth

1. From your point of view, is it important to reduce overlapping in the surveillance and enforcement functions among regulatory bodies?

Of little importance ☐ Not at all important ☐ Neutral ☐

Important ☐ Extremely important ☐

2. It has been suggested that the level of confidence and investment in the capital markets as well as the level of competitive capital markets are influenced by the rules and regulations set by regulatory bodies. Indicate to what extent you agree or disagree that the following procedures should be set in Kuwait:

	Statements	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
1	The Capital Market Authority should act as an independent body to give strength to the monitoring function of the KSE's performance					
2	The improvement of skills of regulatory bodies' staff that enhance the bodies' abilities to supervise and monitor in order to verify the extent of compliance by KSE participants					
3	An increase in the national disclosure requirements (e.g. ownership structure and related-party transactions)					
4	An upgrade of the KSE website that provides financial data on a more timely basis and other up-to-date company-specific information					
5	Setting more precise/systematic procedures for listed companies to disclose information through the company/KSE's website					
6	Any other issues, please specify 1. ______________________________ 2. ______________________________ 3. ______________________________					

3. Corporate governance codes have a positive effect on building up the relationships between company management, its board, and all stakeholders, such as shareholders. The following have been recommended by some reports in order to improve capital market confidence as well as to boost investment and the competitive environment in the KSE. Please indicate, by choosing the appropriate number, the degree of difficulty associated with their application in the Kuwaiti business environment.

Statements		Degree of difficulty				
		Very difficult	Difficult	Moderate	Limited	No difficulties
1	Corporate governance codes that are designed to strengthen board practices should be implemented, and they should be modified to match the Kuwaiti business environment, if necessary					
2	The Kuwaiti Association of Accountants and Auditors should be involved in the process of adopting governance codes					
3	Education programmes should be set to enhance the education and awareness of boards regarding the importance of corporate governance					
4	Education programmes should be set to foster a culture of shared awareness among investors					
5	A mechanism should be established that would stimulate a public offer when ownership exceeds 35%					
6	Senior management and board remuneration should be linked with company performance					
7	One third of board members should be non-executive, and the majority of them should be independent					
8	Independent and non-executive directors should be present to form a quorum for board meetings					

9	There should be audit, nomination and compensation committees for all companies listed in the KSE					
10	Restriction of family members' role in senior management					

If you have any further critical comments about the issue of regulations (e.g. corporate governance) in Kuwait and/or your rating for previous statements, please provide them here.

APPENDIX 5: Questions Submitted to Listed Companies

1. What are the types of board committees (e.g. audit committee) that the company had in the years 2005-2008?

2. Is your company cross-listed with another stock market besides the Kuwait Stock Exchange? If so, please give the year and stock market name.

3. What is the percentage of directors (regardless of whether executive/non-executive) on the board with directorships in other Kuwaiti listed companies, out of the total number of directors in the years 2005-2008?

APPENDIX 6: The Auditors' Recommendations Regarding the Preliminary Checklist

Serial	Items of Information	Auditors' Recommendations
1	Discussion of financial strength of the company	Eliminating
2	Brief narrative history of company	Brief narrative history of company [other than legal history]

Items of Information Eliminated from the Checklist

Serial	Items of Information	Serial	Items of Information
1	Earnings per share forecast	7	Top management's salaries per key manager and other benefits per key manager
2	Remuneration and other benefits per director	8	Reasons for employee turnover
3	Responsibilities and authorities assigned to executive directors	9	Number of training hours needed to be covered by each employee
4	Age of the directors	10	Sponsoring employees' education
5	Directors' interests in significant contracts	11	Information on providing of health services for employees
6	Directors' interests in competing businesses		

The Accounting Academics' Recommendations Regarding the Preliminary Checklist

Serial	Items of Information	Accounting Academics' Recommendations
1	Photo of chairperson only	Names of board of directors
2	Photo of all directors	Same as above
3	Picture of major types of products/services	Information on major types of products/services

APPENDIX 7: Checklist of Company's Voluntary Disclosures

	Company name: Code:
A	**Corporate Environment**
	General Information about the Surrounding Environment
1	General outlook of the economy
2	General outlook of the industry
3	Information about political developments
Subtotal	**3**
	General Corporate Information
4	Brief narrative history of company/company profile (other than legal history)
5	Description of organizational structure
Subtotal	**2**
	Specific Corporate Information and Strategy
6	Statement of strategy and objectives
7	Discussion of competitive position of the company
Subtotal	2
	Market-Related Information and Investor Relations
8	Market capitalization at year end
9	Market capitalization trend
10	Share price at year end
11	Share price trend
12	Web page address
13	Geographical distributions of shareholders
Subtotal	**6**
B	**Corporate Financial Performance and Future Prospects**
	Financial Review Information
1	Profitability ratios
2	Liquidity ratios
3	Leverage ratios
4	Financial highlights / Financial summary (3 yrs / +)
5	Information on the company’s dividends policy
Subtotal	**5**
	Forward-Looking Information
6	Sales (revenues)/profit forecast
7	Adopted basis underlying the forecasts
8	Planning for introducing new products / services development
9	Planned capital expenditure
Subtotal	**4**
C	**Corporate Governance Information**
	Information about Board of Directors

1	Name of directors
2	Education and/or professional qualifications of the executive directors
3	Education and/or professional qualifications of the non-executive directors
4	Business experience of the non-executive directors
5	Business experience of the executive directors
6	Positions held by executive directors
Subtotal	**6**
	Information about Top Management
7	Top management's names (e.g. CEO, CFO, COO [Operating Officer], FM, Head of Internal Audit [HID])
8	Management's education and/or professional qualifications
9	Business experience of top management
10	Positions held by top management
11	Responsibilities and authorities assigned to top management
Subtotal	**5**
D	**Corporate Social and Environment Information**
	Employee Information
1	Recruitment policies (e.g. equal opportunity, diversity, supporting national manpower)
2	Number and categories of employees by department for the last two years / +
3	Percentage of Kuwaiti employees in the company
4	Company policy on learning & education programme (L & E) and required continuous education programme (CEP) points for each employee
5	Statement on employees' training programme provided by the company
6	Number of employees trained yearly
7	Information about employees' workplace health and safety, also data on workplace accidents
Subtotal	**7**
	Community Involvement and Environmental Information
8	Statement of corporate social responsibility
9	Information on community involvement/participation (e.g. sponsoring/donations of social, education, health campaigns/programmes)
10	Statement of environmental policy
11	Information on environmental activities/participations (e.g. ISO/environmental, energy, and recycle campaigns/programmes)
Subtotal	**4**
	Product / Service Information
12	Information on major types of products/services produced
13	Description of marketing network for finished goods/services
14	Contribution by companies of products/services to support the national economy
15	Developments regarding products / services

16	Receiving quality awards as a result of increase in the quality of the company's products /services
Subtotal	**5**
Total	**49**

APPENDIX 8: Questionnaire (ARABIC VERSION)

تصورات المستخدمين المعلومات المحاسبية فى التقارير السنوية للشركات المدرجة فى البورصة

استبيان

السيد/ المحترم

تحية طيبة و بعد ،،،

نرغب في إجراء بحث بخصوص الإفصاح الأختيارى للشركات المدرجة في سوق الكويت للأوراق المالية. والهدف من هذا الاستبيان هو الحصول على تصورات وتوقعات مستخدمي التقارير السنوية فيما يتعلق بأهمية وفائدة المعلومات الاختيارية. وتبحث الدراسة أيضا تصورات مستخدمي التقارير السنوية فيما يتعلق بموضوع حوكمة الشركات. و يعتبر الاستبيان جزء مهم من هذه الدراسة، وبالتالي فأن تعاونكم معنا بالمشاركة في الإجابة على هذه الأسئلة سيكون له تأثيره الأيجابى في تحقيق أهداف الدراسة. علما بأن جميع الإجابات و الآراء التي سوف نحصل عليها من خلال الاستبيان سوف تكون لأهداف الدراسة فقط و تعامل بسرية تامة.

و تفضلوا بقبول فائق الاحترام و التقدير

عبدالله المطوع

هاتف:

بريد الكتروني:

القسم الأول : معلومات أساسية:

وصف الوظيفة:

1. مكان العمل الرئيسى

[ ] القطاع الحكومي ، وإذا كانت الإجابة بنعم ، يرجى تحديد الجهة ----------------------

[ ] القطاع الخاص ، وإذا كانت الإجابة بنعم ، يرجى تحديد القطاع --------------------

[ ] أخرى

2. نوع الوظيفة:

[ ] جهات تنظيمية　　　　[ ] مراجع حسابات خارجي

[ ] عضو هيئة تدريسية　　　　[ ] مدير محافظ مالية

[ ] أخرى ، (يرجى التحديد)

3. سنوات الخبرة

[ ] 0 – 5　　　　[ ] 6-10　　　　[ ] أكثر من 10 سنوات

4. المهام والأنشطة الرئيسية المتعلقة بالوظيفة:

5. المؤهلات العلمية (أعلى شهادة أكاديمية تم الحصول عليها)

[ ] دبلوم　　　　[ ] بكالوريوس　　　　[ ] ماجستير　　　　[ ] دكتوراه

[ ] أخرى ، (يرجى التحديد) ------------------------------------

6. الشهادات المهنية التي تم الحصول عليها (مثل CPA, CMA) ، إذا كانت الإجابة نعم يرجى التحديد

القسم الثاني : مصادر المعلومات وأهميتها

1. يرجى تحديد مدى أهمية مصادر المعلومات التي قد تؤثر على قراراتك

	مصادر المعلومات	غير مهم على الإطلاق	قليل الأهمية	محايد	مهم	مهم للغاية
1	التقارير السنوية للشركات					
2	التقارير الفصلية للشركات					
3	موقع الشركة الالكتروني					
4	موقع سوق الكويت للأوراق المالية الالكتروني					
5	الجرائد والمجلات					
6	الشائعات					
7	التوقعات الشخصية					
8	التوصيات من قبل الأصدقاء					
9	نصائح من قبل المتخصصين					
10	مصادر أخرى (يرجى التحديد) 1. ________________________________ 2. ________________________________ 3. ________________________________					

محتوى التقارير السنوية

2. إلى أي مدى تعتقد أن الأقسام التالية للتقارير السنوية للشركات هامة و مفيدة لاتخاذ القرارات؟

	أقسام التقارير المالية السنوية	غير مهم على الإطلاق	قليل الأهمية	محايد	مهم	مهم للغاية
1	كلمة رئيس مجلس الإدارة					
2	تقرير الإدارة					
3	تقرير المراجع الخارجي					
4	قائمة المركز المالي					
5	قائمة الدخل					
6	قائمة التدفقات النقدية					
7	قائمة التغيرات في حقوق الملكية					
8	السياسات المحاسبية					
9	إيضاحات حول القوائم المالية					
10	أخرى (يرجى التحديد) 1. ______________ 2. ______________ 3. ______________					

الخصائص النوعية للمعلومات المحاسبية

3. يرجى الإشارة إلى أي مدى توافق أو لا توافق على أن المعلومات الواردة في التقارير السنوية للشركات المدرجة في سوق الكويت للأوراق المالية تحمل الخصائص أو الميزات التالية:

	الخصائص	لا أوافق بشدة	لا أوافق	محايد	أوافق	أوافق بشدة
1	قادرة على إحداث تباين في عملية صنع قراركم					
2	متوفرة في الوقت المناسب					
3	تمثل بصدق وواقعية ما يحدث					
4	الحياد (أي عدم تفضيل مجموعة من المستخدمين على أخرى)					
5	قابلة للمقارنة (يمكن مقارنة معلومات شركة مع أخرى)					
6	ثبات المبادئ المحاسبية على مدى الفترات المالية					

إذا كان لديك أي تعليقات أخرى مهمة حول مصادر المعلومات في الكويت و / أو بخصوص تقييمك لأهمية العناصر السابقة، يرجى ذكرها.

القسم الثالث : الإفصاح الأختيارى (التطوعى)

1. بناء على تصوركم وانطباعكم الشخصي يرجى تقييم مستوى الإفصاح الأختيارى في التقارير السنوية للشركات المدرجة في سوق الكويت للأوراق المالية.

منخفض جدا ☐ منخفض ☐ محايد ☐

مرتفع ☐ مرتفع جدا ☐

2. يرجى الإشارة إلى أي مدى توافق أو لا توافق على أن الإفصاح الأختيارى عن المعلومات المحاسبية في التقارير السنوية تفيد في المجالات التالية :

	المجالات	لا أوافق بشدة	لا أوافق	محايد	أوافق	أوافق بشدة
1	تحسين جودة وفائدة التقرير السنوي كمصدر للمعلومات المستخدمة في صنع القرار					
2	تحسين مستوى الثقة في عملية صنع القرار					
3	تدعم المستثمرين (حقوق الأقلية) في مراقبة استثماراتهم					
4	المساعدة في تحقيق فرص استثمارية جديدة أو إضافية					
5	المساعدة مستخدمي التقارير السنوية على إجراء مقارنات بشأن أداء شركة معينة على مدى فترات من الزمن ، مثلا خلال السنوات الخمس المالية الماضية					
6	المساعدة في مقارنة أداء الشركة مع الشركات الأخرى المنافسة					
7	المساعدة في مقارنة أداء الشركة مع الشركات المدرجة في سوق الكويت للأوراق المالية					
8	المساعدة في إعداد المزيد من النسب والتحليلات المالية					
9	تعزيز قدرة مستخدمي التقارير السنوية على التنبؤ بالإيرادات والأرباح و التدفقات النقدية المتوقعة					

10	أخرى (يرجى التحديد) 1. ________________________________ 2. ________________________________ 3. ________________________________					

3. يرجى الإشارة إلى أي مدى توافق أو لا توافق على أن المعلومات التالية من شأنها أن تحسن نوعية الإفصاح الأختيارى فى التقارير المالية السنوية للشركات المدرجة في سوق الكويت للأوراق المالية ؟

	بنود المعلومات	لا أوافق بشدة	لا أوافق	محايد	أوافق	أوافق بشدة
	المعلومات المتعلقة بمجالس الإدارات					
1	أسماء أعضاء مجلس الإدارة الغير تنفيذيين					
2	السيرة الذاتية لأعضاء مجلس الإدارة (المؤهلات العلمية والخبرة العملية)					
3	أسماء أعضاء مجلس الإدارة الذين هم أعضاء في مجالس إدارات شركات مساهمة كويتية و/أو أجنبية أخرى					
4	المكافأة التي يحصل عليها كل عضو مجلس ادارة بالإضافة إلى ذلك المميزات الأخرى لكل عضو					
5	أنواع لجان مجلس الإدارة					
6	المسئوليات المتعلقة بهذه اللجان					
7	أسماء أعضاء هذه اللجان					
8	الإجراءات المتبعة في تعيين أعضاء هذه اللجان					
	المعلومات المتعلقة بالإدارة التنفيذية					
9	أسماء كبار موظفي الإدارة التنفيذيين					
10	السيرة الذاتية لكبار موظفي الإدارة التنفيذيين (المؤهلات العلمية والخبرة العملية)					
11	المسئوليات المسندة إلى أعضاء الإدارة التنفيذيين					
12	الرواتب التي يحصل عليها كبار موظفي الإدارة التنفيذيين (كل على حدا) بالإضافة إلى المميزات الأخرى التي يحصلون عليها					
	المعلومات المتعلقة بالموظفين					
13	الالتزام بالمعايير واللوائح المحلية المتعلقة بالصحة والسلامة في					

	مكان العمل					
14	توفير التأمين الصحي للموظفين					
15	تقديم المساعدات المالية للموظفين للتطوير بالحصول على الشهادات الأكاديمية أو المهنية					
16	عدد الساعات التدريبية التي يحصل عليها كل موظف					
17	الميزانية المخصصة لبرامج التدريب والتطوير					
18	عدد الموظفين الذين يتم تدريبهم سنويا					
	المعلومات المتعلقة بالقضايا الاجتماعية والبيئية (مسئولية الشركة الاجتماعية والبيئية)					
19	المحافظة على الموارد الطبيعية (مثلا إعادة تصنيع وإدارة النفايات)					
20	المحافظة على مصادر الطاقة و المواد المستخدمة في العمليات المتعلقة بالشركة					
21	*حصول الشركة على شهادات عالمية وذلك لمطابقتها معايير الجودة العالمية (على سبيل* المثال ISO *)*					
22	دعم المشاريع المتعلقة بالصحة العامة والنواحي الاجتماعية					
23	دعم الطلاب وذلك من خلال تعيينهم على نظام العمل الجزئي					
24	دعم ورعاية الحلقات النقاشية والمؤتمرات الأكاديمية					
	المعلومات المتعلقة بالمنتجات أو الخدمات					
25	وصف لأهم منتجات أو خدمات شركة					
26	وصف للأسواق المناسبة لتسويق منتجات أو خدمات شركة					
27	مساهمة منتجات أو خدمات الشركات في دعم الاقتصاد الوطني					
28	التطورات المتعلقة بمنتجات أو خدمات الشركة					
29	الحصول على جوائز نتيجة زيادة درجات جودة منتجات أو خدمات الشركة					
30	إذا كان هناك أي معلومات أخرى ، يرجى ذكرها .1 ______________________________ .2 ______________________________ .3 ______________________________					

إذا كان لديك أي تعليقات أخرى مهمة حول تحسين الإفصاح الأختياري (على سبيل المثال معلومات اختيارية أخرى يوصى بالإفصاح عنها في تقارير الشركات السنوية) و/ أو بخصوص تقييمك للبنود السابقة ، يرجى ذكرها.

القسم الرابع: شفافية معلومات الشركات

1. يرجى الإشارة إلي أي مدى توافق أو لا توافق بأن العوامل التالية قد تؤثر في مستوى الشفافية للمعلومات الخاصة بالشركات المدرجة في سوق الكويت الأوراق المالية.

	العوامل	لا أوافق بشدة	لا أوافق	محايد	أوافق	أوافق بشدة
1	سمعة مجلس الإدارة					
2	سمعة الإدارة التنفيذية للشركة					
3	سمعة الشركة بشكل عام					
4	سمعة مراجع الحسابات الخارجي					
5	مستوى الثقة في سوق المال					
6	مصدر المعلومات					
7	زيادة متطلبات الإفصاح الإجباري					
8	قدرة المشاركين في السوق على تقييم مدى الثقة في سياسات الإفصاح المتبعة من قبل الشركة					
9	تطبيق معايير حوكمة الشركات					
10	أي عوامل أخرى ، يرجى التحديد 1. ______________________ 2. ______________________ 3. ______________________					

القسم الخامس: اللوائح المحاسبية و نمو سوق الكويت للأوراق المالية

1. من وجهة نظركم، هل من المهم الحد من تداخل مهام الأشراف و الرقابة بين الجهات المنظمة للسوق؟

☐ ليس مهما على الإطلاق ☐ قليل الأهمية ☐ محايد

☐ مهم ☐ في غاية الأهمية

2. من المعلوم أن درجة الثقة فى سوق المال بالإضافة الى مستوى المنافسة بين الأسواق المالية تتأثر بالقواعد والضوابط التى تحددها الهيئات التنظيمية. يرجى الإشارة إلى أي مدى توافق أو لا توافق على ضرورة وضع الإجراءات في الكويت فيما يتعلق بالقضايا التالية:

	القضايا	لا أوافق بشدة	لا أوافق	محايد	أوافق	أوافق بشدة
1	وجود هيئة مستقلة لسوق المال من أجل تعزيز الرقابة على أداء سوق الكويت للأوراق المالية					
2	تحسين مهارات موظفي الجهات المنظمة للسوق بحيث يعزز قدرة تلك الجهات على الأشراف والرقابة وذلك للتحقق من مدى التزام المشاركين في السوق بالقوانين و اللوائح الصادرة					
3	زيادة المتطلبات المحلية للإفصاح (مثلا هيكل الملكية و الأطراف ذات العلاقة)					
4	تطوير الموقع اللأكتروني لسوق الكويت للأوراق المالية بحيث يوفر معلومات حديثة بالإضافة إلى المعلومات الأخرى المتعلقة بالشركات					
5	وضع إجراءات أكثر دقة ونظامية للشركات من اجل أن تفصح عن معلوماتها على موقع سوق الكويت للأوراق المالية أو الموقع الخاص بالشركة					
6	أي مواضيع أخرى، يرجى التحديد 1. ______________________ 2. ______________________ 3. ______________________					

3. معايير حوكمة الشركات لها تأثير إيجابي على بناء العلاقات بين الإدارة التنفيذية للشركة ومجلس إدارتها ، وجميع أصحاب المصلحة، مثل المساهمين. و التوصيات التالية أوصت بها بعض التقارير من أجل تحسين درجة الثقة والاستثمار في السوق المالي. يرجى الإشارة إلى درجة الصعوبة المتعلقة بتطبيق تلك التوصيات في البيئة التجارية الكويتية.

	التوصيات	درجة الصعوبة				
		صعب جدا	صعب	معتدل	صعوبة محدودة	لا توجد صعوبات
1	معايير حوكمة الشركات التي تهدف إلى تعزيز ممارسات مجلس الإدارة يجب تطبيقها، مع مراعاة أن يتم تنقيحها لتناسب البيئة الكويتية إذا لزم الأمر					
2	ينبغي على جمعية المحاسبيين الكويتية أن تشارك في عملية تبنى معايير حوكمة الشركات					
3	ينبغي وضع برامج تثقيفية وذلك بهدف زيادة الوعي لمجالس إدارات الشركات بخصوص أهمية معايير حوكمة الشركات					
4	ينبغي وضع برامج تثقيفية وذلك بهدف زيادة الوعي بين المستثمرين فيما يتعلق بالتعامل في أسواق المال					
5	وضع آلية تشجع على طرح اسهم شركات للاكتتاب العام عندما تصل الملكية في الشركات المساهمة إلى أكثر من 35%					
6	يجب الربط بين مكافآت اعضاء مجلس الإدارة والإدارة العليا للشركة مع أداء الشركة					
7	يجب أن يكون ثلث أعضاء مجلس الإدارة أعضاء غير تنفيذيين وتكون غالبيتهم مستقلين					
8	يجب حضور الأعضاء الغير تنفيذيين والمستقلين حتى يتحقق النصاب القانوني لاجتماعات مجلس الإدارة					
9	يتوجب على جميع الشركات المدرجة أن يكون لديها لجان مجلس الإدارة (التدقيق،تعيينات،مكافآت)					
10	في الشركات التي تسيطر عليها العائلات يجب أن يكون دور الأعضاء الذين ينتمون لهذه العائلات محدود فيما يتعلق بالإدارة العليا (التنفيذية) (أى تقييد دورهم فى الأدارة)					

إذا كان لديك أي مزيد من التعليقات الهامة بخصوص القوانين (مثل مبادئ حوكمة الشركات) في الكويت و / أو تقييمك للمواضيع السابقة، يرجى ذكرها.