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Corporate Financial Disclosure in an Emerging Capital Market
Evidence from Kuwait

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Corporate Financial Disclosure in an Emerging Capital Market: Evidence from Kuwait

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Corporate Financial Disclosure in an Emerging Capital Market: Evidence from Kuwait

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Dedication

This thesis is dedicated to the memory of my beloved late father who would have been happy and proud had he been around I ask almighty Allah to inhabit in paradise, and to my dearest person my mother, to my beloved wife Hanan and to my lovely sons Ahmed and Anas, and to my dear brothers Yakelf, and Mohamed and sisters.

Thank you all for your love, prayer and support.

May Allah bless you all!

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List of Abbreviations

AICPA	American Institute of Certified Public Accountants
APB	Accounting Principles Board
ASB	Accounting Standards Board
ASSC	Accounting Standards Steering Committee
BAR	Behavioural Accounting Research
CBK	Central Bank of Kuwait
CMAK	Capital Market Authority of Kuwait
EMH	Efficient Market Hypothesis
FASB	Financial Accounting Standards Board
FDI	Foreign Direct Investments
GAAP	Generally Accepted Accounting Principles
GCC	Gulf Co-operation Council
GDP	Gross Domestic Product
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
KAAA	Kuwait Accounting and Auditing Association
KFAS	Kuwait Foundation for the Advancement of Sciences
KNPC	Kuwait National Petroleum Company
KSE	Kuwait Stock Exchange
MBAR	Market Based Accounting Research
MCI	Ministry of Commerce and Industry
NBK	National Bank of Kuwait
PTC	Permanent Technical Committee
SPSS	Statistical Package for Social Science

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Declaration

I hereby declare that I am the author of this thesis: that the work of which this thesis is a record has been done by me, and that it has not previously been accepted for a higher degree.

Signed…………..…………… Date……………..…………

Mr Issa A. Dawd

Certificate

We certify that Mr Issa Ahmed Dawd has worked the equivalent of nine terms on this research, and that the conditions of the relevant ordinance and regulations have been fulfilled.

Signed………………………... Date………………..……….

Professor Bruce Burton

Signed………………………... Date………………..……….

Dr. Theresa Dunne

Abstract

The importance of disclosure in corporate annual reports has increased over the past couple of decades (Beattie and Pratt, 2002). This increase has been attributed in part to growth in the knowledge economy (Beattie and Pratt, 2002; Beattie, 2012). Disclosure is now accepted as an essential component of financial statements and its place is cemented by recent changes in the regulatory framework which place disclosure matters at the heart of some key accounting standards. In addition the recent financial crisis has further fuelled debate on the need for relevant disclosures but concern is growing about information overload and avoiding 'clutter' (Beattie and Pratt, 2002; Beattie, 2012). Disclosure has long been considered essential to economic development and growth particularly in an emerging economy context (Gill and Tropper, 1988).

Notwithstanding the importance of corporate financial disclosure and a few notable exceptions, very little is documented in the extant literature about financial disclosure practices in developing countries. Therefore, the aim of this thesis is to extend empirical knowledge and contribute to the corporate disclosure literature by providing empirical evidence on corporate financial disclosure in the emerging capital market of Kuwait. Kuwait is of interest because of the remarkable growth in stock exchange activity and the unique business environment faced there. In addition, as Kuwait first adopted IAS/IFRS in 1991 users and preparers should be well-versed in it and the country therefore represents an ideal and fruitful site for analysis. The results of the study are likely to have implications for decision makers, the academic community and accounting standard setters.

This thesis has five principal aims: (i) to explore the extent of compliance with IFRS disclosure requirements by Kuwaiti non-financial listed companies; (ii) to investigate the extent of aggregate (mandatory and voluntary) financial disclosure provide by Kuwaiti non-financial listed companies; (iii) to ascertain the relationships between selected corporate characteristics such as company size, leverage, profitability, liquidity, listing age, type of auditor, and type of industry and aggregate, mandatory, and voluntary financial disclosure; (iv) to document the annual report preparers' perceptions of financial disclosure practices in Kuwaiti non-financial listed firms; and (v) to analyse whether/how annual reports of Kuwaiti non-financial listed companies satisfy users' needs. The study is grounded in the decision usefulness literature and makes use of two primary research methods, namely: (i) three unweighted disclosure indices aimed at measuring the extent of aggregate, mandatory and voluntary disclosure published in annual reports issued by 51 non-financial Kuwaiti companies; and (ii) a questionnaire survey which explored the perceptions of preparers and users of corporate annual reports.

Overall, the results provided a detailed picture of reporting practices in Kuwait with large companies disclosing more information than small companies, but only in terms of voluntary disclosure. More profitable companies tended to disclose less mandatory information than companies with lower income levels, while leverage, liquidity, listing age and audit type were found to have no significant association with disclosure.

The questionnaire evidence revealed that accounting practices in Kuwait non-financial firms are firmly rooted in a decision-usefulness tradition with management and the board of directors viewed as the key audience for reporting information. Indeed, the annual reports of Kuwaiti non-financial listed companies are perceived as the most important sources of information. On the whole both preparers and users shared similar concerns regarding the volume of information contained within annual reports, however, their views differed in terms of identifying potential solutions.

Chapter 1

Introduction

1.1 Introduction

There are various channels through which companies can provide information on their operations to the public, including annual reports, websites, newspapers and analysts' meetings. Among these different channels of disclosure, the annual report is considered as one of the most important sources of firm-level information (Gray et al., 1996). In this context, Stanga (1976) suggests that "Published annual reports are extremely important sources of corporate information" (p. 42), while Marston and Shrives (1991) conclude that the annual report is the most comprehensive document available to the public and is therefore the "main disclosure vehicle" (p. 196) in practice. The current study focuses on financial information disclosed in the annual reports of Kuwaiti non-financial listed companies.

In fact, disclosure of an entity's annual report is commonly seen as referring to: "the publication of any economic datum relating to a business enterprise, quantitative or otherwise, which facilitates the making of economic decisions" (Choi, 1973, p. 160); while Cooke (1989a) describes disclosure in financial reporting as:

> "…those items in corporate annual reports that are (sic) relevant and material to the decision-making process of users who are unable to demand information for their particular needs. If an item of information is relevant and material and is not disclosed then the decisions users make are likely to be less than optimal." (Cooke, 1989a, p. 6).

According to Dixon and Holmes (1991) the importance of disclosure is linked to the assumption that there is an association between information flows and the efficiency of national financial markets. One implication of this line of reasoning is that increased disclosure helps make capital markets efficient in both operations and allocations. The more efficient capital markets are, the better the participation by borrowers and lenders (Choi, 1973).

Disclosure is twofold; Owusu-Ansah (1998) describes regulation-driven disclosure as:

> "…the communication of economic information, whether financial or non-financial, quantitative or otherwise concerning a company's financial position and performance. It is described as mandatory if companies are obliged under a disclosure regulatory regime to disclose insofar as they are applicable to them." (p. 608).

In contrast, the term "voluntary disclosure" relates to any information disclosed by companies that is not mandated by law and/or self-regulatory bodies (Owusu-Ansah, 1998). In this regard, Marston and Shrives (1991) argue that "voluntary disclosure, in excess of the minimum, may arise where corporate perceptions of the benefits arising outweigh the costs" (p. 196). Einhorn (2005) also discuss motivations for voluntary disclosure in corporate annual reports; in this context he notes that voluntary disclosure is viewed in the existing studies as being motivated primarily by its effects on perceptions of the firm's value in the capital market.

It is well established in the conventional accounting literature that information presented in the corporate annual report should be useful for those making economic decisions if such a report is to succeed in being the primary means of communication between companies and outsiders (Lee and Tweedie, 1975). The International Accounting Standards Board (IASB) argues that the objective of financial reporting is: "To provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions" (IASC, 1989, paragraphs, 22-23). In its 1989 framework, the IASB describe four principal qualitative characteristics which make accounting information presented in financial statements useful to users; these are: understandability; relevance; reliability; and comparability.

At an international level, there is a dearth of literature on developing countries measuring the level of financial disclosure in the light of International Accounting Standards (IAS)/ International Financial Reporting Standards (IFRS) requirements (exceptions include: Naser et al., 2003 on Jordan; Abd-Elsalam and Weetman, 2003 on Egypt; Leventis and Weetman, 2004 on Greece; Hassan et al., 2006 on Egypt; Abd-Elsalam and Weetman, 2007 on Egypt; Al-Akra et al., 2010 on Jordan and Omar and Simon, 2011 on Jordan) and in the Gulf Co-operation Council (GCC) countries in particular (but see Naser and Nuseibeh, 2003 on Saudi Arabia; Alsaeed, 2006 on Saudi Arabia; Naser et al., 2006 on Qatar; Aljifri, 2008 on UAE; Al-Shammari, 2008 on Kuwait; Al Mutawaa and Hewaidy, 2010 on Kuwait). In this context, Akhtaruddin (2005) and Barako (2007) argue that distinguishing between mandatory and voluntary disclosure of financial information in corporate annual reports and the factors that influence this choice has attracted extensive research attention in developed countries, especially the US and in Europe, but this issue has received limited attention in developing countries. However, even in developed countries, most studies focus on exploring voluntary rather than mandatory disclosure, effectively ignoring the existence and potential importance of mandatory disclosure (Einhorn, 2005); in fact, both mandatory and voluntary disclosures are potentially significant and both should be taken into consideration when exploring firm disclosure practices (Omar and Simon 2011).

A number of approaches have been suggested in the extant literature to evaluate the level of financial disclosure in corporate annual reports. One of the most popular method focuses on the volume and nature of the information released using a disclosure index (e.g. Cerf, 1961; Firth. 1979; Al-Bastaki, 1997; Owsus-Ansah, 1998; Al-Shayeb. 2003; Hassan et al., 2006; Abd-Elsalam and Weetman, 2007; Barako. 2007; Hossain, 2008; Al-Akra et al. 2010; Omar and Simon, 2011; Al-Shammari, 2011; Popova et al., 2013). A second popular choice is directly ascertaining the perspectives of external users of corporate annual reports (e.g. Lee and Tweedie. 1975; Abu-Nassar and Rutherford, 1996; Owusu-Ansah, 1998; Street and Gray, 2002; Ferguson et al., 2002; Nasser et al., 2003; Leventis and Weetman, 2004; Al-Razeen and Karbhari, 2004a; Mirshekary and Saudagaran, 2005). Since these two methods complement each other, the current study employs both methods in addition to exploring the perceptions of annual report preparers regarding a variety of issues related to financial reporting and disclosure practices; in so doing it is intended to provide a rich description of the status of financial disclosure practices in the annual reports of Kuwaiti non-financial listed companies.

The rest of this chapter is structured as follows: Section 1.2 provides a discussion of the main motivations underpinning this study. Section 1.3 then summarises the key research objectives before Section 1.4 outlines the research methodology and methods adopted. Section 1.5 highlights the main contributions, while Section 1.6 provides an overview of the structure of this study.

1.2 Motivations for the Study

This research topic has been chosen because of the growing importance of disclosure in business reporting. According to Beattie and Pratt (2002), over the last decade the importance of disclosure in corporate annual reports has increased because of: (i) the development of the knowledge economy (with rises in intangible values), that were not recognised in traditional financial statements; (ii) the growth in the importance of disclosure as specified by regulation; and (iii) the recent financial crisis, that has itself further fuelled debate on the need for 'relevant' disclosures, with concern about information overload and avoiding 'clutter' (Beattie, 2012).

While the possibility of conducting a comparative study which would examine disclosure across two or more countries was considered, this was not pursued because it would limit the study to investigation of fewer measurements (due to time constraints) rather than the broader and deeper examination of a heavily under-researched, but increasingly important, Gulf nation.

Concentrating on a single nation is also in line with the thinking of Weetman (2006) who encourages researchers of single country studies to "recognise and discuss the country specific context rather than set it to one side or assume it does not exist" (p. 364). This thesis does so by presenting the Kuwait context in Chapter 2.

Kuwait is of special interest for several reasons. From an international angle, there is a limited literature on the extent of financial disclosure in the light of IAS/IFRS requirements in developing country contexts in general and in the GCC countries in particular. More importantly, Kuwait was one of the first developing countries to adopt IAS (in 1991) and this may have had influences on accounting practices and financial reporting practices in the country that are as yet unidentified.

There are potentially important implications arising from this study as the economy of Kuwait is categorised as 'developing' in economic terms. Over recent decades, both the business sector and the capital market in Kuwait have experienced remarkable growth, as the next chapter details. Kuwait has the oldest Stock Exchange (KSE) in the GCC region and the second largest in the Arabic world, after Saudi Arabia in terms of market capitalisation (Al-Shammari, 2008). Many international investors have therefore begun to focus on Kuwait and the other GCC stock markets in the post-global crisis environment (Almujamed, 2011). Accordingly, Kuwait provides a distinctive opportunity to study disclosure practices issue in an emerging capital market.

1.3 The Research Objectives

The main aims of the current study are to: (i) investigate the nature of disclosures within Kuwaiti non-financial listed companies' annual reports and to identify the factors explaining variations in such practices; and (ii) investigate the perceptions of preparers and users relating to the observed disclosures and their usefulness. To achieve these twin aims, the specific objectives of the study may be outlined briefly as follows:

To evaluate the extent of aggregate (mandatory and voluntary) financial disclosure provided by Kuwaiti non-financial listed companies.

To investigate the extent of compliance with IFRS disclosure requirements by Kuwaiti non-financial listed companies.

To determine which company characteristics significantly affect the Kuwaiti non-financial listed companies' financial disclosures.

To investigate annual report preparers' perceptions of financial disclosure practices in Kuwaiti non-financial listed firms.

To investigate whether/how annual reports of Kuwaiti non-financial listed companies satisfy users' needs.

1.4 Research Methodology and Methods

The research philosophy of the current study is based on the functionalist paradigm presented by Burrell and Morgan (1979); however, an interpretive element is also part of the analysis. Consistent with a functionalist approach, a realist ontology, positivist epistemology, a deterministic model of human nature and a nomothetic methodology are adopted. Since the functionalist paradigm is associated with empirical or quantitative research, the study is considered to be primarily quantitative in its approach. The choice of research methods reflects these assumptions and two main tools are adopted, namely a disclosure index and a questionnaire survey.

A disclosure index was used to measure the extent of both aggregate and firm-level mandatory and voluntary disclosure in the corporate annual report, based on a self-constructed checklist of 230 aggregate disclosure items (150 mandatory and 80 voluntary), using an un-weighted disclosure index. The analysis focus on 2010 annual reports for non-financial companies listed on the Kuwait Stock Exchange (KSE), with a final sample of 51 companies emerging.[1] Two questionnaires survey instruments were then employed. The first was administered in order to evaluate preparers' perceptions about financial disclosures in the annual reports of Kuwaiti non-financial listed companies, while the

[1] More information on this choice will be provided in Chapter 5.

second questionnaire was targeted at users. The preparer questionnaire was sent to financial managers, managers of accounting departments and accountants, while the user questionnaire ascertained the views of institutional investors, individual investors and financial analysts.

1.5 Contributions of the Study

This thesis will contribute to the literature in six key ways:

First, the majority of prior studies on financial reporting practices focus on developed and developing Asian countries and very little is known about the issue in developing countries elsewhere in the world. This thesis extends empirical knowledge and adds to the literature on financial disclosure by investigating the recent extent of corporate financial disclosure in the emerging Middle Eastern Arabic nation of Kuwait.

Second, the majority of previous studies on the extent of compliance with IASs/IFRSs are concentrated in developed countries, usually the US, UK or continental Europe (e.g. Street et al., 1999; Street and Bryant 2000; Street and Gray 2002; Glaum and Street 2003; Fekete et al., 2008; and Popova et al., 2013). This thesis aims to extend the scope of the literature on observance of IASs/IFRSs by using data relating to an emerging nation where these standards are applicable. The suitability of IASs/IFRSs to developing countries has been debated in prior research (e.g. Samuels and Oliga, 1982; Perera, 1989; Hove, 1990; Wallace and Briston, 1993; Larson and Kenny, 1996; Carlson, 1997 and Watty and Carlson, 1998; Halbouni, 2005; Aljifria and Khasharmeh, 2006; and Chand and Patel, 2008). This thesis tries to help inform this debate by increasing the understanding of how these standards are applied in Kuwait,

Third, most previous studies focus solely on voluntary disclosure, thus ignoring the mandatory requirements. However, it is plausible that there will be differences in the relative extent of the two varieties of disclosure across companies, and if that is the case, the previous studies would have ignored an important aspect of this practice (Einhorn, 2005; Omar and Simon, 2011). This study therefore explores the importance of: aggregate, mandatory and voluntary disclosures.

Fourth, by using a more comprehensive disclosure index that includes detailed (230 items) information about both mandatory and voluntary disclosures than in related studies, the thesis for the first time to investigate the extent of aggregate disclosure (mandatory and voluntary) provides much further understanding of the level of disclosures in developing nations than has been the case previously.

Fifth, this study contributes to the literature by providing comprehensive empirical evidence on cross-sectional determinants of the levels and types of aggregate, mandatory and voluntary disclosure made by non-financial companies listed on the KSE. Previous studies such as Al-Mulhem (1997), reveal that the level of disclosure differs significantly among companies according to size, profitability etc. Consequently, the research presented here tries to determine the company specific characteristics which affect the extent of disclosure as measured via the detailed index employed; such an investigation will therefore help regulators to identify the characteristics that affect the variation of disclosure between firms where the evidence is based on a robust measure of the latter. More specifically, this study is the first to examine the impact of the listing age variable on the extent of disclosure in a Kuwaiti context. If the results show that companies listed for a long time disclose more information than recently listed firms then regulators may want to consider mandating some disclosure items in order to try and address the delay such evidence would imply. The examination of the relationship between company specific characteristics and the level of disclosure should not only increase understanding of the factors explaining variability in disclosure, but might also help policy makers in choosing suitable actions to remedy any deficiencies. For instance, if company size is found to be the most significant determinant of disclosure extent, then the regulatory authorities might usefully pay particular attention to encouraging small companies to extend their disclosure levels to a level adequate to meet user needs.

Sixth, the majority of previous studies in the area have failed to distinguish between financial and non-financial listed firms, which weakens the contribution made as disclosure requirements in accounting standards, as well as the types of information typically volunteered, differ markedly across these two groups (Kribat et al., 2013). Finally questionnaires are used for the first time in order to examine the perceptions of preparers and users of corporate annual reports of Kuwaiti non-financial listed companies; this is highly novel in the disclosure literature in general, but allows for consistencies, differences and emerging trends in the view of the two groups to be identified.

1.6 Structure of the Thesis

Chapter 2 provides background information about Kuwait as a country, with the emphasis on the economy and the financial reporting environment. In addition, the chapter presents a review of the Kuwaiti context in terms of history, location, population and political and scope. The chapter discusses in detail the development of the economy in Kuwait, the growth of the Kuwaiti Stock Exchange and the financial reporting environment, in terms of financial reporting regulations and the role of the accounting profession.

Chapter 3 reviews the relevant extant literature relating to accounting disclosure and the factors that affect disclosure practices; it explores studies that document a range of perceptions regarding corporate disclosure. The chapter outlines the concept of disclosure, discussing various formats and broader role in the modern world. The chapter also reviews studies that examine mandatory disclosure and the relationship between disclosure practices and firm characteristics in both developed and developing countries, as well as focusing on the corresponding literature on voluntary and overall disclosure. Finally, the chapter highlights the literature on user and preparer perceptions.

Chapter 4 presents an overview of the theoretical framework underpinning the current study. The two main theoretical frameworks that dominate accounting disclosure research, namely the decision usefulness and accountability approaches, are discussed as potential foundations to explore the level of, and motivations for, disclosure in annual reports of Kuwaiti non-financial listed firms. The chapter outlines the limitations of both in order to try to assess their suitability as a theoretical framework for this thesis. The chapter explains that decision usefulness was ultimately selected as the most suitable theoretical framework for this study and the reasons behind this selection are highlighted.

Chapter 5 outlines the research philosophy, methodology and methods followed in the study in an attempt to achieve its objectives. The chapter discusses the hypotheses examined, research instruments employed and procedures used to collect the data. The construction of the disclosure indices and the questionnaire design and execution are also explained. In addition, the statistical tests used to examine the formulated hypotheses are outlined.

Chapter 6 presents the results of the disclosure index analysis examining the extent of aggregate, mandatory and voluntary disclosure in the annual reports of Kuwaiti non-financial listed firms. The chapter also investigates the association between company specific characteristics and the extent of disclosure. Chapters 7 and 8 then present and discuss the empirical findings from the questionnaire surveys. Chapter 7 outlines and analyses the results of the survey of preparers' perceptions, whilst Chapter 8 does the same for the study of users. Chapter 9 then summarises the main research findings, outlines the main contributions, policy implications and limitations of the study, as well as making suggestions for further research developing the work reported there in.

Chapter 2

The Economic and Financial Reporting Environment in Kuwait

2.1 Introduction

To study an accounting issue such as disclosure in a particular country, it is useful to consider the state of economic development in the nation and to identify more specific contextual factors relating to financial reporting within its borders. The present study focuses on aggregate disclosure (IFRS disclosure requirements and voluntary disclosure) amongst Kuwaiti non-financial companies listed on the Kuwait Stock Exchange. Over recent decades, the business environment in Kuwait, one of the GCC countries with a fast emerging capital market, has experienced remarkable growth. In addition, Kuwait was one of the first developing countries to adopt IAS.

The purpose of this chapter is to provide background information about the nation of Kuwait, with an emphasis on its economy and financial reporting environment. Section 2.2 presents a brief outline of Kuwait's history, location, population, and political environment. Section 2.3 then discusses the nation's economic development. The development of the Kuwaiti Stock Exchange is presented in Section 2.4, while Section 2.5 details the financial reporting environment in Kuwait in terms of financial reporting regulations and the role of the accounting profession. A summary of the chapter is provided in Section 2.6.

2.2 Political and Geographical Background

Kuwait is a small Arab country located in the Middle East region and is a member of the Gulf Cooperation Council (GCC)[2] which was created on 4th of February 1981. The modern state of Kuwait can trace its origins back to the arrival of settlers from Saudi Arabia in the 18th century. At that time, Kuwait was a small village with only a few thousand inhabitants. In 1756 the Al-Sabah family were elected by the inhabitants of Kuwait and the first Emir was appointed. The Al-Sabah family have continued to rule the country to the present day (Al-Yaqout, 2006).

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[2] The Gulf Cooperation Council (GCC) includes Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and UAE

Kuwait is situated in the north-west of the Arabian Gulf region and is bordered on the north and west by Iraq, on the south and west by Saudi Arabia and on the east by the Gulf itself; (see Figure 2.1). It is acknowledged (e.g. by Roberts et al. 2008) that the geography of a country can enhance its wealth and political influence; in the case of Kuwait, the state has particularly benefited from its oil-rich geography in building its wealth and in developing political influence in the international community. Casey (2007) describes the geography of Kuwait in details noting that the land is covered by a bed of clay, silt, gravel, and sand; this sediment sits on top of a large dome that consists of limestone. These massive rocks in turn cap the reservoir of petroleum that provides Kuwait with its wealth and political influence (Casey, 2007).

Kuwait became an important nation due to its geographical location as the gateway to the Arabian Peninsula (Al-Yaqout, 2006). The total land area of Kuwait is 17,818 square kilometres, most of which is flat sandy desert, with no mountains, rivers or other natural features other than a few (low) hills and a number of islands including Failaka, Bubiyan and Warba.[3] The state experiences desert weather which is hot and dry in summer, when the temperature varies between 35-49^{o}C and cold in winter when the temperature ranges between 5-18^{o}C (Al-Yaqout, 2006). The modern political history of Kuwait dates back to 1899 when the Kuwait government signed a protection treaty with the UK. This agreement was in place until 19th June 1961 when Kuwait obtained independence. A year after independence a new constitution of Kuwait was drafted guaranteeing the independence of the judiciary and establishing its organisation and functions (Al-Yaqout, 2006). The current legal system in Kuwait reflects British, French, Islamic and Egyptian influences and, therefore, incorporates elements of both civil and common law. The government oversaw steady economic and infrastructural development during the 1960s and 1970s.

[3] http://www.kuwaitpocketguide.com/kuwait-intro.asp.

The economy suffered financial crises in the late 1970s and early 1980s. However, the greatest crises to affect the modern state of Kuwait occurred when Iraqi troops invaded on the 2nd of August 1990. The first Gulf war ensued, compounding financial difficulties in the country as the infrastructure of the country - including the capacity for oil production-were damaged by Iraqi troops (Almujamed, 2011).

Figure 2.1: The Geographical Location of Kuwait

Note: This figure shows the geographical location of Kuwait; it is bordered by Iraq in the north and Saudi Arabia in the south west. Source: www.lonelyplanet.com/kuwait

Kuwait is widely considered to be a multi-cultural country because of the many different nationalities residing there (Almujamed, 2011). According to the Public Authority for Civil Information, the population of Kuwait in June 2013 was approximately 3,898,361 although Kuwaiti citizens account for only 1,231,154 of the total with the rest of population comprising immigrants and foreign labourers.[4] The nation’s official language is Arabic, although a second language (English) is widely-used, especially in education, business, banking and commercial activities. The official currency of Kuwait is the Kuwaiti Dinar

[4] The latter primarily work in the oil industry.

(KD); the exchange rate of the KD against the US dollar (US$) was 1 KD = 3. 5379 US$ as at 1st January 2014.

Following independence from the UK in 1961 the state was officially established as democratic and Muslim, with a written constitution and an elected parliament (Al-Diwan AlAmiri, 2008). The most powerful body in Kuwait is the National Assembly (council of the Nation) which plays a critical role in supporting the country in terms of political, economic and social development. Having described the nation's political structure, the following section focuses on economic development in Kuwait.

2.3 Economic Development

Kuwait evolved as a major regional trading centre in the 18th century and became increasingly important as a result of the unstable political situation in Persia during the 18th and 19th centuries and the war between the Persian and Ottoman Empires. Al-Sabah (1980) argues that these political problems forced a number of trading families to leave their home countries and move to Kuwait, re-establishing their business activities there and playing a significant role in the country's development. As result, the East India Company moved its offices from Iraq to Kuwait, and in turn became the firm's southern terminal.

Prior to the discovery of oil, the Kuwaiti economy was based on fishing and the export of pearls (Al-Sabah, 1980). According to Al-Yaqout (2006) these activities were mainly undertaken by small family companies with limited capital resources; in fact, the businesses were able to finance their investment needs without any recourse to external sources (Al-Sabah, 1980). Therefore, accounting operations were very simple, confined to operations recording the quantities sold and the quantities purchased by merchants. However, there was no legal requirement for accounting and auditing, or indeed any business-oriented regulations. During this period of time before the discovery of oil, accounting was characterised by its simplicity (Alanezi, 2006). At this time, the Kuwait government played a very low key role in the affairs of small family-run businesses and so corporate and personal taxes were the main source of national revenue (Al-Yaqout, 2006).

The discovery of oil in 1938 led to dramatic changes in the Kuwaiti economy, particularly following the export of the first shipment eight years later. Since then oil has become the nation's dominant economic resource. As a consequence, a large proportion of the Kuwaiti people were employed directly or indirectly in the industry, while the country earned substantial revenues from the taxes and royalties paid by the firms that extracted the oil (Al-Shamali, 1989).

In 1958, further concessions were given to foreign companies planning to extract oil; such a concession was signed with the Arabian Oil Company, a subsidiary of a Japanese trading firm (Al-Omar, 1990). In 1960 the Kuwait National Petroleum Company (KNPC) was established as a joint venture between the government and the private sector.[5] To the present day, this organisation assumes responsibility for selling Kuwaiti oil in both local and international markets (Almujamed, 2011).

As a result of developments in the economy of Kuwait during the period between 1938 and 1959, and since no accounting regulations were announced during this period, it was reasonable to suppose that among those immigrants who brought with them the accounting practices and regulations which applied in their home countries (Al-Mousawi, 1986; Alanezi, 2006). Such exporting of accounting regulations and practices is common in developing countries (Roberts, et al. 2008) where accountants have different backgrounds and knowledge that can be expected to trickle down into accounting disclosure practices and contribute to the diversity of both accounting and auditing practices, as evidenced in Kuwait at that time. During this period, Kuwaiti organisations began to incorporate and the

[5] Initially, Kuwait held a 60% stake in the KNPC and the rest was owned by the private sector; later on, the government bought the 40% share from the private sector and assumed ownership of the whole company (Al-Yaqout, 2006).

first accounting firm emerged in 1946 by British professionals (Alanezi, 2006). A few years later, in 1952, the National Bank of Kuwait (NBK) was set up as the first Kuwaiti joint-stock company. Two years later, the National Kuwaiti Cinema Company was established, by the establishment of the Kuwaiti Oil Tankers Company. Several expansions in the industrial sector of Kuwait (the establishment of the above Kuwaiti companies, the work of foreign oil companies in Kuwait and the emergence of the first accounting firm in Kuwait) led the Kuwaiti authorities to recognise the importance of regulation and supervision of corporate activities which led them initially to draw up several tax laws (Alanezi, 2006).

Table 2.1 summarises Kuwaiti Gross Domestic Product (GDP) data over the years 1962-2011. The Kuwaiti economy grew rapidly during the 1950s and 1960s as oil production increased, but the speed of growth rose even further in the 1970s, as a result of the high global oil price; between 1970 and 1980 GDP increased dramatically from $2.87 billion to $28.63. GDP fell back as a result of the first Gulf war, before rising again dramatically in the 1990s following the end of the second Gulf war. By 2008, it had reached $148.78 billion as a result of further increases in oil prices (Almujamed, 2011). Since then GDP has fluctuated; in 2009 it decreased by 28.8%, however, it rose in both 2010 and 2011 by 17.4% and 42% respectively (World Bank, 2011).

Table 2.1: Kuwaiti GDP (in US$ billion)

Year	Kuwait GDP (US$ Billion)	GDP Growth (%)
1962	1.82	-
1970	2.87	57.69
1980	28.63	897.5
1990	18.42	(-35.6)
2000	37.71	104.8
2001	34.89	(-7.4)
2002	38.13	9.2
2003	47.87	25.5
2004	59.44	24.1
2005	80.79	35.9
2006	101.56	25.7
2007	114.72	12.9
2008	148.78	29.6
2009	105.91	(-28.8)
2010	124.34	17.4
2011	176.59	42.02

Source: world Bank (WB), 2011

Note: The table reports Kuwaiti GDP in $ billions and % growth rates.

Income Tax Laws

As Al-Anzi (2000) notes, Kuwaiti companies do not have to pay taxes on their income, although there is no formal law exempting Kuwaiti firms from paying income taxes. In the Kuwaiti business community there is a general acceptance that became common practice whereby only foreign companies are required to pay income taxes. However, Kuwaiti joint-stock companies are required to pay 1% of their annual profits after their transfer to the statutory reserve and offset loss carry-forwards to the Kuwait Foundation for the Advancement of Sciences (KFAS). This foundation works to support and develop scientific research. The KFAS provides sponsorship and grants for different types of scientific research projects in the state of Kuwait. Kuwaiti companies are required to pay 2.5% of their net annual profits as a national labour support tax, irrespective of whether such annual profits are distributed to shareholders (Alanezi, 2006). However, tax is not an important consideration in Kuwaiti companies, because it was at the time that foreign oil companies were dominant in the economy that income Tax Laws No. 3/1951 and No. 3/1955 were introduced. They were specifically designed to target the foreign oil companies and other firms that conducted business in Kuwait (Alanezi, 2006).

2.4 The Kuwaiti Stock Market

The government of Kuwait has emphasised the role of monetary and financial organisations (Al-Bannay, 2002). In recent attempts to improve economic development and encourage growth, government policy has aimed at ensuring Kuwait has a financial sector capable of sustained progress, progress which in turn will lead to the country becoming less dependent on the oil industry (Al-Bannay, 2002). The Kuwait Stock Exchange is one of the key organisations in the nation's financial sector. In 1970, law No 32 was issued, regulating stock trading in shareholding companies; this has followed six years later by law No 61 which led to the organisation of dealings in Kuwaiti-based company shares. In 1977, the national bourse was opened in the city of Kuwait, named formally as the Kuwait Stock Exchange (KSE). Initially the Government was allowed to purchase any quantity of shares at a price prescribed by it; this regulation continued to be in force until April 1978 when another regulation issued by the government permitted the shareholding companies to reduce shares nominal value to one dinar (Al-Bannay, 2002).

In August 1983 an Amiri decree led to the KSE being reorganised as an independent financial institution, to be managed by the Exchange's committee and executive management team (KSE, 2010). This system continued in operation until February 2010 when the Kuwaiti parliament passed law No 7/2010 establishing the Capital Market Authority (CMA) (Kuwait AlYoum Newspaper, 2010). In September 2010 the government appointed the commissioners of the CMA to legislate and organise the activity of KSE (Alwatan News, 2010). The commissioners of the CMA needed six months to draft the relevant statutes, (Alwatan News, 2010), so the law has effected in March 2011.

After the KSE[6] was established it quickly began to play a key role in attracting Kuwaiti investors. To achieve this goal, the KSE offered a wide range of stocks, coupled with a growing number of derivative instruments, all of which helped make the market attractive for a wide range of financial users (Al-Yaqout, 2006). In so doing, the KSE has helped to facilitate strong economic growth, protect the capital base needed to promote the industrialisation of the economy and promote widespread share-ownership (Al-Yaqout, 2006).

A number of regulations have been introduced to increase the transparency of the market, improve levels of disclosure and attract foreign investors (Abul, 2005). For example, The KSE became the first market in the world to use the Arabic Automated System on January 17 1996, when it implemented the automated trading system. On September 10, 2000, the Kuwaiti government issued the Foreign Investment Law which allowed foreigners to invest in the KSE listed firms[7] and between 2000 and 2004 the KSE gave international investors the right to fully own any listed company[8] (Almujamed, 2011). At the same time the taxation of gains earned from foreign direct investments (FDI) was reduced, indeed profits earned by foreign investors on transactions in the Kuwait stock exchange, either via their own purchases and sales of shares or through investment funds, were no longer subject to taxation (Almujamed, 2011). According to Abul (2005, p.27) the main objectives of these regulatory changes were as follows:

> “To liberalize (sic) the KSE, attract foreign investment, and enhance the performance of the KSE. The legal developments during this period have put more emphasis on reporting and full disclosure requirements.”

At the commencement of this study, at the end of financial year 2010, KSE investor guide reported 217 companies listed on the exchange spread across eight sectors: non-Kuwaiti

[6] For detail about the main objectives of KSE see Appendix 2.1.
[7] http://www.kuwait-info.com/a_economy/bank_finance_KSE.asp
[8] Law No.20 from the year 2000 concerns the approval needed for non-Kuwaitis to own shares in Kuwaiti companies.

companies; banks; insurance; investment; real estate companies; industrial firms; service companies and food companies.

The KSE is now the second largest Arabic stock exchange after Saudi Arabia in terms of market capitalisation (Al-Shammari, 2008). According to Almujamed (2011), many international investors have begun to focus on Kuwait and the other GCC stock markets in the post-global crisis environment. Mobuis (2008) points to the Middle East region, particularly the GCC markets, as having remarkable economic growth potential; in fact, the author of that study has opened a new office in Dubai to develop potential investment opportunities amongst markets.

2.5 The Financial Reporting Environment in Kuwait

In any country, economic and business dealings need to be governed by specific laws that ideally reflect societal needs (La Porta et al., 1997). The major regulative bodies in Kuwait are the Ministry of Commerce and Industry and the KSE. The requirements of corporate reporting in Kuwait are influenced by International Accounting Standards (IAS) and their successor International Financial Reporting Standards (IFRS) as well as the listing requirements of the KSE (Naser et al., 2003). This section of this chapter discusses the regulations emanating from these sources that are most closely related to the research focus of this thesis i.e. financial reporting in Kuwait.

2.5.1 Financial Reporting Regulation

Business growth has led to a rise in the typical size of Kuwaiti companies and, as a result, ownership has become increasingly separated from management; the information needs of those connected with these more complex organisational structures has increased accordingly. In this context, it is clearly important to assess the credibility of financial information to protect investors and other users of financial reports. As Kuwaiti investors have become more conscious of the information value provided by high quality accounting systems (Almujamed, 2011), the government has developed an understanding of the importance of accounting for the economic system as whole. The reporting behaviour of KSE-listed firms is now subject to regulation stemming from three main (government-controlled) sources: Company Law No. 15 (1960) and its amendments, Stock Exchange Law 14/8/1983 and the Ministerial Resolution No. 18 of 1990. The following subsections provide an overview of these key statutes.

Company Law No 15 (1960)

This law is considered to be one of the most significant pieces of legislation regarding accounting in Kuwait (Al-Bannay, 2002). According to this law, companies are required to keep records of their financial operations, whilst the board of directors in each shareholding company must prepare a balance sheet and a profit and loss statement at the end of each financial year. These financial statements, which must be issued within three months of the end of the financial year, should provide a "true and fair" picture of the company's financial position (Article 47). Based on this law, companies are required to provide shareholders with a copy of the balance sheet for the last financial year, as well as the profit and loss account and the reports of both the directors and the auditor.

Law 15/1960 also requires that the financial statements audited by at least two registered auditors, and then made available to both the Ministry of Commerce and Industry and to the company's shareholders (Al-Shammari, 2008). However, the law fails to indicate the actual level of information that a company should disclose. No particular formats are prescribed and even the necessary contents of the accounting reports are not specified. In addition, the law does not indicate the accounting standards that companies must follow when preparing their financial statements.

The law also indicates that the auditor should not accept any work that conflicts with the audit engagement, for example, membership of the board of directors (Al-Bannay, 2002). In terms of auditors' rights, they are entitled to check and test all records of the company and request any additional information deemed important; if the auditor incurs difficulties in accessing the information needed, then this must be reported to the board of directors at the annual meeting.

Stock Exchange Law 14/8/1983

The particulars of 14/8/1983 Stock Exchange law and its amendments represent another important source of corporate reporting regulation in Kuwait. In 1997 the KSE Committee issued resolution No. 1, later replaced by resolution No. 3 of 1998, detailing the KSE listing requirements for Kuwaiti companies and those from other Arab countries which sought a listing on KSE. All such organisations must meet seven criteria: (i) share capital of KD 2 million or more must be in issue; (ii) the shareholders' equity should be not less than KD 3 million; (iii) the company must have been established long enough that its shares may legally be traded; (iv) Consent for a firm's operations at a general shareholder meeting; (v) evidence that its activities are approved; (vi) have realised operating profits during its fiscal year prior to listing and an average operating profit in the last 2 years, amounting to 5% or more per year of its paid-up capital; and (vii) issue a prospectus, approved by an auditor, giving a brief account of history and financial position.

As Naser et al. (2003) note, this law requires companies seeking a listing on the KSE to also meet a number of disclosure-related requirements. In order to ensure that investors are aware of the information disclosed in companies' financial reporting and to enable them to use this information when making investment decisions, the exchange requires that firms seeking a listing must provide information to the governing committee, these include: (i) memorandum and articles of association; (ii) audited financial statements and directors' reports since the date of establishment; (iii) details of the current board of directors and their percentage shareholdings in the company; (iv) information concerning subsidiaries and affiliates; (v) the total number of employees and names of executives; (vi) a list of shareholders' names and their stockholdings in the company; (vii) a description of the company's principal activities; and (viii) a list of executives who have the right to sign on behalf of the company, with signature specimens.

As the Kuwaiti financial reporting requirements apply to all companies listed on the KSE, all Kuwaiti companies must comply with IFRS and with all local regulations such as the Commercial Companies Law and Commercial Law. The companies listed on the KSE must have published audited annual accounts in the preceding two years and these accounts must accurately reflect a firm's financial structure. Over and above this provision, the board of directors of the KSE has the general right to require any extra information considered necessary before approving a listing. The Stock Exchange law requires listed firms to provide the KSE with: an audited balance sheet and income statement; director's report; and auditor's report, submitted within three months of the end of the financial year.[9]

Ministerial Resolution No. 18 (1990) Adoption of IAS

A number of possible reasons for developing countries' move towards full adoption of IAS/IFRS have been postulated in the extant literature; they include reduction of setup and production costs, joining the international harmonisation drive, facilitating the growth of foreign investment, enabling the accounting profession to emulate well-established professional standards of behaviour and conduct, and legitimising status as a full-fledged member of the international community (Belkaoui, 1994). Arguably, all of these points are relevant in the modern Kuwaiti context, and likely to appeal to its government.

[9] Listed companies that do not comply with the accounting regulations promulgated by the Ministry of Commerce and Industry may be delisted from the KSE (Al-Shammari, 2008).

In April 1990 the Ministry of Trade and Industry enacted directive No.18, requesting all companies operating in Kuwait to comply with IAS from 1 January 1991; however the ministerial order noted that IAS should not conflict with local regulations (Naser et al., 2003; Al Mutawaan and Hewaidy, 2010). The law also formalised the requirement for listed firms to follow regulations issued by three governmental bodies, namely: the Ministry of Commerce and Industry (MCI), The Central Bank of Kuwait (CBK) and the KSE. The adoption of IAS was intended to improve corporate information disclosure and transparency and to enhance the comparability of financial statements both domestically and internationally (Al-Shammari, 2008 and Mutawaan and Hewaidy, 2010). The 1990 resolution requires all companies in Kuwait to apply IAS, requiring all the latter to be adopted by all companies without exception.[10]

The responsibilities of the Ministry of Commerce and Industry (MCI) include checking compliance with commercial company law and other regulations; in the current Kuwaiti system the MCI relies on the report of the external auditor to measure compliance with the extant rules. Company law No.6 of 1960 represented the first formal attempt to organise the accounting profession in Kuwait[11] (Al-Bannay, 2002). In terms of the process of setting accounting rules, on the 28th of June 1981 the Permanent Technical Committee (PTC) of the MCI issued Ministerial Decree No. 75/1981 setting out accounting principles. Inspection of the PTC framework and its policies suggest that the development of accounting practices in Kuwait is intended to follow those adopted in developed countries where these are suitable (and useful) for the Kuwaiti business environment.

Following recommendations made by the PTC in January that year, the MCI issued regulation No. 4 1987; according to this, all Kuwaiti companies were required to prepare

[10] In 1991, the Ministerial Resolution No. 110/1991 confirmed the requirements of Ministerial Resolution No. 18 of 1990 concerning the obligation of all companies in Kuwait to comply the IAS when preparing their financial statements for the year ended 31/12/1991.

[11] As amended by law No.3 of 1965 and law No.5 of 1981.

their financial statements on the basis of three national accounting standards, those relating to: financial statements; investment; and real estate. However, a number of criticisms were directed at these standards regarding their practical and theoretical adequacy for ensuring high professional standards (Al Mutawaa and Hewaidy, 2010). The adoption of IAS in 1990 therefore reflected a desire to develop more a robust formulation for Kuwaiti accounting practices. In this context, the main objective of financial reporting was defined by the International Accounting Standards Committee (IASC) in their 1989 conceptual framework as providing information that is helpful for economic decisions, while recognising the existence of different types of users (Al-Bannay, 2002). This issue will be discussed in further detail in Chapter 4 where the adoption of the decision-usefulness approach by the IASC is discussed.

Overall, it is clear that the Kuwaiti government remains in control of the regulatory framework regarding corporate reporting in Kuwait, with the roles and laws set out aimed at ensuring high standards of communication.

2.5.2 The Professional Accounting Framework in Kuwait

The KAAA

The Kuwait Accounting and Auditing Association (KAAA) was formed in 1973. The KAAA is a member of the General Association of Arab Accountants and Auditors and the International Federation of Accountants (IFAC). The stated objectives of KAAA include: (i) developing culture and expertise in the field of accounting through performance studies; (ii) field research; (iii) provision of advice; and (iv) facilitating the exchanging of experiences. These aims are set in the context of the broader goals of improving practice (based on the advancement of science, professional specialisation and upgrading of practical performance) and enhancing the practical skills of those working in accounting (KAAA, 2013). Full membership is only available to Kuwaiti nationals holding a Bachelor

Degree with a major in accounting. Associate membership is available to non-Kuwaiti accountants who hold professional certificates as well as to Kuwaiti nationals with lesser qualifications[12] (KAAA, 2013).

Accountants in Kuwait have made several efforts to achieve professional status, however they are far from reaching a 'desirable' level (Alanezi, 2006). Similar to many developing countries, the state of Kuwait has a weak and generally inactive professional accounting body (Alanezi, 2006); for example, there is no association in Kuwait that regulates the activities of the accounting profession. The KAAA is not active in improving the financial reporting environment in Kuwait given that the MCI is responsible for all professional regulations and the KAAA does not have any supervisory role in the profession (Alanezi, 2006). According to Al-Shammari (2008) therefore, the KAAA has no power to regulate the profession or enforce compliance; while its work is still limited to education regarding accounting standards and financial statement analysis it does nonetheless, it does now provide advice to the government as required.

Audit and the Auditing Profession in Kuwait

The quality of financial reporting is determined not only by the quality of the financial reporting standards, such as IAS, but also by the effectiveness of the enforcement of these standards (Al-Bannay, 2002). The auditing function is an important consideration in advancing compliance with IFRS-required disclosure as Glaum and Street (2003) argue when highlighting the role of the external auditor as the key mechanism by which regulatory bodies can enforce companies' compliance with IFRS. All the sources of corporate reporting rules in Kuwait stress the role of the independent audit in promoting compliance with the relevant regulations. Company law requires listed companies in the state to employ external auditors from audit firms accredited by the MCI and the Stock

[12] Such as an Accounting Diploma based on two years of college.

Exchange Authority; to ensure independence, the external auditor must not hold any of the following positions in the audited company; board member, founder, manager or administrator. Company law No 5 (1981), requires the external auditor to be chosen by the annual general meeting of shareholders.

Company law sets out the responsibilities of the external auditor in Kuwait, including the key requirement for them to document non-compliance with accounting standards and any other regulations in the annual report, and to provide this information to the Ministry of Commerce. The external auditor must provide an opinion on the outcome of their duties in terms of whether the firm maintains proper accounts, whether all information they deem necessary for the satisfactory performance of their duties was made available, whether the balance sheet and the profit and loss statement are in conformity with the "real state of a company's affairs", and whether they reflect "honestly and clearly" the financial position of the company (Company law No 5, 1981, Article 47). Therefore, auditors are entitled at all times to have access to all books, registers and documents of the company and to call for any particulars deemed necessary to verify a firm's assets and liabilities. If unable to exercise the foregoing powers, the auditor must submit a written report setting down such facts to the directors and for referral at the shareholders' general meeting. However, the role of external auditors in Kuwait extends to more than just certifying financial statements; they are also legally required to test and report on a company's compliance with Kuwaiti's Commercial Companies Law and the company's Articles of Association, as well as determining the level of compliance with IFRS and all local legal requirements by the companies.

Finally, an external auditor in Kuwait may be subject to disciplinary proceedings by the Disciplinary Committee of the MCI. The Minister of Commerce has the right to refer an auditor to the Disciplinary Committee if they are accused of violating the regulations relating to financial reporting. In 2001 the Disciplinary Committee investigated an accusation that an auditor had violated IAS requirements and given an unqualified audit report to a company that did not make full and accurate disclosures. The auditor has since been cautioned by the committee (Al-Hussaini et al., 2008).

2.6 Conclusion

In an attempt to provide context for the empirical work in the thesis, this chapter has provided background information about Kuwait, with a focus on economic development and the financial reporting environment. The chapter has explained how the economic and financial policies of the state have generally been linked to oil revenues since the country began exporting oil in 1946. The development of the Kuwaiti Stock Exchange also has been explained in this chapter as have the legal requirements imposed by the Kuwaiti authorities regarding the regulation of financial reporting. The dominant role of the Kuwaiti government in domestic corporate financial reporting has been highlighted along with the state of the accounting and auditing environment in modern Kuwait.

Having explored the key factors that influence the current Kuwaiti financial environment, the thesis proceeds in Chapter 3 with a detailed review of the prior literature on the nature of financial disclosure and on the perceptions of preparers and users regarding such practices in both developed and developing countries.

Chapter 3

Literature Review

3.1 Introduction

Since the 1960s there has been an increased level of academic interest in accounting disclosure (Kribat et al., 2013). This chapter reviews the relevant extant literature relating to accounting disclosure and the factors that affect such practices. In addition it explores studies that document a range of perceptions regarding corporate disclosure. The aim of the chapter is to provide a clear picture about prior studies that places the present study in the context of existing knowledge. Reviewing related literature is also a useful starting point for identifying a relevant theoretical framework and methodology for this study. Section 3.2 outlines the concept of disclosure, discussing disclosure formats and the role of disclosure. Section 3.3 reviews prior disclosure studies that examine mandatory disclosure and the relationship between disclosure practices and firm characteristics in both developed and developing countries, while Section 3.4 focuses on the corresponding literature on voluntary disclosure. The third strand of the literature focuses on aggregate (mandatory and voluntary) disclosure and is reviewed in Section 3.5. Section 3.6 highlights the literature on preparers' and users' perceptions of disclosure. Section 3.7 summarises the situation in Kuwait and Section 38 concludes.

3.2 Corporate Disclosure

3.2.1 Definition of Disclosure

The extant literature indicates that the topic of financial disclosure has received extensive attention with many authors producing their own definitions of disclosure. Choi (1973) was amongst the earliest authors to define the nation, as stating that:

> "The term disclosure will refer to the publication of any economic datum relating to a business enterprise, quantitative or otherwise, which facilitates the making of economic decisions" (p. 160).

Cooke (1989a) highlighted the relationship between disclosure and financial reporting when he stated that disclosure includes:

> "… those items in corporate annual reports that are relevant and material to the decision-making process of users who are unable to demand information for their particular needs. If an item of information is relevant and material and it is not disclosed then the decisions users make are likely to be less than optimal" (p. 6).

Other authors have focused on the type of information provided as well as the presentation style adopted. In particular many studies describe financial disclosure in terms of whether the information disclosed is represented as numbers or words, formal or informal, and mandatory or voluntary. For example, Gibbins et al. (1990, p. 122) explained financial disclosure as: "any deliberate public release of financial information, whether voluntary or required, number or words, formal or informal, any time during the year." Wolk et al. (1992) also classified financial information disclosure as information provided to different groups of users by stating that it could be provided:

> "… in both the financial statements and supplementary communications, including footnotes, post-statement events, managements' annals of operations for the forthcoming year, financial and operating forecasts and additional financial statements covering segmental disclosure and extensions beyond historical costs" (p. 115).

Similarly Cooke (1992) defined voluntary and mandatory disclosure by stating that disclosure:

> "…consists of both voluntary and mandatory items of information provided in the financial statements, notes to the accounts, management's analysis of operations for the current and forthcoming year and any supplementary information" (p. 231).

These types of disclosure will be discussed in the following section.

A number of disclosure studies distinguish between various types of disclosure in terms of the nature of the magnitude of information required to be presented and the timing, medium, or recipients of the disclosure. Most studies distinguish between mandatory disclosure and voluntary disclosure. The former is required by a range of stakeholders including government, accounting standard setting bodies, central banks or other regulators while the latter is subject to managerial discretion. Marston and Shrives, (1991) argued that "Required disclosure is laid down by statute, professional regulations and the listing requirements of stock exchange", (p. 196) while Wallace and Naser (1995, p. 329) described mandatory disclosure as "the amount of information produced by more detailed mandatory reports." In a similar vein, Owusu-Ansah (1998) argued that:

> "Disclosure is the communication of economic information, whether financial or non-financial, quantitative or otherwise concerning a company's financial position and performance. It is described as mandatory if companies are obliged under a disclosure regulatory regime to disclose insofar as they are applicable to them" (p. 608).

Mandatory disclosure allows firms to: "talk about current cash flow, profits, net assets and ownership claims rather than firms' aspirations for future success" (Leuz and Wysocki, 2008, p. 68). On the other hand, Marston and Shrives, (1991) believe that: "voluntary disclosure, in excess of the minimum, may arise where corporate perceptions of the benefits arising outweigh the costs" (p. 196). Owusu-Ansah (1998) highlighted that voluntary disclosure is any information provided by companies that is not mandated by law and/or self-regulatory bodies. Similarly, Watson et al. (2002) described voluntary disclosure as: "disclosures in excess of those required by laws, accounting standards or stock exchange listing requirements regulations" (p.1). In a similar vein, Barako et al. (2007) defined voluntary disclosure as: "the discretionary release of financial and non-financial information through annual reports over and above the mandatory requirements" (p. 118) and La Bruslerie and Gabteni (2011) described voluntary disclosure as: "additional information disclosed beyond the mandatory information" (p. 2).

According to Meek et al. (1995), satisfying investors' needs is one of the main motivations for companies to adopt voluntary disclosure practices; investors demand information that can help them to assess the timing and uncertainty of current and future cash flows, allowing them to value firms and make investment decisions. Firms satisfy investors' needs by providing voluntary information, thus enabling them to raise capital on the best available terms. Companies seeking funds in international capital markets have typically offered extensive voluntary disclosures beyond those that are legally required (Meek et al., 1995), however the public disclosure of information can affect a disclosing firm negatively if market members use the information in ways that only serve their interests. In this case the public information disclosure can negatively affect the disclosing firm. In the presence of such a proprietary cost, a firm has to weigh up both the positive and negative effects of voluntary disclosure (Depoers, 2000). The role of financial disclosure is clearly important in this context, and the discussion now turns to this issue.

3.2.2 Role of Information Disclosure (Mandatory and Voluntary)

According to Choi (1973) disclosure appears to be an important consideration in helping a company to gain access to the limited reservoirs of consumer savings. The implications that emerge from this line of reasoning are that increased disclosure helps to make capital markets efficient in both an operational and allocative sense. The more efficient capital markets are, the better the participation by borrowers and lenders (Choi, 1973). Choi highlighted that there seems to be a competitive advantage to be gained in terms of voluntary disclosure and the marketplace therefore has a compelling interest in, and effect on, a company’s disclosure strategy (Choi, 1973). In a similar vein, Dixon and Holmes (1991) acknowledged that the important of disclosure stems from the assumption that there is an association between increased disclosure and the efficiency of national financial markets. Previous studies (e.g. Daske et al., 2008; Hodgdon et al., 2008; and Akman, 2011) have argued that compliance with IFRS disclosure requirements reduces information asymmetry and improves the quality of accounting information disclosure. Improving the quality of disclosures makes the capital allocation process more efficient and decreases the average cost of capital (Dixon and Holmes, (1991). This efficiency is achieved when information about the securities traded in that market is available to investors at relatively low cost and the prices of securities being traded incorporates all the relevant information which can be acquired.

The importance of mandatory disclosure is rooted in the objectives of financial reporting. In this context, Darrough (1993) highlighted that:

> "Mandating disclosures through regulatory agencies such as the SEC (Securities Exchange Committee) or the FASB will force firms to disclose the type of information that firms wish hidden. In such a case, mandating has a real effect on the workings of the market, with potentially different effects on the stakeholders" (p, 535).

Over the past fifty years or so, accounting standard setters have promoted the idea that the main aim of accounting disclosure is to provide financial statement users with enough information on which to base financial and investment decisions (Staubus, 2000). This notion of usefulness of information for investors is considered a mainstay of recent regulatory pronouncements (Finningham, 2010). Fishman and Hagerty (1989) agreed that by voluntarily disclosing information about themselves, firms can increase the efficiency of security prices which leads in turn to better investment decisions. Narayanan et al. (2000) suggested there is a significant information asymmetry between outside investors and inside managers, but the latter can solve this problem by voluntarily disclosing qualitative information to investors in an attempt to influence their decisions about the value of the firm. However, voluntary disclosure of information can only be a suitable and useful tool to reduce the information asymmetry between managers and investors as long as the information is credible and economically significant. In this regard, Peterson and Plenborg (2006) argued that the potential benefits of increased disclosure include reduced estimation risk and reduced information asymmetry.[13]

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[13] However, "corporate disclosure can also be directed to stakeholders other than investors" (Healy and Palepu 2001, p. 406).

Kothari (2000) argued that there is partial consensus between regulators and investors on the need for high quality financial reporting, as the quality of financial reporting has a direct effect on capital markets Kothari stated here that:

> "I firmly believe that the success of capital is directly dependent on the quality of accounting and disclosure systems. Disclosure systems that are founded on high-quality standards give investors confidence in the credibility of financial reporting and without investor confidence, markets cannot thrive" (p. 91).

Greater investor confidence could be achieved by making detailed information available to investors (Naser, 1998). Both mandated and voluntary disclosures play a role in reducing information asymmetries between informed and uninformed market participants. These reductions can decrease the cost of capital by shrinking bid-ask spreads, enhancing trading volume, and diminishing stock-return volatility (Kothari, 2000).

Healy and Palepu (2001) examined the role of disclosure in modern capital markets in matching savings to business investment opportunities but argue that it is a complicated task for a number of reasons. First, savers do not have better information about the value of business investment opportunities than the information available to entrepreneurs. Second, investors do not completely believe what entrepreneurs say about their business because investors believe that entrepreneurs have an incentive to inflate the value of their ideas; these information differences and conflicting incentives give rise to a problem that can potentially lead to a breakdown in the functioning of the capital market. The authors suggest that disclosure, and the institutions created to facilitate credible disclosure between managers and investors, play a significant role in mitigating against these problems. They also note that optimal contracts between entrepreneurs and investors will provide incentives for full disclosure of private information, therefore eliminating the mis-valuation problem.

Verrecchia (2001) argued that mandatory disclosure could play an important role in creating an environment in which managers credibly communicate their more value-relevant voluntary disclosures.[14] Graham et al. (2005, p. 54) suggested that "the primary role of voluntary disclosure is to correct investors' perceptions about current or future performance" while Einhorn (2007) claimed that the desire of management to inflate investors' expectations about firm value - and thereby maximise the price at which the firm's stocks are traded in the capital market-are the main motivations behind firms decisions to make voluntary disclosures. Ferreira (2007) suggested that companies' decisions to disclose information are generally considered important as long as something is revealed about the firm's strategy. Armitage and Marston, (2008) argued that the main benefits of disclosure is promotion of confidence amongst investors and of a reputation for openness. Yuen (2009) contended one of the dominant aims of disclosure is the achievement of users' needs; she argued that this *user needs view*, is usually manifested in practice as an investors' needs view, where the purpose of disclosure is to provide information to securities markets so that investors can make better investment decisions. However, the levels of information supplied by companies can also differ (in terms of quantity and quality) dependent on the extent to which how much these companies comply with disclosure requirements.

Most of the previous literature on voluntary disclosure treats it as the only type of disclosure, and does not pay attention to the existence of mandatory disclosure (Einhorn, 2005). However, mandatory disclosure may affect the incremental content of voluntary disclosure for investors and therefore act as a key determinant of the firms' discretionary disclosure strategies (Einhorn, 2005). Similarly, Dye (1985) investigated the influence of mandatory requirements on voluntary disclosure and in this context argued that this effect depends on whether mandatory and voluntary disclosures are substitutes for or

[14] The author noted that this effect could be described as 'the confirmatory role' of mandatory disclosure.

complements to each other. If they are substitutes, then more disclosure requirements will reduce voluntary disclosure, whilst, if they are complements, more mandatory disclosure should increase voluntary levels. Yu (2011) argued that voluntary and mandatory disclosures are likely to be interdependent as did Adina and Ion (2008) who reported that voluntary disclosure supplements a mandatory reporting process that often seems to be inadequate for satisfying user's needs.

In this context Omar and Simon (2011) argued that mandatory and voluntary disclosures should not be considered as different items of financial reporting, as both are potentially important; they documented that:

> "If mandatory disclosure requirements are limited or regulations vague and difficult to interpret, voluntary disclosure can be used to compensate for such deficiencies. Therefore, mandatory and voluntary disclosures should not be seen as separated elements of financial reporting and both should be taken into consideration when exploring firm disclosure and related behaviour" (p.167).

The empirical association between mandatory and voluntary disclosure has been investigated by previous studies such as: Dye (1985); Naser and Nuseibeh (2003); Al-Razeen and Karbhari (2004b); and Einhorn (2005). Both Dye (1985) and Naser and Nuseibeh (2003) reported that mandatory and voluntary were complements, however, Al-Razeen and Karbhari (2004b) found no clear relationship between the two types of disclosures. Einhorn (2005) found the probability of providing voluntary disclosure by companies to be linked to the content of their mandatory disclosure while, most recently, Omar and Simon (2011) reported that:

> "…there is a no single association between the likelihood of voluntary disclosure and the information quality of mandatory disclosure and the overall disclosure could be enhanced by limiting their discretion in mandatory reporting or by extending the scope of mandatory disclosure requirements" (p. 168).

A number of previous studies have addressed the level of corporate compliance with the mandatory requirements in accounting standards, the majority of these use firm specific characteristics to explain differences in the degree of compliance. The first category of prior studies reflects investigations that adopt either a cross-country approach (e.g. Meek et al., 1995; Tower et al., 1999; Street et al., 1999; Street and Bryant, 2000; Street and Gray, 2002; Chau and Gray, 2002; Ali et al., 2004; Al-Shammari et al., 2008) or focus on compliance in a single country (e.g. Wallace et al., 1994; Abd-Elsalam and Weetman, 2003; and Glaum and Street, 2003). The second category of disclosure distinguishes between compliance with mandatory disclosure requirements (e.g. Akhtaruddin, 2005; Abd-Elsalam and Weetman, 2007; Aljifri, 2008; Al Mutawaa and Hewaidy, 2010; Al-Akra et al., 2010; and Omar, 2012) and adherence to voluntary disclosure initiatives (e.g. Firth, 1979; Chow and Wong-Boren, 1987; Cooke, 1989b; El-Gazzar et al., 1999; Hossain et al., 1995; Leventis and Weetman, 2004; and Hossain and Hammami, 2009), while a third sub-category of studies concentrates on aggregated disclosure, looking at a combination of mandatory and voluntary (e.g. Cerf, 1961; Buzby, 1975; Inchausti, 1997; Abayo et al., 1993; Naser and Nuseibeh, 2003; Hassan et al. 2006 and Omar and Simon, 2011). A further distinction in the literature relates to the extent of disclosure is examined from the viewpoint of preparers and for users of corporate annual reports (e.g. Baker and Haslem, 1973; Chandra, 1974; Abu-Nassar and Rutherford, 1996; Al-Razeen and Karbhri, 2004a; Yaftian and Mirshekary, 2005). This structure is adopted in the following sections, which review the disclosure literature in more detail.

3.3 Mandatory Disclosure

A number of the studies in this area have looked at mandatory disclosure practices in both specific countries and across countries. This literature is broken down and discussed here on the basis of the developed/or developing/countries and cross-country dimension.

3.3.1 Studies in Developed Countries

A summary of the key disclosure studies examining compliance with mandatory disclosure in developed countries is provided in Table 3.1.

Table 3.1: Mandatory Disclosure Studies in Developed Countries

Authors	Country	Time Period	Sample Size	Disclosure index	Main Findings
Wallace et al. (1994)	Spain	1991	30 listed and 20 unlisted	16 items[15]	Disclosure increased with firm size and stock exchange listing, and decreased with liquidity.
Glaum and Street (2003)	Germany	2000	Compliant firms[16]	297 items[17]	The average compliance level with IAS was significantly lower when compared with companies applying US GAAP.
Fekete et al. (2008)	Hungary	2006	18 listed firms	Checklist of Deloitte 2006[18]	Significant non-compliance by companies. Firm size and industry were associated with corporate compliance with IFRS.
Landriani and Pisano (2008)	Italy	2007	65 listed firms	32 items	Low level of compliance. Firm size and profitability were positively associated with disclosure level.
Galani et al. (2011)	Greek[19]	2009	43 listed firms	100 items	Companies in general have responded adequately to the mandatory disclosure. Firm size was positively associated with the level of disclosure.
Popova et al. (2013)	UK	2006-2010	20 listed in FTSE	290 items	High level of compliance with the mandatory rules and significantly correlated with leverage and age.

Note: This table summarises the results of key existing literature on mandatory disclosure in developed countries.

[15] IAS was not adopted in Spain in 1991; however, Wallace et al. argued that the mandatory information items were required by the Spanish Accounting Plan of 1990 and the National Stock Exchange Commission.
[16] 100 companies using IAS and 100 using US GAAP.
[17] 153 items related to IAS and 144 items related to GAAP.
[18] Items related to IFRS 3, IAS 27, IAS 28 and IAS 31.
[19] Galani et al. argued that "In the late 1990s, the Athens stock exchange experience significant development as an emerging capital market. Its status was upgraded by international investment funds in 2000 to that of a developed market" (p.1048).

This panel points to the paucity of research in developed countries, but this lack likely reflects the fact that until recently, following the introduction of IFRS, many developed countries had in place developed regulatory frameworks that met their needs, with noncompliance not being a major concern.

The first study in the table by Wallace et al. (1994), examined mandatory disclosure and its relation with firm characteristics in the annual reports of 30 listed and 20 unlisted Spanish companies in 1991. In so doing, the authors constructed a disclosure index that included 16 mandatory information items required by the Spanish Accounting Plan of 1990 and the National Stock Exchange Commission. They reported that the extent of companies' compliance with mandatory disclosure requirements ranged between 29% and 80% with an average rate of 59.2%. The study also revealed that size and listing status had a positive relationship with the level of mandatory disclosure, while a negative association was reported between the latter and liquidity level. The authors also argued that levels of disclosures in financial reports published by firms in different industries tended to differ because of industry-unique characteristics.

In a pre-IFRS mandatory study, Glaum and Street (2003) used European data and examined the extent of compliance with IAS mandatory disclosure and United States Generally Accepted Accounting Principles (US GAAP) by listed companies on Germany's New Market.[20] The study employed a sample of 100 firms that applied IAS and 100 firms that applied US GAAP for the year 2000, plus an IAS disclosure checklist which contained 153 items and a GAAP version made up of 144 items. The authors documented that the average disclosure level was 83.7 % (with a range of 41.6% to 100%) and found that the average compliance level was significantly lower for companies that apply IAS than for those

[20] IAS was not mandatory for German companies in 2000, however, Glaum and Street note that the Germany New Market segment of the Frankfurt Stock Exchange was designed to attract young innovative growth firms and required listed firms to prepare their financial statements based on IAS or GAAP.

applying US GAAP. The authors concluded that type of audit[21], cross listing and the use of international auditing standards had positively influenced the overall level of compliance with IAS and US GAAP disclosures.

Fekete et al. (2008) examined 18 annual reports of Hungarian companies for 2006 and investigated both whether companies complied with IFRS disclosure requirements and what factors influenced the level of compliance. The authors reported significant (38%) non-compliance with IFRS disclosure requirements and found that firm size and type of industry were significantly associated with higher IFRS disclosure compliance.[22] These findings supported the Wallace et al. (1994) findings; for example, both studies found that firm size was an important factor. In contrast, Fekete et al. (2008) differed with these studies in finding a significant relationship between listing status and disclosure level.

Landriani and Pisano (2008) examined the level of disclosure in the annual reports of 65 Italian listed companies for 2007 and reported an level of compliance with IFRS 5[23] of only 43% (ranging between 0% and 100%). The authors noted that there was a gap between what companies disclosed in their annual reports and the requirements of IFRS 5. They also found a positive relationship between the level of disclosure and both company size and profitability; however, a negative relationship was reported between debt and the level of disclosure. In an attempt to understand the factors that influence the extent of disclosure, Galani et al. (2011) assessed the level of compliance with IFRS disclosure and examined the impact of firm characteristics on mandated disclosure in the annual reports of 43 Greek listed companies during 2009. The authors used a checklist comprising 100 mandatory items and found that the level of disclosure on average was 86% (with a range of 70% to

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[21] Whether firms are audited by 'Big 5' auditing firms or 'non-Big 5' firms.
[22] No relationship was found between IFRS disclosure compliance and other factors such as profitability, leverage and listing status.
[23] IFRS 5: Non-Current Assets Hel for Sale and Discontinued Operations.

97%). They also reported a significant positive relationship between company size and level of disclosure, while no effect of age and profitability on disclosure level was reported. Most recently, Popova et al. (2013) investigated the association between mandatory disclosure and company value expressed in share price anticipation of earnings using a sample of 20 UK companies included in the FTSE 350 Index from 2006 to 2010. On the basis of a mandatory index that included 290 items they found that the average mandatory disclosure level for the five-year period was 91.51% (with a range of 69.31% to 100%). Their results also revealed a significant association (at the 10% level) between company value, leverage and age and the extent of mandatory disclosure.[24]

The focus of the extant literature discussed above was on investigating and examining the level of compliance with mandatory disclosure requirements and the impact of company specific factors on this behaviour in various developed countries at different points in time. Taken together, the studies point to a lack of full compliance in each case, but a consistent role for company size in explaining differences in the extent of disclosure. The equivalent literature in the (very different) context of developing countries is reviewed in the following section.

3.3.2 Studies in Developing Countries

Table 3.2 provides a summary of the key disclosure studies that have examined compliance with mandatory disclosure requirements in the developing world. These studies are classified in chronological order based on the year of publication.

[24] Other company characteristics, such as earnings, size and listing status, did not impact on disclosure levels.

Table 3.2: Mandatory Disclosure Studies in Developing Countries

Authors	Country	Time Period	Sample Size	Disclosure index	Main Findings
Wallace and Naser 1995	Hong Kong	1988-1992	85 listed firms	30 items	Positive association between firm size, type of auditor, and industry type and level of compliance; negative relation between level of disclosure and profitability.
Naser (1998)	Jordan	1994	54 listed firms	74 items	Increase in level of disclosure after adopting IAS. Firm size, leverage and return on equity were statistically related to the comprehensiveness of disclosure.
Abd-Elsalam and Weetman (2003)	Egypt	1995/96	72	247 items	The level of compliance was at 83%. The compliance with familiar aspects of IAS disclosure requirements was significantly higher than the level of compliance with relatively unfamiliar aspects of IAS disclosure.
Akhtaruddin (2005)	Bangladesh	1999	94 listed firms	160 items	Poor level of compliance by companies with mandatory disclosure requirements.
Abd-Elsalam and Weetman (2007)	Egypt	1991/92 95/96	72	241 items	Companies' compliance was higher in the second period of time.
Aljifri (2008)	UAE	2003	31 listed firms	73 items	The average disclosure level was 67%. The extent of disclosure was significantly associated with the sector type.
Al-Akra et al. (2010)	Jordan	1996/2004	80 listed firms	301 for 1996; 641 for 2004.	Level of disclosure significantly increased over the time period studied.
Al Mutawaa and Hewaidy (2010)	Kuwait	2006	48 listed firms	101 items	Widespread non-compliance evident. Only company size and type of industry were positively associated with IAS.
Omar (2012)	Bahrain	2010	41 listed	224 items	The average level of compliance with IFRSs was 80.7%. The level of disclosure was positively associated with size and audit firm size.

Note: This table summarises the results of key existing literature on mandatory disclosure in developing countries.

Developing countries have seen a greater proliferation of studies on compliance with mandatory disclosure requirements. The rest of this subsection focuses on these studies, which are summarised in Table 3.2. The first study, Wallace and Naser (1995), addressed the extent of mandatory financial disclosure practices in the annual reports of Hong Kong companies, including looking at the relationship between firm characteristics and disclosure comprehensiveness. The study found a positive association between company size, industry type and disclosure compliance, however, they also found a negative association between profitability and disclosure.[25] In the same vein, Naser (1998) examined the association between firm characteristics and the comprehensiveness of mandatory disclosure in the annual reports of 54 non-financial listed companies on the Amman stock market in 1994. He found that company size, leverage and return on equity were all positively related to the comprehensiveness of disclosure.

In Egypt, Abd-Elsalam and Weetman (2003) investigated the effect of relative familiarity and language accessibility of disclosures when IASs were first introduced in Egypt. The study also examined the relationship between firm characteristics and the level of disclosure compliance for a sample of 72 listed companies during 1995-1996. Based on a disclosure index approach they reported that Egyptian companies do not fully comply with IAS mandatory disclosure requirements with only 83% of the mandated items disclosed by listed firms. The authors found a positive relationship between the extent of disclosure and familiarity; the level of disclosure was typically higher where firms were already familiar with the mandated requirements and these practices already available in the Arabic language.[26] In a follow-up study, Abd-Elsalam and Weetman (2007) again used a disclosure index to examine the compliance with mandatory disclosure requirements by 72 listed firms in Egypt over the longer period 1991 - 1996. The authors found that the level of

[25] No association was reported between liquidity and level of disclosure.
[26] In addition the study noted that the type of audit firm used was related to disclosure level.

compliance improved over time, with audit firm, business type, leverage and liquidity all significantly associated with the level of disclosure.

In the case of Bangladesh, Akhtaruddin (2005) empirically investigated the extent of mandatory disclosure in the annual reports of 94 listed companies in 1999. The author used a disclosure index that included 160 information items and found a compliance rate of only 44%, (ranging between 17% and 72%). The study found little association between company size or profitability and the level of disclosure.

In the United Arab Emirates Aljifri (2008) investigated the extent of disclosure in the annual reports of 31 listed firms and examined the factors that drive the level of disclosure. Using a disclosure index and logit regression, he found that the level of compliance with disclosure requirements was 67%, with significant differences across sectors; however, size, debt: equity and profitability were found to have only insignificant impacts on the extent of disclosure.

More recently, Al-Akra et al. (2010) examined the extent of compliance with IFRS-mandated disclosure and the influence of firm specific factors in the annual reports of 80 Jordanian companies during 1996-2004. The authors used a disclosure index comprising two checklists, one with 301 items for the year 1996 and other with 641 for the year 2004. They found that the level of disclosure improved from a level of 55% in 1996 to 79% in 2004 and that the type of auditor and liquidity here the most significant determinants.

Of most relevance to the present study is the work of Al Mutawaa and Hewaidy (2010) who empirically investigated the extent of compliance with IAS/IFRS disclosure requirements and the factors associated with the level of compliance in the annual reports of 48 non-financial Kuwaiti listed companies in 2006. The authors constructed an index that included 101 information items and documented that Kuwaiti companies did not fully comply with IFRS disclosure requirements; only 69% of the mandated items were disclosed. The authors also found an insignificant association between audit type and disclosure level, as well as documenting a negative relationship between the level of disclosure and liquidity plus a positive association between both company size and profitability and the extent of disclosure.

More recently, Omar (2012) documented empirical evidence on the extent of compliance with IFRS mandatory disclosure and the influence of firm specific factors on mandatory disclosure in the annual reports of 41 Bahraini companies during 2010, using a disclosure index that included 224 mandatory items. He found that the average level of disclosure was 80.7% (with a range from 61% to 94%) and revealed that firm size and audit firm size were positively associated with disclosure level.

Overall, the evidence on the compliance with mandatory disclosure studies amongst developing countries indicates that the extent of disclosure is mixed, with a gradual increase evident over time. Again, as in developed countries, company size was found to be the most prominent factor in explaining the extent of disclosure. In addition to the single country studies discussed so far, a number of authors have investigated disclosure across countries simultaneously; these studies are now reviewed.

3.3.3 Cross-Country Studies

Studies that investigated compliance with mandatory disclosure requirements across a range of countries are summarised in Table 3.3.

Table 3.3: Cross-Country Mandatory Disclosure Studies

Authors	Country	Time Period	Sample Size	Disclosure Index	Main Findings
Tower et al. (1999)	6 countries[27]	1997	60	512 items consisting of 26 IASs	The overall level of compliance was high. Country of origin significantly affected the level of compliance.
Street et al. (1999)	12 Different countries	1996	49	Items related to 9 IASs[28]	Only half the sampled companies were compliant with IAS. For the other companies, the level of compliance with individual standards was relatively low.
Street and Gray (2002)	32 Different countries	1998	279	7 IASs[29]	Significant rate of non-compliance with IAS. Positive association between listing status, audit type and disclosure level.
Al-Shammari et al. (2008)	6 countries[30]	1996-2002	137 listed firms	247 items related to 14 IAS	Significant variation in compliance between the six sampled countries and among companies based on size, leverage, internationality and industry.
Hodgdon et al. (2009)	13 Different countries	1999 and 2000	101	209 items	Compliance improved between 1999 and 2000 and was positively related to auditor choice (big-5+2) and firm size.

Note: This table summarises the results of key existing multi-country literature on mandatory disclosure.

The first study in Table 3.3, by Tower et al. (1999), examined the level of compliance with IAS in the annual reports of 60 companies in six Asia-Pacific countries in 1997. The study found average rates of compliance of 94% in Australia, 88% in Hong Kong, 90% in Malaysia, 88% in the Philippines, 90% in Singapore and 89% in Thailand. Country of origin was reported to be the main significant influence on the level of compliance, whereas

[27] Countries included: Australia, Hong Kong, Malaysia, Philippines, Singapore and Thailand.
[28] Standards included: IAS 2, IAS 8, IAS 9, IAS 16, IAS 18, IAS 19, IAS21, IAS 22, and IAS 23.
[29] Items included in study were related to all disclosure requirements of 7 IAS, standards included: IAS 12, IAS 14, IAS 16, IAS 17, IAS 19, IAS 29 and IAS 33 addition to number of items related to other standards, (IAS 2, IAS 4, IAS 8, IAS 2, IAS 22, IAS 29, IAS 23 and IAS 32).
[30] Countries included: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and UAE.

company size, leverage, profitability and industry had little impact. The authors argued that the reasons for the differences among countries relate to the heavy reliance placed on IAS in Australia, Thailand, Malaysia and Singapore, whereas practices in Hong Kong and Philippines were more heavily influenced by UK and US GAAP.

In a wider study, Street et al. (1999) investigated the extent to which companies complied with IAS and the nature and significance of measurement and disclosure non-compliance in the 1996 annual reports of 49 companies in IAS-based regimes in 12 countries.[31] The investigation found that the degree of disclosure compliance with IAS was very mixed; compliance with all standards was exhibited by only 20 companies; the level of compliance with individual standards was also relatively low. Similarly, Street and Bryant (2000) found that the overall level of compliance by 82 companies following IAS in 17 different countries[32] around the world was less than 75%; the study also noted that the level of compliance in US listings or filings was higher than the level of compliance elsewhere. Two years later, Street and Gray (2002) carried out a study to examine the extent of compliance with IAS by a larger sample of 279 companies following IAS in 1998 in 32 countries around the world.[33] The authors documented a significant degree of noncompliance, with levels of compliance ranging from 60% to 93%. The analysis also revealed a positive association between listing status, type of auditor, type of reference to IAS and the level of compliance, whereas no significant relationship was documented between companies' size or profitability and the level of disclosure.

Ali et al. (2004) studied the extent of compliance with disclosure requirements in three major countries in South Asia in 1998, 219 from India, 229 from Pakistan and 118 from

[31] Countries included: Canada, Finland, France, Germany, Hong Kong, Italy, Japan, Malaysia, Norway, South Africa, Sweden, and Switzerland.
[32] Countries inclused: Africa, Austria, Belgium, China, Croatia, Denmark, Finland, France, Germany, Hong Kong, Hungary, Japan, Jordan, Netherlands, South Africa, Sweden, Switzerland
[33] In 1998 IAS was still not mandatory in many countries including: Australia, Austria, Bahrain, Barbados, Botswana, Canada, China, Croatia, Czech Republic, Denmark, Finland, France, Germany, Grand Cayman Island, Guyana, Hong Kong, Hungary, Italy, Japan, Jordan, Luxembourg, Malta, Mexico, Netherlands, Papua New Guinea, Poland, Russia, South Africa, Switzerland, Turkey and Zimbabwe.

Bangladesh. The authors found that the highest level of disclosure across the sampled countries related to Pakistan where a rate of 80% compliance was achieved; this was followed by the average in India of 78.6% and 77.7% in Bangladesh. The study also found a positive relationship between companies' size, profitability, multinational-company status, leverage, type of auditing and level of disclosure. Al-Shammari et al. (2008) investigated the level of compliance with IAS disclosure requirements in the annual reports of 137 listed companies during 1996-2002 in the six GCC countries. The authors found the highest levels of compliance (75%) in United Arab Emirates and Saudi Arabia, followed by Kuwait (72%), Qatar (69%) and Bahrain and Oman (65%). The evidence also revealed positive associations between company size, leverage, internationality, type of industry and the level of compliance, and documented more that generally the level of compliance was lower in developing countries than in developed countries.

More recently a study covering 13 stock markets around the world[34] was conducted by Hodgdon et al. (2009); they examined the extent of compliance with IFRS disclosure requirements by non-US firms in 1999 and 2000. The authors documented that the overall level of disclosure improved over the time period examined and found a positive relationship between firm specific factors such as size, listing, leverage and the level of compliance. In contrast, the association between profitability and disclosure level was found to be negative.

The focus of the studies reviewed above was on testing and analysing the extent of compliance with mandatory disclosure - and the influence of company specific characteristics there on - in different developed and developing countries. In broad terms, these studies indicate that the overall level of compliance in developed countries is higher than in developing countries, but mixed results emerge regarding the association between

[34] The countries were: Austria, China, Czech, Denmark, Finland, Germany, Hong Kong, Hungary, Italy, Netherlands, South Africa, Sweden and Switzerland.

disclosure level and company characteristics. However, in addition to the literature on mandatory disclosure, a large number of studies have reviewed disclosures made on a voluntary basis and these are now reviewed.

3.4 Voluntary Disclosure

A summary of the key voluntary disclosure studies is provided in Tables 3.4-3.6. As was the case with the discussion of mandatory studies, these studies will be analysed in terms of their coverage of developed countries (section 3.4.1), developing countries (section 3.4.2) and the two combined countries.

Table 3.4: Voluntary Disclosure Studies in Developed Countries

Authors	Country	Time Period	Sample Size	Disclosure index	Main Findings
Firth (1979)	UK	1976	180	48 items	The size and the stock market listing variables were related to disclosure but the auditor factor had no impact.
Cooke (1989b)	Sweden	1985	90	146 items	Listed firms disclose more information than unlisted ones.
Raffournier (1995)	Switzerland	1995	161	30 items	IAS firms were significantly larger and internationally diversified than non-IAS.
Botosan (1997)	AIMR[35] data	1990	122	35 items	Greater disclosure level of firms with low analyst following was associated with a lower cost of equity capital. However, for firms with high analyst following disclosure was insignificantly associated with cost of equity.
Depoers (2000)	France	1995	102	65 items	Disclosure level was related to firm size and foreign activity.
Petersen and Plenborg (2006)	Denmark	1997-2000	36	62 items	The average disclosure level was less than 21%; however, it increased across time.
Broberg et al. (2009)	Sweden	2002/05	431 firm-years	68 items	Companies disclose more voluntary information after IFRS.

Note: This table summarises the extant literature on voluntary disclosure in developed countries.

[35] Association for Investment Management and Research

3.4.1 Studies in Developed Countries

One of the earliest investigations in this area was undertaken by Firth (1979) who examined the factors that affect the level of voluntary corporate disclosure in the UK. In this context, he found a significant relationship between the level of voluntary disclosure and both companies' size and listing status; whereas a negative relationship existed between audit firm size and disclosure level.

The voluntary disclosure practices of Swedish companies were explored by Cooke (1989b). The sample consisted of 90 non-financial companies in 1985. Cooke classified the firms into three groups according to their listing status: 38 unlisted, 33 single-listed on the Swedish Stock Exchange (SSE), and 19 multiple-listed. Using a disclosure checklist of 146 items, the author found that the average disclosure level ranged from 13% to 70%; he also documented a positive association between listing status, company size, type of industry and the level of disclosure. Another study on voluntary disclosure in Swedish companies' annual reports was conducted by Broberg et al. (2009) who investigated variation in the content of information in voluntary disclosures for 431 firm-years on the Stockholm Stock Exchange between 2002 and 2005. The study used a disclosure index comprising 68 voluntary items and found that the overall disclosure level was 41%. The authors also noted that corporations with a high share of management ownership disclosed less information than corporations with a low share of management ownership, while foreign ownership, international listing and industry all had an effect as well. In general, the corporations disclosed more voluntary information after the introduction of IFRS.

In an attempt to explore the link between company specific characteristics and disclosure level, Raffournier (1995) used Swiss data from 161 listed companies in 1991. In doing so the author developed a disclosure index that included 30 voluntary items, followed by regression analysis. Results revealed that the extent of disclosure was significantly related to firm size, internationality level, type of auditing firm as well as industry type and profitability, whereas no significant association was found between leverage, ownership diffusion and disclosure level.

Focusing specifically on the industrial sector, Botosan (1997) examined the annual reports of 122 manufacturing companies selected from the Association for Investment Management and Research (AIMR) list for 1990 and investigated the relationship between voluntary disclosure level and cost of equity capital. The author pointed out that a greater level of disclosure was associated with a lower cost of equity capital for firms with low analyst following. However, he found no significant relationship between level of disclosure and the cost of equity for firms with a high analyst following. Depoers (2000) examined the relationship between the extent of disclosure and some firm-specific factors in the annual reports of 102 French listed companies in 1995. The researcher found that the level of disclosure was 29% and documented that firm size and foreign activity were significantly associated with the extent of disclosure, whereas no relationship was found between leverage, ownership structure and disclosure level.

Petersen and Plenborg (2006) investigated the extent of voluntary disclosure and its effects on information asymmetry in the annual reports of 36 industrial listed companies in Denmark for the period 1997-2000. They applied an index that included 62 items and found that although the average disclosure level was less than 21%, there was an increase in the level of voluntary disclosure over time. In addition, their results also indicated that voluntary disclosure levels were negatively associated with proxies for information asymmetry.

The studies outlined above focused on examining and analysing the level of compliance with voluntary disclosure and the impact of company characteristics on the level of disclosure in developed countries during different time periods. In general, these studies suggest that the extent of disclosure is strongly related to firm size and that companies disclosed more voluntary information after the introduction of IFRS. Studies investigating voluntary disclosure practices in developing countries will now be explored.

3.4.2 Studies in Developing Countries

Table 3.5 provides a summary of the key disclosure studies that have examined the extent of voluntary disclosure in the corporate annual reports of firms in developing countries.

Table 3.5: Voluntary Disclosure Studies in Developing Countries

Authors	Country	Time Period	Sample Size	Disclosure index	Main Findings
Chow and Wong-Boren (1987)	Mexican	1982	52	24 items	The level of compliance varied widely within the sample. The extent of disclosure was significantly and positively related to firm size.
Patton and Zelenka (1997)	Czech Republic	1993	50	66 items	Positive significant relationship exists between profitability, auditor type, listing status, and the level of disclosure.
Ferguson et a1. (2002)	Hong Kong	1995/96	142	102 items	Very low level of compliance at 13.8% that was significantly positively affected by firm size.
Naser et al. (2002)	Jordan	1998	84	104 items	There was some improvement in the level of information disclosure compared to earlier studies.
Eng and Mak (2003)	Singapore	1995	158	158 items	Companies' compliance was low. Firm size was positively related to the level of compliance.
Leventis and Weetman (2004)	Greece	1997	87	72 items	The extent of voluntary disclosure was relatively low. Firm size was the most significant variable that explained the extent of disclosure.
Alsaeed (2006)	Saudi Arabia	2003	40	20 items	Firm size was found to be significantly positively associated with the level of disclosure.
Onder and Agca (2007)	Turkey	2003	51	87 items	Companies' level of disclosure was very low. Auditor type and firm size were significantly associated with compliance.
Al-Shammari (2008)	Kuwait	2005	82	76 items	Low level of compliance. Firm size was the most positive and significant variable related to disclosure level.
Hossian and Hammami (2009)	Qatar	2007	25	44 items	Significant relationship between firm size, complexity and assets-in-place and the level of compliance.
Adelpo (2011)	Nigeria	2006	52	24 items	Average voluntary disclosure of 44%. Firm size was significantly positive associated with voluntary disclosure
Zare, Khedri and Farzanfar (2013)	Iran	2011	97	70 items	Disclosure level was significantly positive associated with existence of an auditing department and negatively associated with auditing institution.

Note: This table summarises the extant literature on voluntary disclosure in developing countries.

Chow and Wong-Boren (1987) studied the extent of disclosure in the annual reports of 52 Mexican companies in 1982. The authors used a disclosure checklist of 24 items and found that the level of disclosure averaged 16.87% (with a range of 0% to 46%). The study also revealed a positive relationship between firm size and the level of disclosure, whereas no significant association was found between leverage or assets in place and the extent of disclosure level. More recently, Patton and Zelenka (1997) examined the extent of voluntary disclosure by 50 listed companies in the Czech Republic for 1993. The authors found positive significant relationships between profitability, auditor type, number of employees, listing status, and return on equity and the level of voluntary disclosure.

In Hong Kong, Ferguson et al. (2002) examined the extent of voluntary disclosure and company characteristics based on the annual reports for 142 listed companies during 1995/1996. Using a disclosure index that included 102 items the authors found that the overall level of disclosure was very low at 13.8% (with a range of 3% to 43.5%). They also found that firm size was positively significantly associated with the total amount of voluntary disclosure, while an effect of leverage on voluntary disclosure level was also documented. In Jordan, Naser et al. (2002) empirically investigated changes in the depth of corporate disclosure after the country introduced IAS in 1990.[36] They examined the annual reports of 84 non-financial companies in Jordan during 1998 and evaluated the relationship between disclosure and company's attributes. In doing so, the authors constructed a disclosure index consisting of 104 items of information and found that the level of disclosure was improved (at 63.51%) after the introduction of the IAS. They also found that firm size, gearing and profitability have a significant impact on the level of disclosure, while, liquidity had a negative relationship.

[36] This study reflects voluntary disclosure, not IASs in application.

Another study in the Asian region, by Eng and Mak (2003), investigated the impact of firm characteristics on voluntary disclosure in the 1995 annual reports of financial and non-financial companies listed on the Singapore Stock Exchange. The study found that the disclosure level ranged between a score of 2% and 66% with a mean of 21.75% with firm size positively related to voluntary disclosure level, debt negatively.

A similar study was conducted by Leventis and Weetman (2004) who addressed the extent of voluntary financial disclosure practices in the annual reports of 87 companies listed on the Athens Stock Exchange in 1997; they also tested the association between the level of disclosure and firm specific variables. In doing so, the authors developed a disclosure index of 72 items to measure the level of disclosure found that the average score was just 37.57%. The authors also reported that firm size was the most significant variable in explaining the level of disclosure, however they found no significant relationship between profitability, liquidity and disclosure level.

In Saudi Arabia, Alsaeed (2006) addressed the level of disclosure in the annual reports of 40 companies in 2003 and investigated the relationship between disclosure level and firm characteristics. Based on a checklist that consisted of 20 items, he found that the average voluntary disclosure level was low, at 33% but documented that firm size had a positive significant relationship with its extent. Ownership structure, firm age, profit margin, industry type and audit firm size were found not to have any significant impact.

Onder and Agca (2007) also investigated the level of voluntary disclosure and the factors that affect the level of disclosure in the annual reports, in this case for 51 companies listed on the Istanbul Stock Exchange in 2003. The authors reported a very low level of voluntary disclosure, concluding that companies in Turkey do not see voluntary disclosure of information as having particular value. However, they did find a significant association between type of auditor, profitability, firm size and the extent of disclosure.

Al-Shammari (2008) examined the voluntary disclosure practices in the annual reports of 82 companies listed on the Kuwaiti Stock Exchange for the year 2005. The author measured disclosure based on an index that included 76 items, and reported that the overall level of voluntary disclosure was low at 15% (with a range from 3% to 44%). The study found that firm size was the most positive and significant variable to explain the variations in voluntary disclosure; but leverage, type of auditor and type of industry all played a role.

In a similar vein, a study was conducted in Qatar by Hossain and Hammami (2009)[37] who examined the disclosure level in the 2007 annual reports of 25 listed companies. The authors used a disclosure checklist that consisted of 44 voluntary items and found that the average level of voluntary disclosure was 37% (with a range of 20% to 67%). They also found a significant relationship between firm size, complexity, assets-in-place and the level of disclosure, however, the association between profitability and disclosure level was insignificant.

Two years later Adelpo (2011) investigated the extent of voluntary disclosure in the annual reports of 52 non-financial listed companies in Nigeria during the year 2006. The study also sought to examine the relationship between explanatory variables and voluntary disclosure. Using a disclosure index containing 24 voluntary items, he found that the extent of voluntary disclosure was 44% and that a significant positive association existed between firm size, market-based definition of firm performance and voluntary disclosure. The author also found a significant negative relationship between both block share ownership and managerial shareholdings with firm disclosures.

Most recently, Zare et al. (2013) analysed the effect of auditing institution, existence of internal auditing departments and profitability on voluntary disclosure in the annual reports

[37] Similar results were reported in another study on Qatar by Naser et al. (2006) who also indicated that there was no significant difference in terms of the level of disclosure achieved by financial and non-financial companies listed on the Doha Stock Exchange.

of 97 companies listed on the Tehran Stock Exchange during 2011. The analysis employed a disclosure index comprising 70 voluntary items and revealed significantly higher levels when an internal auditing department exists and a negative significant relationship between auditing institution and voluntary disclosure; however, they reported no significant relationship between voluntary disclosure and profitability.

In general the single nation-based studies reviewed here indicate a low level of disclosure with, as in developed countries, firm size the most significant variable in explaining variation in the extent of disclosure. The analysis now turns to cross-country are studies.

3.4.3 Cross-Countries Studies

A summary of the key disclosure studies that examine compliance with voluntary disclosure across countries is provided in Table 3.6.

Table 3.6: Cross-Country Voluntary Disclosure Studies

Authors	Country	Time Period	Sample Size	Disclosure index	Main Findings
Gray et al. (1995)	US and UK	1989	116 US and 64 UK	128 items	International capital markets pressures were significantly associated with level of voluntary disclosure. Significant country effect notably in respect of the disclosure of nonfinancial information.
Meek et al. (1995)	US, UK, France, Germany and Netherlands	1995	226	85 items	National/ regional influences and international listing status were associated with the level of disclosure .Specifically, continental European MNCs voluntarily disclose more of this type of information than either American or British MNCs.
Chau and Gray (2002)	Hong Kong and Singapore	1997	62	113 items	The levels of disclosure were similar across the two countries. Strong prevalence of insider and family-controlled companies is likely to be associated with lower levels of disclosure.
Cahan et al. (2005)	17 countries[38]	1998/99	216	Botosan's (1997) index	The average disclosure level was 44.43% and it was positively related to the extent of global operations, but not to the extent of global financing.
Al-Janadi et al. (2012)	Saudi Arabia and the UAE	2006/07	150 listed	44 items	Low overall disclosure with score of 36%. UAE companies have higher voluntary disclosure levels than Saudi companies, with an average of around 42% and 32% respectively.

Note: This table summarises the extent literature on voluntary disclosure in, multi-country studies.

Gray et al., (1995) investigated the impact of international capital market pressures on corporate voluntary disclosures in the annual reports of 116 multinational corporations (MNCs) from the US and 64 from the UK for 1989. A disclosure index measuring the level of disclosure was employed, along with a checklist that consisted of 128 items. The authors

[38] Countries included; Australia, Belgium, Bermuda, Brazil, Canada, China, Finland, France, Germany, Italy, Japan, The Netherlands, Spain, Sweden, Switzerland, United Kingdom, and United states.

found that international listing was strongly associated with the overall voluntary disclosure level and that the type of information provided was a significant factor as well. The study also noted a significant country effect, most notably in respect of the disclosure of non-financial information. Finally, MNCs listing on international capital markets was shown to significantly increase voluntary disclosure levels.

A similar study by Meek et al. (1995) assessed factors that influenced the voluntary disclosures of three types of information (strategic, non-financial and financial) provided in the annual reports of multinational companies from the US, the UK and Continental Europe. The authors' sample consisted of 116 US, 64 UK and 46 Continental European companies from France, Germany, and the Netherlands for the year 1995. A disclosure index method with a checklist consisting of eighty-five items of information was employed. The study documented that the overall level of voluntary disclosure was associated with company size, country/region, listing status and, to a lesser extent, industry. Specifically, Continental European MNCs voluntarily disclosed more of this type of information than did either American or British MNCs. The evidence also pointed to the importance of firm characteristics, but with differences according to information type.

Chau and Gray (2002) investigated the association between ownership structure and voluntary disclosures amongest 62 listed companies in Hong Kong and Singapore during 1997. The authors found a positive association between wider ownership and the extent of voluntary disclosure and that levels of the latter were relatively similar in both the two countries. The authors also highlighted that the level of voluntary disclosure by companies with wide-spread share ownership was higher than in family-controlled companies.

Cahan et al. (2005) examined the extent of voluntary disclosure in the annual reports of 216 companies from 17 countries around the world in 1998 and 1999; they also looked at whether a firm's level of voluntary disclosure varied with its level of global diversification. Using the disclosure index measure from Botosan (1979) and regression analysis they found that the extent of disclosure ranged from 21% to 85% with an average score of 44.43%, although firms with more globalised operations provided higher levels. The authors explained this relation on the basis of historic and current components of total disclosure. However, they found no strong evidence that total voluntary disclosure was related to global financing in their sample.

More recently Al-Janadi et al. (2012) investigated the level of voluntary disclosure practices in Saudi Arabia and United Arab Emirates (UAE). The authors examined the annual reports of 150 listed companies from both countries during the years 2006 and 2007, based on a disclosure index containing 40 voluntary items. They found that the overall disclosure level was low, with an average score of only 36%. Comparing the extent of disclosure in each country, they found that UAE firms disclosed more voluntary information than those in Saudi Arabia, with averages of around 42% and 32% respectively. The results also indicated that the general and financial information category achieved the highest disclosure score, while the social and environmental disclosure category achieved the lowest disclosure score.

The focus of the extant literature discussed in this section of the chapter was on investigations of the level of compliance with voluntary disclosure and the impact of company specific factors. Generally, these studies indicate that there is a significant country/region effect, notably in respect of the disclosure of non-financial information. However, the chapter has not yet discussed the literature that combines both mandatory and voluntary disclosure and so the discussion now turns to this issue.

3.5 Aggregate Disclosure (Mandatory and Voluntary)

3.5.1 Studies in Developed Countries

A summary of the key disclosure studies that examining the extent of aggregate disclosure in developed countries is provided in Table 3.7.

Table 3.7: Studies on Aggregate Disclosure in Developed countries

Authors	Country	Time Period	Sample Size	Disclosure index	Main Findings
Cerf (1961)	US		527listed and unlisted	31 items weighted by group of users	A positive relationship between disclosure and total assets, stockholder number and profitability
Singhvi and Desai (1971)	US	1965	100 listed and 55 unlisted	34 items	The asset size of a corporation, profitability and listing status were positively associated with the quality of disclosure.
Buzby (1975)	US	1970/71	44 for each year	39 items weighted by financial analysts	The study indicated that the extent of disclosure was positively associated with the size of a company’s assets and not affected by listing status.
Cooke (1989c)	Sweden	1985	90 listed and unlisted	129 weighted by financial analysts	The overall level of disclosure was very variable and there was a significant association between listing status and the extent of disclosure.
Malone et al. (1993)	US	1986	125	129 weighted by financial analysts	Listing status, debt-to-total-equity ratio, and number of shareholders were statistically significant in explaining the extent of financial disclosure.
Cook (1993a)	Japan	1988	35 listed and 13 unlisted	195 both mandatory and voluntary	High level of mandatory disclosure and low level of voluntary disclosure was reported. A significant relationship existed between disclosure levels and listing status.
Inchausti (1997)	Spain	1989/91	49 listed	30 mandatory and 20 voluntary	Company size, auditing and stock exchange listing appeared to have influence on aggregate disclosure levels

Note: This table provides a summary of the results of key aggregate disclosure studies in developed countries.

A third strand of the literature has explored the extent of aggregate disclosure (mandatory and voluntary) in corporate annual reports. Cerf (1961) was one of the first to deal empirically with company characteristics which might affect the extent of such information releases. The author reported a positive relationship in the US between firm size, number of stockholders, profitability and the level of disclosure. The study also found that New York Stock Exchange companies disclosed more than those listed on regional stock exchanges. A decade later, Singhvi and Desai (1971) followed the approach of Cerf and examined the annual reports of 155 listed and unlisted companies in the US in 1966. The authors addressed possible associations between firm characteristics and corporate disclosure and found that large and more profitable companies produced higher quality disclosure; they also noted that listed companies disclose more information than unlisted companies. A few years later Buzby (1975), again in the US, examined the annual reports of 88 companies during 1970 and 1971 and investigated the relationship between the extent of financial disclosure and firm size and listing status. The authors used a survey consisting of 39 items which was sent to 150 financial analysts. Based on a 21.3% response rate, the study found a positive relationship between firm size and the extent of disclosure, whereas listing status was not found to have any effect on.

More recently, Malone et al. (1993) focused specifically on industrial sector when they examined the relationship between firm specific factors and the extent of aggregate financial disclosure in the annual reports of 125 oil and gas companies listed in the Enterprise Standard Industrial Classification (ESIC). Based on an examination of 129 information items and a 16.6% response rate, the authors found that listing status, debt-to-total-equity ratio and the number of shareholders were statistically significant in explaining the extent of overall financial disclosure. These findings support the earlier US studies of Cerf (1961), Singhvi and Desai (1971) in some key areas; for example, most studies found listing status to be significantly associated with the extent of disclosure. In contrast, Malone et al. (1993) found no association between firm size and disclosure extent, a result which had been reported in studies by both Cerf and Singhvi and Desai.

In Sweden, Cooke (1989c) examined the annual reports of 90 listed and unlisted companies during 1985. The author investigated the extent of disclosure and the relationship between a number of corporate characteristics and the overall extent. The author used a disclosure index with a checklist consisting of 224 items to measure disclosure level in the annual reports and found that the overall level for listed companies was higher than that for those that are unlisted. Quotation status and firm size were significant explanatory factors with regard to the extent of disclosure. Cooke (1993a) conducted a subsequent study in Japan which again examined the relationship between aggregate disclosure and firm specific factors in annual reports, this time using of 48 listed and unlisted companies for the year 1988. On the basis of a 195 item disclosure index, Cooke found that the level of mandatory disclosure was very high while the level of voluntary disclosure was low. The author also found that corporations with multiple listings disclosed more information in their Japanese annual reports than corporations listed only on the Tokyo Stock Exchange.

In Spain, Inchausti (1997) studied the association between firm specific characteristics and the level of disclosure in the annual reports of 49 companies during 1989-1991. Disclosed information was measured based on a checklist of 50 items of information. The author reported that company size, auditing and stock exchange listing appeared to have an influence on the aggregate disclosure levels, whereas a negative association between profitability and disclosure was reported.

The focus of the extant literature reviewed above was on testing and analysing the level of aggregate disclosure and the impact there on of company characteristics in developed countries over the past 50 years or so. The majority of these studies indicate a significant association between listing status and the extent of aggregate disclosure. However, a more recent literature has investigated the same issue in developing countries and this is now reviewed.

3.5.2 Studies in Developing Countries

Table 3.8 provides a summary of the key disclosure studies that have examined aggregate disclosure in developing countries.

Table 3.8: Aggregate Disclosure Studies in Developing countries

Authors	Country	Time Period	Sample Size	Disclosure index	Main Findings
Naser and Nuseibeh (2003)	Saudi Arabia	1992/99	40 for 1992 and 52 for 1999	55 items: 23 mandatory (M), 18 voluntary (V) related to(M) and 14 V unrelated to (M)	Relatively high compliance with mandatory requirements. The level of voluntary disclosure was relatively low.
Hassan et al. (2006)	Egypt	1995-2002	77	113 items: 89 mandatory, the rest are voluntary	Disclosure levels increased over the period. Large companies provide more voluntary and aggregate disclosure, but less mandatory disclosure.
Omar and Simon (2011)	Jordan	2003	121 non-financial listed firms	331 items: 278 mandatory and 53 voluntary	The level of aggregate disclosure was at 69.3%. Firm size was the most significant determinant variable.
Kribat et al. (2013)	Libya	2000/06	11 Banks	126 overall items	Libyan banks failed to comply fully with mandatory disclosure requirements. The average proportion of items disclosed was only 54.5%.

Note: This table provides a summary of the results of key aggregate disclosure studies in developing countries.

Naser and Nuseibeh (2003)[39] assessed the level of disclosure in the annual reports of 91 companies listed on the Saudi stock exchange during 1992-1999, focusing on differences before and after the creation of the Saudi Organization of Certified Public Accountants in 1993. They reported that the mandatory disclosure level was high at 93%, with the author concluding that Saudi companies disclosed more than the minimum information required by law. However, the study revealed that the level of voluntary disclosure was relatively low at 28%. More generally, the authors concluded that creation of the new body had had little impact on corporate reporting.

Hassan et al. (2006) examined the extent of aggregate disclosure by 77 non-financial Egyptian companies between 1995 and 2002. The study reported improvement in disclosure levels over the time period and found that the average aggregate disclosure level was 75%, with mandatory disclosure "high" at 90% and voluntary disclosure 48%. The authors also noted that big companies tended to disclose relatively large amounts of voluntary information and relatively little mandatory information.

More recent study by Omar and Simon (2011) empirically investigated the disclosure behaviour of 121 Jordanian non-financial listed companies during the year 2003 since the introduction of new regulations affecting the Jordanian Capital Market,[40] examining the relationship between firm specific characteristics and the level of aggregate disclosure. The authors used a disclosure index that included 331 mandatory and voluntary items and found that the aggregate disclosure level had increased compared to previous studies in Jordan[41] with an average of 69% (mandatory at 83% and voluntary at 34%). The study ascribed this increase to the development of a new regulatory system in Jordan. The results also

[39] Similar results were reported in Saudi Arabia by Al-Razeen and Karbhari (2004b) who examined the extent of mandatory and voluntary disclosures in the annual reports of Saudi Arabian listed and non-listed companies; the authors found that companies disclosed more mandatory than voluntary items. The average level of compliance with mandatory disclosure was 88%, while the voluntary disclosure level was 32%.
[40] For instance, The Temporary Securities Law No. 23, 1997.
[41] Namely: Al-Issa (1988); Suwaidan (1997); and Al-Shiab (2003).

indicated that firm size, profitability, number of shareholders, listing status, industry type, audit firm size and company age were significant variables in explaining the variation in the level of aggregate disclosure among the nation’s companies.

More recently, Kribat et al. (2013) investigated disclosure practices in the annual reports of 11 Libyan banks between 2000 and 2006. They employed a mandatory and overall disclosure index method using checklist that consisted of 126 financial information items (40 mandatory items plus items included in previous studies in developing countries). The authors found that Libyan banks failed to comply fully with mandatory disclosure requirements in any of the sample years (2000-2006). However, the average of overall levels of disclosure was 54.5%. Multivariate panel regression analysis showed that profit alone was statistically significant as a determinant of disclosure levels.

The studies outlined above indicate that companies claiming compliance may not in fact be meeting all of the requirements of IAS/IFRS. In addition, the studies show mixed results with regard to the relationship between company characteristics and the level of compliance with IAS/IFRS. For example, Fekete et al. (2008) and Al Mutawaa and Hewaidy (2010) found a positive association between company size and compliance with IAS, while Tower et al. (1999) found no significant association. Having examined the literature that focuses exclusively on individual nations, the next sub-section reviews the limited number of studies that have explored aggregate disclosure from a cross-country perspective.

3.5.3 Cross-Country Studies

Street and Bryant (2000) investigated significant differences between companies with US listings or US filings, and those without such status with regard to: (i) compliance with IASC-required disclosures; and (ii) aggregate levels of disclosure. The authors examined the annual reports of 82 companies that claimed to use IAS in 17 different countries[42] around the world during the year 1998. The results indicated that firms listing or filing in the US had higher levels of compliance than did others. The study specifically indicated that voluntary disclosures tended to be limited unless the company had a US listing.

Archambault and Archambault (2003) examined the extent of corporate disclosure in leading industrial companies from 33 countries around the world for years 1985-1994, and 1996 - 1997. They used an unweighted disclosure index that consisted of 85 (mandatory and voluntary) items and found that the extent of overall disclosure was 75.6% and that the level is influenced by factors from a broad range of social systems: cultural, political, economic, and corporate.

Section 3.5 has summarised the key aggregate disclosure studies conducted to date. Although smaller in number than the exclusively mandatory or voluntary analysis reviewed earlier these studies tell a similar story in terms of disclosure levels and determinants. However, this thesis also focuses on user and preparer perceptions, and Section 3.6 now turns to studies that have addressed these.

3.6 Preparers and Users' Perceptions

3.6.1 Combined Studies of Preparers' and Users Perceptions

Table 3.9 and 3.10 provide a summary of the key studies that simultaneously investigate preparers' and users' perceptions about disclosure practices in developed and developing countries respectively.

[42] These countries were Africa, Austria, Belgium, China, Croatia, Denmark, Finland, France, Germany, Hong Kong, Hungary, Japan, Jordan, Netherlands, South Africa, Sweden, Switzerland

Table 3.9: Preparers' and Users' Perceptions: Studies in Developed countries

Authors	Country	Time Period	Sample Size	Main Findings
Chandra (1974)	US	Not stated	498 preparers and users	The study indicated that accountants did not value accounting information for equity investment decision in the same way as financial analysts. The reasons included communication gaps between users and preparers. Also time lag between when the users needed information and when the preparer provided it.
Chandra and Greesball (1977)	US	Not stated	493 preparers and users	Management assign a lower information value to the requested information items than do investors, because management and investors do not share a common perspective as to how the reports of companies should be used.

Note: This table provides a summary of key outlined studies of preparers' and users' perceptions in developed countries.

In terms of the former, Chandra (1974) addressed the consensus between the preparers and user of accounting information presented in corporate annual reports in the US. The author focused on how the preparer and users groups assign value to different information items in equity investment decisions. Based on a response rate of 49.8% [43] and 58 potential information items, the author found that accountants generally do not value information for equity investment decisions in the same way as did security analysts. The study indicated that the reasons for the differences in opinons included: a lack of communication between preparer and users groups; the time lag between when the users what information and when the preparers provide it; accountants complying with the traditional order rather than experimenting with new ideas and approaches; and preparers' particularly favourable view of GAAP.

Chandra and Greesball (1977) investigated differences in the viewpoints of preparers and users of corporate annual reports in US. The respondents were asked about the value of

[43] The whole sample was 1000 questionnaires 159 (53%) responses were received from 300 questionnaires sent to public accountants as users, 159 (53%) of 300 questionnaires sent to public accountants as preparers and 180 (45%) of 400 questionnaires sent to financial analysts.

information items presented in corporate annual reports for equity investment decisions. The authors developed a questionnaire that included 58 information items and 493 responses were gathered.[44] The study found that managers assigned lower information value to the requested information items than did investors, because the two groups use the information in annual reports for different purposes.

Table 3.10: Preparers' and Users Perceptions: Studies in Developing Countries

Authors	Country	Time Period	Sample Size	Main Findings
Ho and Wong (2003)	Hong Kong	1997/98	98 preparers and users	Preparers were more inclined to satisfy the information needs of external institutional financial analysts or stockbrokers. Shareholders were found to be the most important users as perceived by preparers.
Yaftian and Mirshekary (2005)	Iran	1997	54 preparers and users	The primary users of annual reports were shareholders. The financial managers were the second most important group of participants in terms of influence on the preparation of financial reports. The auditor's report was found to be a major influence on reporting practices.
Stainbank and Peebles (2006)	South Africa	2000	40 preparers and users	Preparers still view the annual report as a useful source of information, but users prefer the preliminary announcement.

Note: This table provides a summary of key combined studies of preparer's and user's perceptions in developing countries.

Ho and Wong (2003) provided a description of Hong Kong-based preparers' perceptions of a variety of corporate reporting and disclosure issues. Mailed questionnaires were sent between the years 1997 and 1998 to finance directors and chief finance officers.[45] The most important perceived users of corporate annual reports were institutional shareholders, bankers and creditors, followed by financial analysts and stock brokers other user groups, such as the press, tax authorities, government, customers, suppliers, academic researchers

[44] The whole sample was 1200 questionnaires 155 (39%) responses were received from 400 questionnaires sent to financial executives as users, 158 (40%) response of 400 questionnaires sent to financial executives as preparers and 180 (45%) of 400 sent to security analysts.
[45] 610 questionnaires were sent and 98 received, a response rate of 16%.

and employees were seen as less important. Regarding the preparers' views about the disclosure strategy of their company, the authors reported a belief that all disclosure requirements are fully met, therefore relevant and useful information is already provided to user groups.

Regarding internal and external bodies effect on firms' disclosure policies, the authors found that the chief finance officer and board chairmen were the most important internal parties and the Hong Kong Exchange was the most influential externally. Notably, the preparers agreed that more information could be disclosed to improve market functioning.

Yaftian and Mirshekary (2005) examined perceptions and attitudes of preparers of corporate financial reports regarding disclosure practices in corporate annual reports in Iran. Based on a response rate of 20.8% to 250 questionnaires sent in 1997 to boards of directors, financial directors, chairmen, chief accountants and company accountants, the authors found that shareholders are seen as the most important group of users, while the most influential group in terms of the preparation of financial reports was the financial managers. The auditor's report was found to be the most influential factor in accounting policy choice and disclosure practices, whilst a lack of knowledge of external users' needs and a lack of reporting standards were the main factors affecting the level of disclosure. Finally, balance sheets were thought to be the most important sections in annual reports, with accounting policies and income statements found to be the second and third most important.

Stainbank and Peebles (2006) studied the relative importance of information sources as perceived by financial managers (as preparers) and intuitional investors (as users) of corporate annual reports when making hold, buy or sell decisions in South Africa. The groups were also asked about how thoroughly they read each component of annual reports, as well as for their views about the qualitative criteria used to assess the usefulness of accounting practice. Based on 172 questionnaires sent to two groups of preparers and users,[46] the study found that the most importance source of information according to preparers was stockbrokers, while users ranked communication with management in first place. Annual reports were the most useful information source in the eyes of the preparers, whereas users prioritised preliminary announcements. Preparers were found to read the income statement most thoroughly, followed by forecasts and then balance sheets, whilst cash flow and income statements were preferred by the users. Regarding qualitative criteria used for assessing accounting practice, the authors found that preparers emphasised fair presentation, understandability and relevance, while users focused on comparability, faithful representation and relevance.

In summary, studies on the usefulness of corporate financial reports that examine perceptions have indicated that in developed countries preparers do not value the information in annual reports in the same way as users do and the evidence indicates that this gap reflects the lack of a common perspective as to how the reports of companies should be used. In developed countries, preparers appear to view annual reports as the most important source of corporate information and shareholders as the most important users. Having discussed the small number of studies that compare preparers and users' perceptions the next section discusses the large literature on users' perspectives.

3.6.2 Studies of Users' Perceptions

Several previous studies in developed and developing countries have examined the link between corporate disclosure and issues such as international accounting standard-setting, users' opinions and investors' needs (e.g. Baker and Haslem,1973; McNally et al.,1982; Abu- Naser et al, 1993; Al-Khater, 2007 and Alzarouni et al., 2011). The key studies that

[46] The preparers' response rate was 38%, while for users it was 17%.

investigate users' opinions about disclosure practices in developed and developing countries are summarised in Tables 3.11 and 3.12 respectively.

Table 3.11: Studies of Users' Perceptions in Developed countries

Authors	Country	Time Period	Sample Size	Method	Main Findings
Baker and Haslem (1973)	US	1970	851: Individual investors	Survey	Individual investors were primarily concerned with information relating to future expectations.
Most and Chang (1979)	US	1976	563: Three group of users	Survey	Corporate annual reports were found to be the most important information source for all three groups of users.
McNally et al. (1982)	New Zealand	1979	83: Two groups of users	Survey and disclosure index	There was a difference between the level of disclosure provided in corporate annual reports and the degree of disclosure perceived by external user groups.

Note: This table summarises the key existing literature on users' perceptions of disclosure in developed countries.

Baker and Haslem (1973) were among the first authors who studied the information needs of individual equity investors. The authors conducted their study in the US in 1970 using a sample of 1623 questionnaires that related to 33 information items. Based on a 52% response rate they found that investors ranked future expectations of the company, future economic performance of the industry and quality of management as the most important factors. [47] The researchers also examined respondents' perceptions regarding the information sources which they rely on when making their investment decisions and found that investors considered stockbrokers and advisory services as the most important, with financial statements of only limited value.

Most and Chang (1979) investigated the usefulness of annual reports to investors in the US in 1976. The authors administered 2034 questionnaires to highlight the perceptions of three

[47] 851 questionnaire responses were received from 1623 distributed.

types of users: individual investors, institutional investors and financial analysts.[48] Based on an overall response rate of 27.7%, the study found that all three user groups ranked corporate annual reports as the most important information source, with this preference strongest amongst the financial analysts. The authors also reported that financial statements and related information were the most important sections in annual reports for all three user groups. At a more detailed level, the income statement was ranked as the most important section by all the groups, although financial analysts and institutional investors also rated the balance sheet and accounting policies as very important.

McNally et al. (1982) analysed the perceptions of two user groups (financial auditors and stockbrokers) in New Zealand during the year 1979. Based on a response rate of 44% for 187 questionnaires[49] and 41 voluntary information items, they found that both groups perceived the voluntary disclosure of a wide variety of information items as important. The investigation also revealed that there was difference between the level of disclosure provided in corporate annual reports and the degree of disclosure perceived by external user groups. Finally, the researchers reported significant association between the level of disclosure and company size.

[48] 1034 questionnaires were sent to individual investors with a response rate of 21.5%; 500 went to institutional investors with a response rate of 34.5% and 500 to financial analysts with a response rate of 33.3%.
[49] 12 questionnaires were sent to financial auditors (with response rate a 75% and 175) questionnaires were sent to stockbrokers (with a response rate of 42%).

Table 3.12: Studies of Users' Perceptions in Developing Countries

Authors	Country	Time Period	Sample Size	Main Findings
Wallace (1988)	Nigeria	1986	Six Groups	Lack of consensus among accountants and other user groups. Nigerian users did not view the information items as important as did users in developed countries.
Solas and Ibrahim (1992)	Jordan/ Kuwait	1988	96: two Groups	There were significant diferences in the perceived usefulness of seven out of twenty-three financial items among investors in both nations.
Abu-Nassar and Rutherford (1996)	Jordan	1991	224: Five Groups	The users preferred to get information from company or auditor reports because of the lack of reliability of information in annual report
Naser et al (2003)	Kuwait	1991	308: Eight Groups	The users preferred to extract information directly from the company specialist advisors. The Kuwaiti business reflects an environment where companies are often found in small population centres. Users believe that annual reports were useful for decision making.
Al-Razeen and Karbhri (2004a)	Saudi Arabia	2002	303: Five Groups	The balance sheet and income statements were rated most highly by Saudi users. The board of directors' report was found to be the least popular.
Mirshekary and Saudagaran (2005)	Iran	1997	Seven Groups	Annual reports were rated as the most important source of information. The income statement was ranked as the most important section of annual reports. All user groups believe a delay in publishing annual reports is the most significant factor restricting the effective use of annual reports.
Al-Khater (2007)	Qatar	Not stated	150: Five Groups	Annual reports are important and useful and are the main source of information for investment decisions.
Zoysa and Rudkin (2010)	Sri Lanka	2000	264: Seven Groups	Sri Lankan users depend more on annual report information than on information provided by the other sources. The majority of users also indicated the important role annual reports play in their decision-making functions
Alzarouni et al. (2011)	UAE	Not stated	404: Eight Groups	External users view corporate' annual reports as the most important source of information. 56% of users perceived the disclosure level in annual reports as not sufficient.

Note: This table summarises the key existing literature on users' perceptions regarding disclosure practices in developing countries.

Wallace (1988) was one of the first authors to investigate the perceptions of users of annual reports in developing countries. The research compared the information needs of six groups of users in Nigeria with those of similar groups in developed countries, during the year

1986. The study employed a questionnaire survey sent to a sample of 1200 users; including chartered accountants, investors, senior civil servants, managers, financial analysts and other professionals.[50] The results revealed a lack of consensus between accountants and the other user groups, and more generally, that Nigerian users did not view the relative importance of information items in the same way that users of developed countries did.

Solas and Ibrahim (1992) examined the usefulness and reliability of disclosure items in corporate annual reports in Jordan and Kuwait during the year 1988, examining the importance of five sources of information for investment decisions: financial statements; specialised professionals; financial news media; personal contacts and financial markets. A questionnaire survey was employed to collect the perceptions of two group of users - institutional and individual investors. Based on a response rate was 44%,[51] the authors concluded that significance differences exist among institutions and individuals regarding the importance of information sources in both countries. The study also found significant variability in the perceived usefulness of seven of twenty-three financial items among investors and in nine cases regarding reliability items.

Abu-Nassar and Rutherford (1996) investigated the perceptions of five groups of users of corporate annual reports in Jordan in 1991. The author carried out a questionnaire survey to collect the opinions of individual shareholders, institutional shareholders, bank loan officers, stockbrokers and academics. The response rate was 48.38% (of 463 questionnaires distributed) and most users - except bank loan officers - ranked annual reports as the most important information when taking investment decisions. In contrast, bank loan officers rated visits to companies and communication with management as most significant. Individual shareholders and academics were found to make less use of financial reports as a whole, but the income statement and balance sheet were the most important sections therein

[50] Twenty five questionnaires were sent to non-Nigerian IASC Board members.
[51] 96 out of 218 distributed

according to all five groups of users. Regarding the understanding of information presented in annual reports, the authors found that the auditors' report was the easiest section for respondents to understand, whereas the most difficult section was the statement of accounting policies. In addition, respondents rated all sections of annual reports as more relevant than reliable, with the comparability of reports being a relatively minor concern.

Naser et al. (2003) examined the perceptions of various groups of users of annual reports in Kuwait in the year 2000. As in previous studies, a questionnaire was conducted to collect opinions of different groups of users, in this case institutional investors, individual investors, bank loan officers, government officials, financial analysts, academics, auditors and stockbrokers. Based on an overall response rate of 77% of the 400 questionnaires distributed, the authors found that all groups viewed annual reports as the main source of information, followed by information which is directly obtained from the company and specialist advice. Regarding the characteristics of useful information, the respondents rated credibility and timeliness as the most important. The study also reported that users believe information contained in annual reports to be useful in making investment decisions, with the financial statements and notes to the accounts the most difficult to understand and the auditor's report was the easiest. In addition, the researchers noted that users groups assigned a high degree of importance to all disclosure items expected to be reported in annual reports under IAS, but acknowledged that the list of voluntary items presented in questionnaire is important in a non-mandatory context.

In Saudi Arabia, Al-Razeen and Karbhri (2004a) investigated the perceptions of users of corporate annual reports using 636 questionnaires distributed to five user groups: individual investors; institutional investors; creditors; government officials; and financial analysts. The respondents were asked about the use and importance of seven different sections in the annual reports; most respondents rated the balance sheet and income statement as most essential, whereas the least significant was the board of directors' report; the study also reported that cash flow statements were of relatively low importance.

Mirshekary and Saudagaran (2005) examined the perceptions of user groups regarding corporate annual reports in Iran, measuring the degree of consensus among seven groups: bank loan officers; academics; stockbrokers; bank investment officers; institutional investors; auditors; and tax officers. Based on a 49% response rate from a sample of 500, the authors found that most users in Iran regarded the annual report as the most important source of information for making economic decisions, depending more heavily on this than on advice from stockbrokers, acquaintances or tips and rumours. The study also found that users ranked the income statement, the auditors' report and the balance sheet as the three most important parts of the reports, but there was only a weak level of consensus among bank loan officers, tax officers and auditors about the importance of particular information items. Most users believed that a delay in publishing annual reports, a lack of reliability of the information and a lack of adequate disclosure are serious concerns with the nation's corporate financial reports.

Al-Khater (2007) analysed users' views on corporate annual reports in Qatar. As in most prior studies, the researcher carried out a questionnaire survey, in this case with a sample of 220 individuals across five groups: individual investors; institutional investors; financial analysts; bank credit officers; and government officers.[52] Based on a response rate of 68% he found that respondents consider annual reports to be the main source of information, as it is useful and important for their investment decisions. Regarding its important sections and their understandability, the study found that respondents rated the balance sheet, auditor's report, cash flow statement, income statement and notes to the accounts most highly.

[52] The questionnaire was distributed to 80 individual investors, 40 institutional investors, 30 financial analysts, 30 bank credit officers and 40 government officers.

Zoysa and Rudkin (2010) investigated perceptions regarding the usefulness of corporate annual reports in Sri Lanka. To collect users' views, a questionnaire survey was sent to 575 individuals from seven user groups: accountants, executives, banks, tax officers, academics, financial analysts and investors.[53] The response rate was 45.9% and, based on this, the authors suggest four main findings. First, that respondents view the main purpose of using corporate annual reports as being to obtain information relating to equity buy, hold or sell decisions, despite the long delay in publishing annual reports in the country. Second, regarding the importance of information sources, the majority of users see annual reports in the primary role. Third, most respondents believed that the information presented in annual reports is either only partially adequate or not adequate at all. Finally, the study found that the importance of each section of the annual report and the frequency of their use varied significantly among user groups; however, the balance sheet and profit and loss account were the most important, with the most frequent users of annual reports being financial analysts.

More recently, Alzarouni et al. (2011) examined the usefulness of corporate annual reports to users in United Arab Emirates (UAE). Using a questionnaire survey sent to a sample of 404 external users in eight user groups (individual investors, institutional investors, governmental investors, government representatives, fund managers, bank credit officers, stock market brokers and professional accountants/auditors). The study found that corporate annual reports were ranked as the most important information source by users, followed by stock market pronouncements and contact with company managers; in contrast, tips and rumours were ranked the least important. However, the information disclosed in these annual reports only meets with 61% of users' needs, while, the lack of

[53] The questionnaire was distributed to 150 accountants, 100 executives and managers, 50 banks, 35 tax officers and assessors, 50 academics, 40 financial analysts, and 150 investors.

creditability of financial information, delays and non-accessibility were all important difficulties facing users.

In summary, the studies that have focused on users' perceptions have indicated that respondents view corporate annual reports as the most important source of information in developing countries, more so than in developed ones. A possible explanation for this is that in developed countries there are more credible sources of company information such as media and financial newspaper; where these sources exist, if they exist at all, in developing countries they are often irregular and/or of dubious quality. However, users in developing countries still worry significantly about the reliability of information presented in corporate annual reports.

3.7 Conclusion

3.7.1 Summary

Existing academic literature related to disclosure practices in corporate annual reports has been reviewed in this chapter. In particular, the chapter discussed prior studies that have examined the extent of both voluntary financial disclosure in corporate annual reports and the degree of compliance with mandatory requirements. Evidence on the perceptions of both preparers and users of annual reports was also covered. This review suggests that the extent of compliance with IAS/IFRS is not satisfactory and somewhat selective. No full compliance with IAS/IFRS disclosure requirements was evident, although low compliance levels are not exclusive to developing countries. The studies reviewed indicate the wide variety of practices, although the extensiveness of disclosure item lists is an important factor.

A number of studies have investigated the association between the level of mandatory and/or voluntary disclosure and company specific characteristics. The evidence is not consistent however; for example, while firm size appears to have a significant influence on the extent of disclosure by companies in most developed and developing countries, a small number of studies document that firm size is not influential in this regard (e.g. Akhtaruddin, 2005; and Aljifri, 2008). The relevant disclosure literature reviewed here also documents mixed evidence regarding the significance of the relationship between the extent of disclosure and the other explanatory variables examined in both developed and developing countries. This thesis therefore examines variables chosen deliberately to be relevant to the Kuwaiti environment.

Regarding preparers' and users' perceptions about disclosure in corporate annual reports, the previous studies reviewed here indicate that in developed countries preparers do not evaluate the information presented in annual reports in the same way as do users primarily because of a gap between how management (as preparers) and investors (as users) see the reports of companies being employed in practice (Chandra and Greesball, 1977). Preparers in developing countries suggested that the primary users of annual reports were shareholders and users suggested that corporate annual reports are indeed their main information source, more than other outlets such as public media, interim reporting and employee reports. However, not all sections of annual reports are assigned the same importance by users. For instance, the balance sheet and cash flow statement are the most important section for creditors, whereas the income statement is the most important for investors; also, auditor reports, director reports and accounting policies are ranked differently by different group of users. In general, from reviewing previous studies it is clear that different users' needs vary markedly in terms of their needs and expectations.

Regarding the international dimension, there is a limited literature on measuring the level of financial disclosure in the light of IAS/IFRS requirements, in developing country contexts in general and in Kuwait in particular. The level of disclosure of financial information in corporate annual reports and their determinants has attracted extensive attention in developed countries, but there has been much less focus on developing countries (Kribat et al., 2013).

In the context of developing or emerging markets, the most prominent studies examining the level of disclosure are those of: Naser et al. (2002) on Jordan; Naser and Nuseibeh (2003) on Sudi Arabia; Abd-Elsalam and Weetman (2003) on Egypt; Leventis and Weetman (2004) on Greek; Alsaeed (2006) on Saudia Arabia; Hassan et al. (2006) on Egypt; Naser et al. (2006) on Qatar Abd-Elsalam (2007) on Egypt, Al-Shammari (2008) and Al Mutawaa and Hewaidy (2010) on Kuwait; Al-Akra et al (2010) and Omar and Simon (2011) on Jordan. All these studies are particularly relevant to the present study in two ways; firstly these studies examined the level of financial disclosure (mandatory, voluntary and aggregate) attained by companies in developing countries with a similar context to Kuwait. Secondly, these studies applied the same approaches that will be used in this study (index and questionnaire method).

This chapter has reviewed literature relevant to each objective of the present study. Specifically, the single nation and multi-national studies which evaluate the extent of aggregate, mandatory and voluntary disclosure in developed and developing country contexts were outlined. Previous empirical evidence on the nature and extent of corporate financial disclosure was highlighted. Existing disclosure studies on Kuwait were discussed in detail and gaps in the literature identified. Regarding the latter, the majority of studies that assess the extent of disclosure in corporate annual reports concern developed and developing Asian countries. As a result, there is a lack of knowledge regarding disclosure practice amongst Middle East countries despite the economic strength and potential in the region. Even those studies that do focus on these nations tend to use limited disclosure index lists, fail to separately examine mandatory and voluntary practices or user/preparer perceptions simultaneously

The remaining chapters of this thesis aim to enhance knowledge in these areas by first setting out the theoretical and methodological issues underpinning research of this type before presenting detailed contemporary evidence regarding disclosure practices and views thereon in Kuwait. To this end the thesis now turns to the theoretical framework underpinning the current study.

Chapter 4

Theoretical Framework: The Decision-Usefulness Approach

4.1 Introduction

The main aim of this research is to investigate the extent of financial disclosure in annual reports of Kuwaiti non-financial listed firms and explore the perceptions of preparers and users of these reports regarding the nature of disclosure practices. Such a study should begin with a discussion of the theoretical foundations that are related to the objectives of financial reporting. In this context, Ijiri (1983) highlighted that a conceptual framework for corporate reporting and disclosure practices can either be decision-based or accountability-based, but the choice between these two can affect any analysis of or any conclusions reached about motivations for financial reporting. Both, decision-usefulness and accountability will therefore be discussed in this chapter as potential foundations to explore the level of, and motivations for disclosure in annual reports of Kuwaiti non-financial listed firms.

The following section of this chapter will describe the notion of theory. It will define what is meant by theory and discuss its role in financial reporting research. The chapter then discusses the decision-usefulness and accountability approaches; criticisms of both are outlined, in order to try to assess their suitability as a theoretical framework for this thesis. The reasons behind choosing decision-usefulness as the theoretical framework for this thesis are highlighted toward the end of the chapter.

4.2 The Notion of Theory

Theory helps us to understand the society in which we live, and make sense of our day-to-day experiences (Llewelyn, 2003). Theory plays an important role in helping researchers in social science to define relevant research questions, choose particular research methods and interpret their results (Mathews and Perera, 1996). According to Chambers (1972) adopting a theoretical framework ensures that: “Our practice will be more confident, our conclusions more informed, our services to management or to our clients more valuable” (p. 18). More specifically, theory is “a well-ordered set of statements about classes of things and classes of events which are in some way connected in our experience of them” (Chambers 1972, p.138). However, Chambers’ definitions are not the only such statements in existence and the next section discusses some of the most renowned conceptualisations of theory both in general and in accounting in particular.

4.2.1 Definition of Theory

Definitions of theory date back more than four decades to when Kerlinger (1964, as cited in Mathews and Perera, 1996, p.51) defined the notion as:

> “a set of interrelated constructs (concepts), definitions and propositions that present a systematic view of phenomena by specifying relations among variables with the purpose of explaining and predicting the phenomena”.

Hendriksen (1970) also provided a definition of theory; in informing research thus: “a coherent set of hypothetical, conceptual and pragmatic principles forming the general framework of reference for a field of inquiry” (p. 1).

Accounting theory also been defined in terms of linking measurements of accounting and decision making by Sterling (1970, as cited in Mathews and Perera, 1996, p.52) as: “those substantive propositions that relate accounting measurement to decision models and decision making”. Inspection of the accounting literature suggests there a strong relationship between theory and empirical research (Bulmer, 1986; Belkaoui, 1987). In this context, Kam (1990) viewed accounting theory as an elaborate deductive system consisting of three distinct levels of statements of decreasing generality; these levels are: basic accounting assumptions; principles (or standards); and procedures (or methods). According to Belkaoui, (2004) the objective of theory, including in an accounting context is to explain and predict the phenomena addressed. In this regard, Schroeder et al. (2011) outlined the need for theory to have “a well-defined body of knowledge that has been systematically accumulated, organised and verified, well enough to provide a frame of reference for future actions" (p. 1). May (2001) has argued that researchers need a theory to understand and explore the social world. Accounting is considered as a human activity and therefore, categorised as a social science, in this context and Deegan and Unerman 2011 state that:

> "Because accounting is a human activity (you cannot have 'accounting' without accountants), theories of financial accounting (and there are many) will consider such things as people's behaviour and/or people's needs as regards financial accounting information, or the reasons why people within organisations might elect to supply particular information to particular stakeholder groups" (p. 3).

In this context, Walker (2003) argued that financial accounting research attempts to understand the behaviours, information needs, choices and attitudes of those who prepare, use and regulate financial disclosure and the effect of their actions.

4.2.2 Formulation of Theory

According to Vorster (2007) there are two main approaches to theory formulation: the deductive approach and the inductive approach. Hendriksen (1982) argued that all theories must include elements of both deductive and inductive reasoning. The deductive approach involves starting with general (e.g. basic propositions about the accounting environment) and moving to the particular (e.g. accounting principles first and accounting techniques second) (Idris et al, 2011). In this regard, Porwal (2001) suggests that there are four stages in the deductive approach namely: (i) specifying the objectives of financial statements; (ii) selecting the "postulates" of accounting; (iii) deriving the "principles" of accounting; and (iv) developing the "techniques" of accounting. In contrast, the inductive approach begins with observations and measurements and moves towards generalised conclusions (Hendriksen, 1982). Applied to accounting, induction starts with observations about the financial information of business enterprises and proceeds to build generalisations and principles of accounting from these observations on the basis of recurring relationships;

effectively, it is based on a “what is” focus. Inductive arguments therefore lead from the particular (accounting information depicting recurring relationships) to the general (postulates and principles of accounting) (Idris et al. 2011). According to Porwal (2001), the inductive approach has four identifiable stages: (i) reducing all observations; (ii) analysis and classification of these observations to detect recurring relationship (“like” and “similarities”); (iii) inductive derivation of generalisations and principles of accounting from observations that depict recurring relationships; and (iv) testing the generalisations. Mathews and Perera (1996) argued that although the deductive approach begins with general propositions, the formulation of the propositions is often accomplished by inductive reasoning, conditioned by the author’s knowledge of, and experience with, accounting practice. In other words, the general propositions are mutated thorough an inductive process; whereas principles and techniques are derived via a deductive process. The terms “educative” and “inductive” are complementary in nature and they are often used together (Mathews and Perera, 1996).

4.2.3 Role of Theory in Accounting

According to Belkaoui, (1987), the main role of theory is to clearly present a framework that allows us to understand, interpret and explain observed phenomena; this role has four dimensions: description, delimitation, generation and integration. Table 4.1 summarises each of these.

Table 4.1: Dimensions of Theory

Dimension	Definition
Descriptive role	Consists of using the constructs or concepts and their relationships so as to provide the best explanation of a given phenomenon and the forces underlying it.
Delimiting role	Consists of selecting the optimal set of events to be explained and assigning a meaning to the formulated abstractions of the descriptive stage. Constraints on or boundaries around speculation and hunches serve that delimiting purpose.
Generative role	The ability to generate a testable hypothesis, which is the main objective of a theory, or to provide hunches, notions and ideas from which hypotheses can be developed.
Integrative role	The ability to present a coherent and consisted integration of the various concepts and relations of a theory.

Note: This table explains the four dimensions of theory according to Belkaoui: (1987, P. 209).

From this analysis, Belkaoui concluded that the main function of theory is in helping researchers to understand, interpret and explain the phenomena they study whilst the dynamic aspect of the notion is noted by Elliot and Elliot (2008) who suggest that theory has an important role to play in accounting as it is continually developed at both the academic and professional level and therefore impacts accounting practices around the world.

According to Ijiri (1983), the framework of accounting and disclosure practices can be decision-based or accountability-based. In this context, Collison et al. (1993) stated that:

> "Any deductive analysis of financial reporting ideally starts with specification of the purpose that financial statements serve. Such specification is problematic, because there appear to be two major alternatives which could generate different analyses and conclusions. These are 'decision usefulness' and 'accountability" (p. 2).

Accordingly, in accounting, both the type of analyses and results of a research study depend on which of these approaches the researcher selects; the nature of these two approaches is the focus of the following two sections of the current chapter.

4.3 Decision Usefulness Framework

The idea that financial reporting should provide information to users to help them in making economic decisions was established more than half a century ago (Staubus, 2000). Chambers (1955) argued that the basis of such decision-making inevitably involves information from financial statements for practical reasons and suggested that the information in the financial statements should therefore be relevant to decision-makers' needs; specifically, Chambers asserted that "financial statements should be relevant to the kinds of decision making of which it is expected to facilitate" (pp. 21-22). Sterling (1972) also pointed to the importance of usefulness over other criteria such as verifiability and objectivity, stating that financial statements should try to "supply information for rational [decision making]… that are most likely to allow decision makers to achieve their goals" (p. 198).

Similarly, Glautier and Underdown (2001) placed the aim of financial reporting firmly in a decision-usefulness context; they argued that "financial reporting should provide sufficient quantitative and qualitative information to help investors to make predictions about future performance" (p. 345). The authors added that the framework should be "concerned with long-term disclosure rather than short-term profitability" (p. 345). As a result, improving long-term disclosure would in turn lead to advantages such as; (i) the availability of both quantitative and qualitative information which in turn would lead to greater market efficiency and increase the ability of the latter to value the entity; (ii) the control of investors over management decision-making; (iii) help investors to make judgements with a firmer foundation about past, present and future prospects of the entity. Ijiri (1983) argued here that:

> "In a decision-based framework, the objective of accounting is to provide information useful for economic decisions. It does not matter what the information is about. More information is always preferred to less as long as it is cost effective. Subjective information is welcome as long as it is useful to the decision maker" (p.75).

Givens (1966) also praised the role of accounting information in making good economic decisions, highlighting that accounting information is helpful in making rational economic choices by providing a means of comparing the effects of two or more events or groups of events.

For the information to be useful there must be a link between the users of the information and the decisions they make. This link relates directly to the quality of information that lets reasonably informed users see its significance (Kieso, et al. 2009, P. 40). Similarly, Staubus (2000) raised questions about the nature of information to be provided, specifically whether it should be economic or financial. Staubus argued that it was important to understand the nature of the decisions being taken. He concluded that the objective of accounting is to provide financial information regarding an enterprise valuable to investors in making investment decisions.

The decision-usefulness approach achieved widespread recognition as the primary purpose of financial reporting following the publication of a number of key studies in the late 1960s. According to this approach, the function of accounting statements is to aid various user groups (in particular, shareholders and creditors, both actual and potential) in making decisions about holding, buying or selling company shares (Beaver, 1968). The decision usefulness perspective underpins numerous accounting studies in both developed (i.e. Lee and Tweedie, 1979; Barena and Lakonishok, 1980; Appleyard and Strong, 1984; Berry and Robertson, 2006; Dunne et al., 2008; and Finningham, 2010) and developing countries (Abu-Nassar and Rutherford, 1996; AL-Mubarak, 1997; Nasser et al 2003; Naser and Nuseibeh, 2003; AL-Razeen and Karbhari, 2004; Mirshekary and Saudagaran, 2005; Hassan et al., 2009; Kribat, 2009; Mardini, 2012; Ahmed, 2013; and Tahat, 2013). Therefore, this theory is generally accepted and widely employed by financial reporting researchers. As, Staubus (2000) argued:

> "With or without the appellation, the decision usefulness theory of accounting is now generally accepted among those few people interested in accounting theory. There is no recognisable alternative. It has been the most important development in accounting thought in the second half of the twentieth century" (p. i).

Laughlin and Puxty (1981) also favoured the decision-usefulness framework by saying that ".... this criterion appears to be so widely accepted that it is not thought necessary to argue the fact: the literature tends to take it for granted". Similarly, Staubus (1977) stated that "Decision usefulness is now widely accepted as the appropriate objective of accounting" (p.9). Williams (1987) argued that:

> "decision usefulness has become a central principle for organising accounting research and practice and is also the public rationale for accounting standard setting" (p. 169).

4.3.1 Decision Usefulness and Professional Bodies

Professional bodies in several countries (including the US and the UK), as well as the IASB, have highlighted decision-usefulness as the main objective of financial reporting. In 1971, the American Institute of Certified Public Accountants (AICPA) formed the Trueblood Committee which subsequently published its definitive, "Trueblood Report" describing the basic objectives of financial reporting as providing: "information on which to base economic decisions" (Belkaoui, 2004, p. 169). However, the objective of providing useful information to help investor and creditor decision-making did not actually appear in AICPA pronouncements until the Accounting Principles Board (APB) released Statement No. 4 in 1964 focusing on the use of accounting information for decision-making rather than the traditional purpose of stewardship. This represented a fundamental change in attitude in setting financial accounting objectives (Anton, 1976).

The US Financial Accounting Standards Board (FASB) followed the APB example and adopted decision usefulness in its Statements of Financial Accounting Concepts No.1 issued in 1978; this document stated that the objectives of financial reporting are to:

> "...provide information that is useful to present and potential investors and creditors and other users in making rational investment, credit and similar decisions. The information should be comprehensible to those who have a reasonable understanding of business and economic activities and are willing to study the information with reasonable diligence" (FASB, 1978, p. 5).

The FASB published its second concept statement in 1980, entitled "Qualitative Characteristics of Accounting Information"; this documented the characteristics that could make accounting information "useful" to interested users. The statement viewed the characteristics as a "hierarchy of accounting qualities", which form the basis for selecting and evaluating information to be included in corporate financial reports. Understandability featured at the top of the hierarchy as the key quality for accounting information to possess in order to be considered decision-useful. FASB No.2 identified the other primary determinants of accounting information quality as relevance and reliability; these were considered key in making accounting information useful for decision-making (Bonham et al. 2004).

Interest in the decision-usefulness approach in the UK was not far behind US levels. The Accounting Standards Steering Committee (ASSC) adopted decision-usefulness in 1975 when it published its "Corporate Report" which suggested that the main objective of accounting information was to focus on helping users in their decision-making. The report has influenced several later studies in the financial reporting field that attempted to set out a decision usefulness framework for accounting in the UK (Son et al. 2006). This was particularly evident in the statement of principles issued by UK's Accounting Standards Board in 1999, while referred to provision of:

> "information about the reporting entity's financial performance and financial position that is useful to a wide range of users for assessing the stewardship of the entity's management and for making economic decisions" ASB (1999, Chapter 1).

The International Accounting Standards Committee (IASC)[54] also adopted decision-usefulness in its Framework for the Preparation and Presentation of Financial Statements published in September 1989. The IASC stated that the objective of financial reporting was:

> "To provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions" (IASC, 1989, paragraphs, 22-23).

The IASC argued that the quality of accounting information could be enhanced by focusing on the qualitative characteristics of financial statements from a decision-usefulness perspective. In this context, the IASC highlighted four principal qualitative characteristics which make the accounting information presented in financial statements useful to the users (IASC, 1989, paragraphs 24). These characteristics, understandability, relevance, reliability and comparability, are summarised in Table 4.2.

[54] IASs were issued between 1973 and 2001 by the Board of the IASC. On April 1, 2001 the new IASB took over responsibility for issuing IASs. The IASB has continued to develop standards, now termed IFRS (Nobes, 2008).

Table 4.2: IASC Qualitative Characteristics of Financial Statements

Characteristic	Explanation
Understandability	Information provided in financial statements should be readily understandable by users who are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence.
Relevance	To be useful, information must be relevant to the decision-making needs of users. Information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations. The relevance of information is affected by its nature and materiality. Information is material if its omission or misstatement could influence the economic decisions of users. Materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.
Reliability	Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent. A balance sheet should represent faithfully the transactions and other events that result in assets, liabilities and equity of the entity at the reporting date which meet the recognition criteria.
Comparability	Users must be able to compare the financial statements of an entity through time in order to identify trends in its financial position and performance. Users must also be able to compare the financial statements of different entities in order to evaluate their relative financial position, performance and changes in financial position. Hence, the measurement and display of the financial effect of similar transactions and other events must be carried out in a consistent way within and between entities and over time.

Adopted from: IASC Framework for the Preparation and Presentation of Financial Statements (1989, paragraph. 24-42).

Recently the IASB restated the existing frameworks' decision-usefulness based definition of the objective of financial statements in its preliminary views on an improved conceptual framework for financial reporting, published in July 2006 as a joint project between the IASB and the FASB. In this context, it was argued that financial reporting should:

> "... provide information that is useful to present and potential investors and creditors and others in making investment, credit and similar resource allocation decisions" (IASB, 2006, p.12).

Two years later, in May 2008, the IASB and FASB issued a further Exposure Draft on the objective of financial reporting and qualitative characteristics of financial reporting information (FASB, 2008). The boards reaffirmed that the objective of financial reporting was:

> "... to provide financial information about the reporting entity that is useful to present and potential equity investors, lenders and other creditors in making decisions in their capacity as capital providers" (FASB, 2008, p. 1).

In September 2010, the IASB issued its Conceptual Framework for Financial Reporting (The IFRS Framework) (IASB, 2010). The overall aim of financial reporting was noted as being to: provide information for "present and potential investors, lenders and other creditors" (paragraph. OB2); as with the prior framework, the IFRS framework focused on the decision usefulness of financial information for those:

> "Who [investors, lenders and other creditors] use that information to make decisions about buying, selling or holding equity or debt instruments and providing or settling loans or other forms of credit" (paragraph OB2).

The Ministry of Commerce and Industry issued a Ministerial Resolution (No. 18) in 1990 obligating companies operating in Kuwait to adhere the IAS and other IASB requirements when preparing their financial statements[55] (see Chapter Two).

4.3.2 Research Evaluating the Usefulness of Accounting Information

According to Beattie (2005) there are two main areas of research related directly to the evaluation of the usefulness of accounting information and other financial disclosures: behavioural accounting research (BAR) and market-based accounting research (MBAR). BAR focuses on individual users by asking them about the usefulness of accounting information and how they make their decisions based on this information. In contrast, MBAR examines the relationship between accounting information and share prices and,

[55] The empirical work of this study is based on the framework provided by IASC in 1989 and adopted by the IASB rather than 2010 framework because it was the former that was in use in Kuwait at the time of the empirical work conducted for this study.

based on that, measure the behaviour of decision makers as a result of the reaction of the stock market to accounting information. The remainder of this section will focus on describing these two approaches.

4.3.2.1 Behavioural Accounting Research (BAR)

Belkaoui (2004) argued that "The basic objective of behavioural accounting is to explain and predict human behaviour in all possible accounting contexts" (p. 368). Another definition of BAR was provided by Hofstedt and Kinard (1970) when they defined the notion as: "the study of behavior (sic) of accountants or behavior (sic) of non-accountants as they are influenced by accounting functions and reports" (p. 43). BAR focuses directly on how users employ financial reporting and how it affects their behaviour. In other words, BAR considers how individuals react or behave when provided with particular items of information (Deegan and Unerman, 2011). Beattie (2005) argued that a number of methods can be used in BAR to examine the decision processes of individual users and notes that it draws on the discipline of psychology for its concepts. Methods typically employed include surveys, questionnaire interviews, experiments, textual analysis and case studies.

BAR has been used in a wide range of empirical investigations in developing countries in order to investigate research questions that are similar to the topic of the present study (e.g. Ahmed, 1988; Abu-Nassar and Rutherford, 1996; Al-Razeen, 1999; Nasser et al., 2003; Naser and Nuseibeh, 2003; Al-Razeen and Karbhari, 2004; and Mirshekary and Saudagaran, 2005; Al-Khater, 2007; Kribat, 2009; Hassan et al., 2009 and Zoysa and Rudkin, 2010; Alzarouni et al. 2011; Mardini, 2012; Ahmed, 2013; and Tahat, 2013).

One of the principal methods employed in this area is to ask users directly about the usefulness of financial information, in particular regarding the type they need (Wolk et al. 1992). Examples of this research includes Baker and Haslem (1973); Most and Chang

(1979); Abu-Nassar and Rutherford, (1996); Nasser et al., (2003); Naser and Nuseibeh, (2003); Al-Razeen and Karbhari, (2004a); Mirshekary and Saudagaran, (2005); and Al-Khater, (2007).

A second popular method focuses on asking users to weight the importance of different items of financial information in their investment decision-making. The main focus of this type of survey is investigating whether certain items of financial information are more suitable than others. Such studies, which typically make use of methods such as questionnaires, include McNally et al (1982); Firer and Meth (1986); Chow and Wong-Boren (1987); Solas and Ibrahim (1992); and Al-Razeen (1999).

The third type of method used to assess decision-usefulness via BAR focuses on ascertaining the points of views of preparers of financial reporting. In this context, researchers typically ask about issues relating to financial reporting and disclosure practices. Examples of these studies include Chandra (1974); Chandra and Greesball (1977); Ho and Wong (2003); Stainbank and Peebles (2006); Yaftian and Mirshekary (2005); and Kribat (2009).

The BAR approach has been criticised by Epstein and Pava (1993) who argued that "we can never be certain that the group of persons who willingly make the effort to answer ... [a] questionnaire truly represent the total population of shareholders" (p. 167). Another weakness of BAR suggested by Epstein and Pava is that:

> "we are claiming to use a self-selected sample of respondents to represent the entire universe of shareholders. A question that arises here is are we getting an accurate picture of the views and opinions of the typical shareholder? Neither the magnitude of the sample size, nor the proportion it is of the entire population, nor the rate of response to the survey. directly determines the accuracy with which the sample represents the population" (p. 167).

4.3.2.2 Market-Based Accounting Research

According to Epstein and Pava (1993), market based accounting research (MBAR) is assesses the usefulness of accounting information by investigating the relationship between changes in accounting variables and stock market prices. Beaver and Dukes (1973) suggested that this type of accounting research is important arguing that "the [accounting] method which produces earnings numbers having the highest association with security prices is the most consistent with the information that results in an efficient determination of security prices…[and] it is the method that ought to be reported". Similarly, (Gonedes, 1972) claimed that: "… the market's reaction to accounting numbers…provide reliable indicators of accounting numbers information content". More recently, Deegan and Unerman (2011) characterised MBAR as a method that looks at how disclosure of specific information affects the aggregate trading activities under taken by individuals participating in capital markets.

According to the arguments above, the usefulness of accounting information can be determined by examining whether its publication is associated with a share price reaction. MBAR is thus connected to the Efficient Market Hypothesis (EMH), which relates directly to the relationship between information and security prices (Griffin, 1982). The EMH was supported by Epstein and Pava (1993) when they highlighted that "it does not matter where or how the information is disclosed in annual reports, the market price acts 'as if' the information is widely known and understood" (p. 52). The authors continued by noting that without the EMH as an assumed hypothesis, it is hard or may be impossible, to interpret market-based research.

MBAR has number of well-rehearsed limitations, including: (i) assuming that investors are rational and will respond "correctly" to new information; (ii) assuming that the share price is only responding to the event of interest - no other 'confounding' news is published on the day; (iii) the lack of consensus on determinants of expected return; and (iv) uncertainty as to whether non-reaction means that information is irrelevant or is already reflected in the share price (Deegan and Unerman, 2011).

4.3.3 Criticisms of the Decision Usefulness Approach

According to previous accounting literature there are a number of weaknesses in decision-usefulness theory. For example, as mentioned above, the AICPA's Trueblood Report (1973) adopted the framework but Armstrong (1977) found little support for this approach:

> "I am sure you will be astounded to learn only 37% percent of respondents were able to recommend the adoption of the objective. 22% recommended that it be rejected out of hand; and 10 % insisted that it needed further study. It is difficult to believe that only 37% can agree that the basic objective of financial statements is to provide information useful for making economic decisions. I think this suggests the problem quite clearly" (p. 7).

Another limitation is reported by Carsberg and Day (1984) who argued that there are difficulties involved in persuading users to express their opinions on what information is required. In this regard, Dey (1999) noted that decision-usefulness theory was widely criticised throughout the 1970s because it did not have the ability to meet the needs of different groups of decision makers. Mathew and Perera (1996) pointed out that as the basic objective of financial statements is to meet shareholders' needs, the desires of other potential users are ignored by definition. Page (1992) pointed out that rational decision makers would be interested in forward-looking and statistically unbiased information, or at least information with known biases, however he highlighted that:

> "Decision usefulness fails to explain why companies produce backward-looking financial statements with quantified biases arising from historical cost measurements and the relation concept: it fails to supply a descriptive model of financial reporting as it is" (p. 79).

Puxty and Laughlin (1983) criticised the decision usefulness framework on the grounds of a lack of societal benefit, arguing that: "The production of information which is more useful to the various parties as individuals will not necessarily lead to greater welfare" (p. 557). The authors proposed that should be instead balance the users' needs and the control of organisations to achieve the best welfare gains for accounting information.

Another criticism of the decision-usefulness approach is provided by Edwards and Smith, (1996). The authors criticised the model regarding the trade-off between information usefulness and the cost of disclosure, pointing out that providing useful information raises issues regarding to the cost of provision. They pointed to the difficulties associated with achieving a balance between the cost of disclosure and the provision of useful information.

4.4 The Accountability Framework

The main alternative to a decision-usefulness framework for researching accounting practices is accountability.

Gray (1992) provided a succinct definition of accountability when he highlighted that: "Accountability is concerned with the right to receive information and duty to supply it" (p. 415). Gray and Jenkins (1993) added the notion of stewardship to the broad concept by stating that: "An obligation to present an account of, and answer for, the execution of responsibilities to those who entrusted those responsibilities" (p. 55) was central to the concept.

The stewardship framework is based on the existence of an accountability relationship between two parties. First is the steward (or accountor) i.e. the party to whom the responsibility is entrusted and who is obliged to present an account of its execution. Second is, the principal (or accountee) i.e. the party entrusting the responsibility and to whom the account is presented. Gray et al. (1987) defined accountability in this context as: "the onus, requirement or responsibility to provide an account or reckoning of the actions for which one is held responsible" (p. 2). Perks (1993) defined accountability more specifically: "as a concept may be traced to the separation of ownership from management in business organisations and is related to the concept of stewardship whereby managers provide an account to owners" (p. 24). In the context of business, the accountability relationship is therefore constructed between two parties, someone (an accountor) who is accountable to someone else (an accountee) for his/her activities and their consequences (Benston, 1982). When considering the timeframe over which an account relates to, accountability can be understood as explaining or justifying what has been done, what is presently being done and what is planned; in this respect, accountability involves the giving of information (Jackson, 1982). From these definitions it is clear that users of corporate financial reports have the right to know what actions have been undertaken by the managers of companies who control corporate resources.

Ijiri (1983) supported accountability theory, arguing that the notion creates a 'fair' system of financial information flows by the accountor to the accountee. This line of reasoning is evident in much of the literature supporting the approach, (e.g. Benston, 1982; Ijiri, 1983; Gray, 1992; Gray and Jenkins, 1993). These studies share the idea that meaningful accountability requires the responsible party to provide an account to interested parties.

4.4.1 Criticisms of Accountability Approach

Whilst many authors have supported the accountability approach it has also been widely criticised (e.g. Tricker, 1983; Stewart, 1984; Roberts and Scapens, 1985; Gray and Jenkins, 1993; Burritt and Welch, 1997; Stanton, 1997; Coy, et al., 2001, etc.) who of whom have argued that the theory has several substantive limitations. For example, Stewart (1984) suggests that accountability requires two conditions to be met: both (i) the provision of information to give an account to the accountee and; (ii) evaluation of the action taken as a consequence of forcing the accountor to account by the accountee.

Roberts and Scapens (1985) contended that the accountability approach is based on a system of reciprocal rights and obligations; in this context "the practice of accounting institutionalises the notion of accountability; it institutionalises the rights of some people to hold others to account for their actions" (p.448). The authors noted that this system is complex as a result of the interdependence of organisational actions which in turn makes it very hard to decide who is responsible, and thus who should be held accountable, for particular actions in practice.

The accountability framework has been criticised in terms of its practicalities by Tricker (1983) when he noted that accountability only exists when the right to account is enforceable. This point is supported by Burritt and Welch (1997) who highlighted that:

> "The giving of an account is not enough for an accountability relationship to exist; there has also to be a process for holding the accountor to account for actions taken and consequences incurred. Hence, enforcement mechanisms are crucial to accountability" (p. 533).

Stewart (1984) argued that accountability involves the exercise of power between the person or entity giving the account and the entity that is receiving the account. Stewart calls this relationship the "bond of accountability". However he pointed out that problems exist with regard to establishing "such bonds" between management (or the board) and different stakeholders, if this is to be taken as a precondition for true accountability. Normanton (1971, p. 314) pointed to the difficulties in accepting and discharging accountability through the preparation of conventional financial reporting by stating that "to be accountable means, as any dictionary will confirm, to give reasons for and explanations of what one does", but continued that "a certified financial account rarely provides explanations, and it never gives reasons. It does not, as a rule, even contain much detail of what actually has been done".

According to Anton (1976) even though the concept of accountability is still widely acknowledged, there has been a gradual shift away from this traditional view of financial statements role to one centred on providing information for decision-making[56]. It is the latter approach that the present study adopts, for reasons that are now outlined.

4.5 The Choice of Theoretical Framework for the Present Study

The decision-usefulness approach was selected as the theoretical basis for this study for the following reasons.

First, the main objectives of the thesis are to investigate: (i) the extent of disclosure (mandatory, voluntary and aggregate) in Kuwaiti listed firms' annual reports and (ii) the perceptions of preparers and users of these reports for study of financial accounting and reporting; decision-usefulness is the most commonly adopted theoretical framework (e.g. Sterling, 1970; Lee and Tweedie, 1979; Carsberg and Day, 1984; Botosan, 1997; Hooks and van Staden, (2004); Suwaidan et al., 2007; Dunne et al., 2008; Bovee et al., 2009; and Finningham, 2010). The decision-usefulness approach has been particularly widely adopted in previous accounting studies in developing nations in order to investigate research questions which are similar to the topic of the current study. For example, studies in countries such as Jordan, Saudi Arabia, Iran, Egypt, Libya, Jordan, Egypt, and Jordan (Abu-Nassar and Rutherford, 1996; Al-Mubarak, 1997; Al-Mahamoud, 2000; Nasser et al 2003; Naser and Nuseibeh, 2003; Al-Razeen and Karbhari, 2004; Mirshekary and Saudagaran, 2005; Hassan et al., 2009; Kribat, 2009; Mardini, 2012; Ahmed, 2013; and Tahat, 2013). This, therefore, suggests that such framework is suitable to Kuwait as a developing country. Ijiri (1983) noted that the choice of theoretical framework will critically affect the research process, the findings arrived at and the interpretation of the phenomena being addressed. He also distinguishes between the two main frameworks by

[56] Deegan (2000) argued that this approach existed as an alternative objective for financial statements for many decades.

indicating that a decision-usefulness based framework focuses mainly on the decision-maker (i.e. the user of accounting information). An accountability based framework instead emphasises the relation between the accountor (the provider of the accounting information) and the accountee (the user of the information). Accordingly decision usefulness framework is therefore more suitable than accountability approach for the objective of the current study.

Second, as discussed in Chapter Two, IAS/IFRS standards are adopted in the state of Kuwait and these emphasise the decision-usefulness criterion. Thus, the decision usefulness approach again seems preferable since it will allow the researcher to evaluate the extent of disclosure mandated by IFRS amongst Kuwaiti non-financial listed companies in the context of their intended aims. In addition, it will allow the researcher to examine the perceptions of preparers and users about disclosure practices in Kuwaiti non-financial listed companies' annual reports based on the characteristics of useful information specifically proposed by the standard setters.

Finally, as discussed earlier in this chapter the MBAR framework is directly related to the EMH. Hassan et al. (2003) argued that the KSE is weak-form efficient, however, Almujamed (2011)'s results suggested that no conclusions could be drawn about the weak-form of the EMH for KSE. Thus it is clear that it would be very difficult to use MBAR-based research to investigate the nature and usefulness of accounting information in the annual reports of Kuwaiti non-financial listed firms because adopting MBAR model market may give misleading results. Therefore this thesis adopts a BAR approach to examine the perceptions of preparers and users regarding the information disclosed in the Kuwaiti firms' annual reports.

4.6 Conclusion

The primary aim of this thesis is to examine the extent of financial disclosure levels in the annual reports of Kuwaiti non-financial listed firms and investigate the perceptions of preparers and users about these practices. For any empirical research study it, is important to explore the theoretical underpinnings relating to the work's objectives and this is particularly true financial reporting where more than one approach is possible. The two main possibilities, decision-usefulness and accountability were discussed in detail in this chapter, but it was concluded that the former is the theoretical basis most suited to the present study. The discussion now turns, in Chapter Five, to the methodology and methods adopted in the study.

Chapter 5

Methodology and Methods

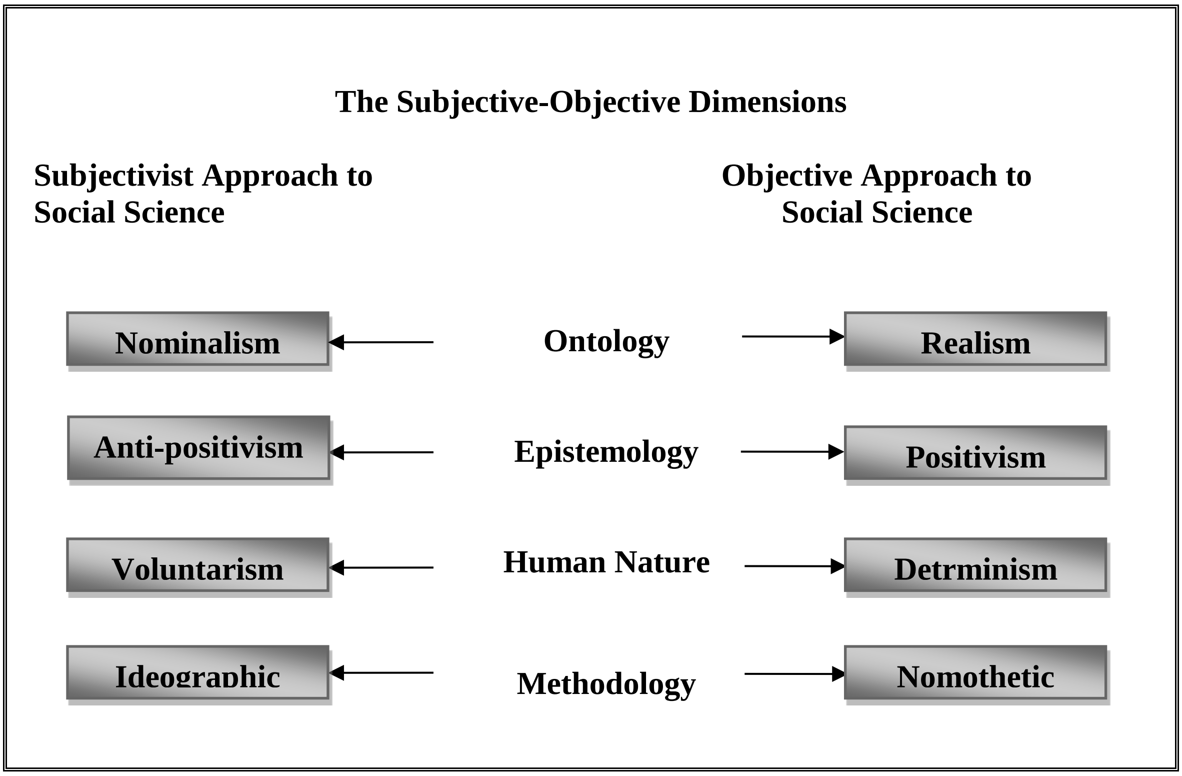
5.1 Introduction

This chapter explores the study's methodological frameworks, as well as justifying the reasons for the choice of research paradigm, methodology, methods and statistical tests used to conduct the empirical work. This chapter is organised as follows. Section 5.2 outlines the philosophical assumptions that underpin the research; in particular it focuses on a discussion of ontology, epistemology, human nature and methodology assumptions. Section 5.3 outlines the research methods that are adopted in this study. The sample and annual report selection strategies are outlined in Section 5.4. Section 5.5 deals with the research objectives and corresponding hypotheses, while, statistical tests used in this study are outlined in Section 5.6. The final section concludes the chapter by summarising the implications of the discussion for the subsequent empirical work.

5.2 Philosophical Assumptions

According to Creswell (1998, p. 74) a paradigm is "a basic set of assumptions that guides the research inquiries". Burrell and Morgan (1979) provided a framework for understanding the choice of paradigm in social science empirical research. Their framework was built on two aspects, namely: the beliefs of the researcher about: (i) the subjective-objective nature of the social world; and (ii) the regulation-radical change nature of society. These dimensions of social science research are represented diagrammatically in Figure 5.1.

Figure 5.1: Burrell and Morgan's (1979) Schema for Analysing Assumptions about the Nature of Social Science Research



Source: Adopted from Burrell and Morgan, (1979, p. 3).

The subjective-objective dimension of social science research is based on four paradigms social theory research, and these depend in turn on assumptions made by the researcher about the nature of social science and the nature of society. These assumptions deal with: (i) ontology; (ii) epistemology; (iii) human nature; and (iv) methodology (Burrell and Morgan, 1979). Ontology has been defined by Grix (2002) as "the starting point of all research" (p. 177): and "the image of social reality upon which a theory is based" (p. 177). More directly, Ryan et al. (2002) argued that ontology is "the study of existence" (p.13) while Blaikie (2000) provided a short description of ontological assumptions and stated that "ontological assumptions [are] concerned with what we believe constitutes social reality" (p. 8). In this context, ontological assumptions are clearly concerned with the belief of the researcher about the nature of reality. Burrell and Morgan (1979) explained the nature of the reality as focusing on:

> "Whether the 'reality' to be investigated is external to the individual - imposing itself on individual consciousness from without - or the product of individual consciousness; whether 'reality' is of an 'objective' nature, or the product of individual cognition; whether 'reality' is a given 'out there' in the world, or the product of one's mind" (p.1).

Burrell and Morgan (1979) argued that discussions about ontology primarily focus on the continuum between two distinct positions, nominalism and realism. The authors highlighted that a nominalism perspective views researchers as not being independent from their prior experiences while the social world is unreal and has no real structure; it is comprised of names or concepts or labels that are used to describe things, because what is known about reality is generated from individual consciousness and cognition. In contrast, a realist ontological position involves a belief that what the senses show us as reality is the 'truth'; thus, objects have an existence independent of the human mind (Saunders et al., 2007).

The second assumption relates to epistemology. According to Blaikie (2000) epistemology is concerned with:

"the theory of knowledge, especially in regard to its methods, validation and the possible ways of gaining knowledge of social reality, whatever it is understood to be" (p. 8).

More specifically, the notion is concerned with identifying the constituents of knowledge (Saunders et al., 2007) and therefore relates to the grounding of knowledge and how researchers might begin to understand the social world (Burrell and Morgan, 1979). Burrell and Morgan also distinguished between two extreme positions regarding epistemological assumptions, in this case regarding:

> "whether knowledge is something which can be acquired on one hand (positivism), or is something which has to be personally experienced on the other (anti-positivism)" (Burrell and Morgan, 1979, P. 2).

Accordingly, epistemology can be understood as a continuum with extremes representing positivist and anti-positivist positions. A positivist approach follows an objectivist epistemology, whereby knowledge is seen as existing independently of the researcher. In contrast, an anti-positivist approach follows a subjectivist epistemology which believes that the social world can only be understood from the point of view of a researcher who is involved directly in the activities which are to be studied (Burrell and Morgan, 1979).

The third assumption relates to human nature, in particular the relationship between human beings and their environment. Burrell and Morgan argued that while such a relationship is affected by ontological and epistemological assumptions in practice, in theoretical terms it is separate. Determinism and voluntarism represent the two extreme positions in this context. Determinism views human beings and their experiences as being influenced by their environment, while, voluntarism argues that "man is completely autonomous and free-willed" (Burrell and Morgan, 1979, p. 6).

The fourth assumption concerns the researcher's view about methodology. The term methodology refers to "the theory of how research should be undertaken" (Saunders et al., 2003, p. 2). According to Burrell and Morgan (1979) different ontologies, epistemologies and views of human nature lead to different methodologies being adopted by social science researchers. Crotty (1998) explained methodology as:

> "…the strategy, plan of action, process or design lying behind the choice and use of particular methods and linking the choice and use of methods to the desired outcomes" (p. 3).

Thus, methodology influences the research design that guides researchers in choosing the techniques or procedures used to gather and analyse data related to their research questions (Crotty, 1998). Two extreme approaches have been identified regarding methodology, namely: "the nomothetic" approach, which makes use of positivistic (objectivist) methodologies where the social world is seen as being similar to the natural world and data can be gathered through the use of protocols and procedures that stem from the physical sciences; and the "ideographic" approach, which is phenomenological (subjectivist)

(Burrell and Morgan, 1979). The nomothetic method has been described by Burrell and Morgan, (1979) as being:

> "epitomised in the natural sciences, which focus upon the process of testing hypotheses in accordance with the canons of scientific rigour. It is preoccupied with the construction of scientific tests and use of quantitative techniques for the analysis of data. Surveys, questionnaires, personality tests and standardised research instruments of all kinds are prominent among the tools which comprise nomothetic methodology" (p. 6-7).

In contrast, an Ideographic approach views knowledge as something that has to be individually experienced; data can be collected through adopting qualitative research techniques such as interviews and case studies (Burrell and Morgan, 1979).

Burrell and Morgan introduced two dimensions to explain the way in which society is structured: (i) the sociology of regulation; and (ii) the sociology of radical change; they argued that these reflect the attitude of the scientists to order and conflict in society. Regulation and radical change is then related to the sociology of regulation as follows:

> "…the writings of theories who are primarily concerned to provide explanations of society in terms which emphasise its underlying unity and cohesiveness. It is a sociology which is essentially concerned with the need for regulation in human affairs" Burrell and Morgan (1979), (p.17).

In contrast, the sociology of radical change is concerned with providing "explanations for radical change, deep-seated structural conflict, modes of domination, and structural contradiction which its theories see as characterising modern society" (p. 17). The fundamental differences between these two positions and a pictorial representation of the regulation-radical change structure is shown in Table 5.1.

Table 5.1: The Regulation-Radical Change Dimension

The Sociology of Regulation is concerned with:	**The Sociology of Radical Change is concerned with:**
(a) The Status Quo	(a) Radical Change
(b) Social Order	(b) Structural Conflict
(c) Consensus	(c) Modes of Domination
(d) Social Integration and Cohesion	(d) Contradiction
(e) Solidarity	(e) Emancipation
(f) Need Satisfaction	(f) Depravation
(g) Actuality	(g) potentiality

Note: Reproduced from Burrell and Morgan, (1979, p. 18).

Based on the seven elements presented in Figure 5.2, Burrell and Morgan (1979) suggested several aspects and interpretations of the nature of society across a sociological spectrum. Encompassing a range of points of view that may exist between researchers in terms of their assumptions about how society is ordered and the emphasis on change in the research question being examined.

Burrell and Morgan (1979) merged the subjective-objective and regulation-radical change dimensions and created a two-by-two matrix for their analysis; this resulted in four distinct paradigms emerging namely: functionalist, interpretive, radical structuralist and humanist. The authors noted that these paradigms are mutually exclusive in the sense that a researcher cannot be located in more than one paradigm at any point in time since, in applying the assumption of one paradigm, this automatically means that the assumption of all other paradigms are rejected.[57] Burrell and Morgan (1979) suggested in this context that:

[57] Chua (1986) expressed a different point of view regarding the categorisation of accounting research, classifying the research into “mainstream accounting”, “interpretive” and “critical” forms. Her alternative classification scheme was based on three sets of beliefs: (i) beliefs about knowledge; (ii) beliefs about physical and social reality; and (iii) the relationship between accounting theory and practice. Epistemological and methodological assumptions were argued to represent two sets of beliefs about the nature of knowledge, while assumptions about ontology, human intention, rationality and social relations underpin beliefs about physical and social reality. In terms of the relationship between theory and practice, Chua (1986, p. 610) suggested that “mainstream accounting researchers insist upon a means-end dichotomy. That is, accountants should deal only with observations of the most “efficient and effective” means of meeting the informational needs of a decision-maker but should not involve themselves with moral judgments about the decision-maker’s needs or goals.”

> "Each of the paradigms shares a common set of features with its neighbours on the horizontal and vertical axis in terms of one of the two dimensions but differentiated on the other dimension. For this reason they should be viewed as contiguous but separate-contiguous because the differentiation is of sufficient importance to warrant treatment of the paradigms as four distinct entities. The four paradigms define fundamentally different perspectives for the analysis of social phenomena. They approach this endeavour from contrasting standpoints and generate quite different concepts and analytical tools" (p. 23).

According to Burrell and Morgan (1979), the nature of social-scientific reality depends upon which paradigm is used. Figure 5.2 below illustrates Burrell and Morgan's paradigms.

Figure 5.2: Burrell and Morgan's (1979) Matrix for the Analysis of Social Theory

	The Sociology of Radical Change		
Subjective	**Radical Human**	**Radical Structuralist**	**Objective**
	Interpretive	**Functionalist**	
	The Sociology of Regulation		

Note: Reproduced from Burrell and Morgan, (1979, p. 22).

The functionalist paradigm is the result of combining objectivist and regulatory dimensions and is focused on providing explanations of the social order from an objective perspective. Researchers located in this paradigm tend to adopt a realist ontology, a positivist epistemology, a deterministic model of human nature, and nomothetic methodology. According to Burrell and Morgan (1979) the functionalist paradigm assumes that the:

> "Social world is composed of relatively concrete empirical artefacts and relationships which can be identified, studied and measured through approaches derived from the natural sciences" (p. 16).

Accordingly, the functionalist paradigm sees accounting and business phenomena as concrete real-world relations possessing regularities and causal relationships that are amenable to scientific explanation and prediction (Riahi-Belkaoui, 2005).

Combining together a subjectivist approach with an appreciation of regulation leads to an interpretive paradigm, which considers peoples' perceptions of reality when trying to explain and understand the fundamental meanings of a phenomenon in the social world. Thus, an interpretive approach to social science typically encompasses a nominalist ontology, an anti-positivist epistemology, a voluntarist view of human nature and ideographic methodology. Interpretive research observes the activities of individuals in order to achieve a better understanding of society (Burrell and Morgan, 1979).

The radical humanist paradigm is arrived at following combining the subjective and radical change dimensions. Radical humanists see the world in subjectivist terms and focus on changing society by 'eliminating constraints on human beings' (Burrell and Morgan, 1979). Thus, their view of the social world is based on adopting a nominalist ontology, an anti-positivist epistemology, a voluntarist view of human nature and an ideographic methodology (Burrell and Morgan, 1979). The final position, radical structuralism is derived from combining together the radical change and objectivism dimensions. Therefore, this paradigm is unlike the radical humanist paradigm because it views the world from an objectivist standpoint and typically focuses on changing the universal structures and social order. Those taking this stance understand the social world from a standpoint which tends to be realist, positivist, determinist and nomothetic (Burrell and Morgan, 1979).

The phenomenon being studied in this dissertation is financial disclosure practice in Kuwaiti non-financial listed firms. In particular, the research examines the level of disclosure in the annual reports of Kuwaiti non-financial listed firms and explores the perceptions of interested parties regarding these practices. Thus, the study seeks to understand and explore the issues under investigation without attempting to radically change the status quo. Therefore, this research is located in the sociology of regulation zone, which sees a meaningful place for regulation of accounting matters; according to

Burrell and Morgan (1979) this type of study can only be functionalist or interpretive in nature. Thus, the radical humanist and radical structuralist paradigms are rejected as they are located within the sociology of radical change.

The level of financial disclosure in annual reports of Kuwaiti non-financial listed firms is seen by the researcher here as an important phenomena that is worthy of investigation. Furthermore, the researcher views the disclosure of accounting matters as objective information that represents a common reality to individuals; these accounting disclosures are not seen as subjective or unique from the point of view of interested parties. Therefore, the researcher locates the present study mainly in the functionalist paradigm of Burrell and Morgan's matrix; however, an interpretive element is acknowledged within the analysis. Following the functionalist approach, realist ontology, a positivist epistemology, a deterministic model of human nature and nomothetic methodology are adopted.

After the researcher has determined one side in the paradigm matrix presented by Burrell and Morgan, he or she is required to select a suitable method to address his/her research questions. According to the substantive literature, the choice of qualitative versus quantitative methods is one of the most fundamental distinctions to be made in research methodology (Bailey, 1978). Quantitative research is considered to be highly structured, objective, and generally uses quantitative measurement, while qualitative research focuses on the details of phenomenon and the reality behind these details; it is thus often considered to be more subjective (Collis and Hussey, 2003).

According to Marshall and Rossman (1989), researchers should use the approach which will best assist in answering the research questions under investigation. The types of phenomenon being examined, the nature of the population being studied and the overall objectives of the research are basic elements which influence the choice between qualitative and/or quantitative methods (Mariamposlki, 2001). Accordingly, based on the questions being addressed and the objectives of this research - as well as the world views of the researcher - a predominantly quantitative approach was considered to be most suitable for this thesis.

5.3 Research Methods

According to Saunders et al: (2009), a number of different methods can be used for collecting and analysing data. The authors documented that observations, interviews, questionnaires, textual analysis and case studies are the main data collection methods used in social science research, but also highlighted that choosing a specific method for any particular study is based on a number of factors such as the purpose of the study, sample size, time available and access availability.

Since the main objective of this study is to examine the level of financial disclosure in the annual reports of Kuwaiti non-financial listed companies and to investigate preparers, and users' perceptions regarding the information disclosed in corporate annual reports, the researcher chose two research methods commonly used in disclosure studies, namely a disclosure index and questionnaire surveys. A disclosure index method is employed to explore disclosure levels in corporate annual reports. The questionnaire method is then used in order to examine the perceptions of preparers and users regarding disclosure practices in Kuwait. In fact, Saunders et al. (2009) highlighted that "it may be better to link them (questionnaires) with other methods in a multiple-methods research design" (p.362). The two methods adopted are now discussed in detail.

5.3.1 The Disclosure Index

A disclosure index is an extensive list of selected items that might be expected to be disclosed in a company's annual reports (Cooke and Wallace, 1989; Marston and Shrives, 1991). Coy and Dixon (2004) argued that:

> "Disclosure indices are an often applied method in accounting research, particularly in studies of annual reports, being used 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 reports" (p. 79).

The disclosure index method was seen by researchers in the past (e.g. Singhvi and Desai, 1971) as an adequate technique for assessing the volume and nature of financial disclosure and has been used on numerous previous occasions. Disclosure indices were initially used by Cerf (1961) and are regularly employed, to assess the level of: (i) mandatory disclosure (e. g. Wallace et al., 1994; Glaum and Street, 2003; Abd-Elsalam and Weetman, 2007); (ii) voluntary disclosure (e. g. Chow and Wong-Boren, 1987; Meek et al., 1995; Hossain et al., 1995; Al-Shammari, 2008); and aggregate disclosure (e.g. Buzby, 1975; Cooke, 1989c, Hassan et al., 2006 and Omar and Simon, 2011). Attempts to measure disclosure are associated with some problems, for example in this context Cooke and Wallace (1989, p.51) highlighted that "financial disclosure is an abstract concept that can not be measured directly. It does not possess inherent characteristics by which one can determine its intensity or quality like the capacity of a car". However, the disclosure index method has gained credence as a research tool for a. First, the method captures the differences in magnitude of company financial reporting and is direct and replicable. Companies can be ranked and explanatory variables examined. Moreover, frequency distributions of items can easily be documented (Cooke and Wallace, 1990).

Such an index aims to assess the degree of disclosure in the corporate annual reports. This method can be used for examining the level of compliance with mandatory disclosure if the items in the index are required by regulators, or can be used to test voluntary disclosure levels if the items assessed via the index are optional. The index is therefore often used for investigating combined the level of both mandatory and voluntary disclosure (Marston and Shrives, 1991). In this context Hassan and Marston (2010) argued that “a disclosure index is a research instrument measuring the extent of information reported in a particular disclosure vehicle(s) by a particular entity(s) according to a list of selected items of information” (p. 18).

Hassan and Marston (2010) indicated that the extent to which the disclosure index method has been used in previous studies varies with the degree of researcher involvement in constructing the disclosure index and in terms of the nature and number of information items included. In this context they argued that there are two types of involvement - “full” and “no”. Full involvement relates to self-constructed indies, in which all items included in the index are chosen by the researcher, while no involvement means the researcher uses indices used in prior studies for measuring the level of disclosure. The current study used the latter approach, employing disclosure indices in the extant literature and modifying these to suit the Kuwaiti business environment.

Previous literature has also distinguished between un-weighted and weighted indices. Un-weighted indices assume that each item of disclosure included in the index is equally important, and in this case each item scores one if disclosed and zero if not (Cooke, 1989). Weighted indices attach weights to disclosure items to distinguish between more important and less important items (Robbins and Austin, 1986). In the same vein, Beattie et al. (2004) argued that weightings are typically achieved by conducting attitude surveys among relevant user groups that about the relative importance of each item. Researchers supporting the use of weighted indices (e.g. Robbins and Austin, 1986) believe that attaching a weight to disclosure items reflects both the extent and importance of each disclosure item used. On the other hand, those who have argued against the use of weighted indices reported that attaching weightings is irrelevant because companies that are better at disclosing 'important items' are also better at disclosing 'less important items' (Spero, 1979, as cited in Marston and Shrives, 1991). Buzby (1975) criticised the use of weighted indices because weightings indicate the relevance of information to only one group of users such as financial analysts; financial analysts may logically value more highly those items that are more relevant to them. Moreover, the importance of disclosure items may vary not just from one user to another, but between firms as well as at an industry level (Ali et al., 2004). This point was supported by Ahmed and Courtis (1999) when they argued that assigning weights involves a great deal of subjective judgement on the part of either the researcher and/or the users. The authors added that subjectivity can be reduced by using un-weighted indices. In any case, weighted and un-weighted scores tend to give similar results as long as there are a large number of items in the index (Beattie et al, 2004).

5.3.1.1 Justifications for using the Disclosure Index Method

As discussed above, disclosure indices have been used since 1961 and employed by many researchers in accounting disclosure studies in both developed and developing countries. In this regard Marston and Shrives (1991) argued that the usefulness of a research tool is reflected in the extent to which it is employed pointing out that any method would not continue to be used if it provided 'poor' results. The disclosure index method has been extensively in developing countries, for example, (Naser (1998) in Jordan; Abd-Elsalam and Weetman (2003) in Egypt; Abd-Elsalam and Weetman (2007) in Egypt; Al Shammari (2008) in Kuwait; Kribat (2009) in Libya; Al-Akra et al. (2010) in Jordan; Omar and Simon (2011) in Jordan; Mardini (2012) in Jordan; Omar (2012) in Bahrain; Ahmed (2013) in Egypt; and Tahat (2013) in Jordan).

In addition, as this research is focused on exploring the extent of disclosure in Kuwaiti annual reports, rather than the importance of particular type of information, an un-weighted index seems to be the most suitable for this study. Although the second strand of the research focusses on perceptions about the relative importance of particular disclosure items no preconceptions are placed on the work. Such as approach is supported by Abd-Elsalam, 1999:

> "To avoid subjectivity in judging that one item was more important than another, the study relied on un-weighted score approach, which gives the same importance to all disclosure items because the research questions were concerned with the level of disclosure rather than the importance of disclosure" (p. 152).

Finally, the final index employed here is large, at 230 items. Marston and Shrives, (1991) specifically justified this type of approach as: "If there are a large number of items in the index one might expect that the weighted and un-weighted scores would give the same result" (p. 203).[58]

Given this evidence, an un-weighted index was selected for the present study. However, the disclosure index method is not free of limitations, even when used in this manner. The tool involves the use of subjective judgement which may influence the selection of disclosure items as well as the process of measurement (Wallace, 1987), although these problems may be minimised by the development of suitable criteria (Marston and Shrives, 1991).

5.3.1.2 The Disclosure Checklist

In order to measure the disclosure level in corporate annual reports there are different methods that can be employed to construct the disclosure checklist. Methods vary

[58] Spero (1979) and Chow and Wong-Boren (1987) both used weighted and un-weighted indices and obtained similar results, noting that companies which disclosed more information typically disclosed more important information as well. Robbins and Austin (1986) reported that factors which were found to be associated with the un-weighted index were also shown to be associated on the basis of a weighted index. These findings provide strong support for the use of an un-weighted index, and most researchers now adopt this method (e.g. Cooke, 1989a; Hossain et al., 1994; Ahmed and Nicholls, 1994; Karim; 1995; Owusu-Ansah, 1998; Hossain, 2000; and Kribat et al., 2013).

considerably among previous studies. In some, an exhaustive list of financial and/or non-financial voluntary information items are quantified (e.g. Firth, 1979; Chow and Wong-Boren, 1987; Cooke, 1989; Meek et al, 1995; Hossain et al. 1995; El-Gazzar et al. 1999; Ferguson et al., 2002; Leventis and Weetman, 2004; Ghazali and Weetman, 2006), while in others only mandatory items are measured (e.g. Owusu-Ansah, 1998; Street and Gray, 2001; Akhtaruddin, 2005; Al-Shammari, 2008; Abd-Elsalam and Weetman, 2007; Al-Akra et al. 2010), whilst some consider aggregated, voluntary and mandatory disclosures (e.g. Cerf, 1961; Buzby, 1975; Cooke, 1993; Abayo et al. 1993; Inchausti, 1997; Naser and Nuseibeh, 2003; Hassan et al. 2006; and Omar and Simon, 2011). There are also differences among studies in terms of the number of information items included in the checklist; in this context, Wallace (1988) has pointed out that there is no general agreement on item selection. Nonetheless, from reviewing the previous literature, it seems that two methods for constructing disclosure indices can be identified. The first revolves around reviewing the extant literature to develop a new index. This means that there is a full involvement from the researcher in the entire process of constructing the disclosure index (Hassan and Marston, 2010). On the other hand, some researchers employ existing indices without making any modification; in this context, Marston and Shrives (1991, p. 203) suggested that use of an existing index has an advantage in that direct comparisons with previous work can be made.[59] This study uses a comprehensive approach by focusing on both mandatory and voluntary items, using a modified checklist; the checklist itself is designed in line with the disclosure requirements of IASs/IFRSs and appropriate voluntary items.

[59] For example, Belkaoui and Kahl (1978) adapted the work of Cerf (1961), Barrett (1976), Singhvi and Desai (1971) and Buzby (1975) to create an index appropriate for use in the Canadian context. Firer and Meth (1986) adapted the index of Firth (1979) to develop an index appropriate to South Africa. Marston (1986) used Barrett's (1976) index in carrying out a comparison of disclosure in the UK and India. More recently, Alhajraf (2002) adapted Mostafa's (1994) index to examine the level of disclosure in Kuwaiti banks' financial statements.

The first step in the development of a disclosure index intended to explore mandatory items is the selection of accounting standards. According to Wallace et al. (1994) there is no agreed theory on the number and selection of standards to be included in compiling a disclosure index, although the authors highlighted that the choice of standards usually depends in practice on the focus of the research. Therefore, some criterion is needed for making the selection. In this study the accounting standards were selected primarily based on: (i) applicability to Kuwaiti companies during the financial year ended 2010; (ii) relevance to the focus of the study; and (iii) those deemed to be the most important and controversial standards in previous studies (Street and Bryant, 2000; Street and Gray, 2002). Since all listed companies on the KSE were required to adopt IAS from January 1991 (Regulation No. 18 of 1990) the focus of the present study is on all IAS/IFRS disclosure requirements. However, since these standards are internationally focused and not tailored in particular for the Kuwaiti environment, some of the standards are not applicable. All current IAS/IFRS (IFRS 1, IFRS 2, IFRS 3, IFRS 4, IFRS 5, IFRS 6, IFRS 7, IFRS 8, IAS 1, IAS 2, IAS 7, IAS 10, IAS 11, IAS 12, IAS 16, IAS 17, IAS 18, IAS 19, IAS 20, IAS 21, IAS 23, IAS 24, IAS 26, IAS 27, IAS 28, IAS 29, IAS 30, IAS 31, IAS 33, IAS 34, IAS 36, IAS 37, IAS 38, IAS 39, IAS 40 and IAS 41) were selected, however 14 standards were excluded (see Appendix 5.1) and so, the final checklist was based on 22 IAS/IFRS standards.

Marston and Shrives (1991) noted that the number of items that can be disclosed by a company is very large, if not infinite. Since there is no general theory regarding the number and selection of items to include in a disclosure index an extensive list of disclosure items should be developed (Wallace and Naser, 1995). The checklist used here was developed based on those used in the previous literature (e.g. Abd-Elsalam 1999; Street et al., 1999; Street and Gray 2002, Tsalavoutas 2009; Al Mutawaa and Hewaidy 2010 and Malaquias et al., 2012) in terms of the IAS/IFRS disclosure requirements. The text of standards issued by the IASB and the disclosure checklist published on the internet by Deloitte (2010) was also been used in developing the checklist. Comparing these sources alongwith the Kuwaiti business environment resulted in a final checklist of 150 disclosure items emerging. Table 5.2 provides detail, indicating all the number of items related to each standard.

Table 5.2: Accounting Standards Selected and Number of items related to each Standard

Standard	Description	No of items
IFRS 2	Share-Based Payment	5
IFRS 3	Business Combinations	5
IFRS 5	Non-current Assets Held for Sale and Discontinued operations	5
IFRS 7	Financial Instruments	21
IFRS 8	Operating Segment	10
IAS 1	Presentation of Financial Statement	32
IAS 2	Inventories	4
IAS 7	Statement of Cash Flow	4
IAS 10	Events after the Reporting period	3
IAS 16	Property, Plant and Equipment	9
IAS 17	Leases	6
IAS 18	Revenue	2
IAS 21	The Effects of Changes in Foreign Exchange Rates	6
IAS 23	Borrowing Costs	3
IAS 24	Related Party Disclosures	5
IAS 27	Consolidated and Separate Financial Statements	4
IAS 28	Investment In Associates	6
IAS 33	Earnings per share	4
IAS 36	Impairment of Assets	4
IAS 37	Provisions, Contingent Liabilities	5
IAS 38	Intangible Assets and Contingent Assets	4
IAS 40	Investment Property	3
TOTAL		150

Note: This table provide a number of 22 accounting standards selected for this study and number of items related to each standard.

Marston and Shrives (1991) have noted that while many studies measure disclosure quality, there is no concrete explanation or general guide for the selection of items to measure the extent of voluntary disclosure. The voluntary checklist for the present study comprised a list of 80 information items not incorporated among the IAS/IFRS requirements; but constructed based on key prior studies. In particular, the studies of Meek et al, (1995) Ferguson et al. (2002) Leventis and Weetman (2004), Ghazali and Weetman (2006), Hassan et al. (2006), Al-Shammari (2008) and Hossain and Hammami (2009); most of these studies investigated research questions similar to this thesis and most were undertaken in developing countries with similar environments to Kuwait. The study employed three categories and eight sub-categories of voluntary disclosure, following the work of Leventis and Weetman (2004); these were labelled: (i) corporate environment (general information about economic environment, general corporate information, specific corporate information and information about directors); (ii) social responsibility (employee information and social policy); and (iii) financial information (financial ratios and market related information).

Since there is no agreed upon method of selecting an item of information, and to make the selection free of bias, an extensive list of disclosure items is needed (Wallace 1988). In the present study, the aggregate index includes 230 information items (150 mandatory items and 80 voluntary) and therefore needs this criterion.

5.3.1.3 Validity and Reliability of Disclosure Indies

Validity

Vlachos (2001) argued that “Validity is concerned with whether the right thing is being measured” (p. 184). There are three common validity tests: (i) criterion validity; (ii) construct validity; and (iii) content validity (Sekaran, 2003). Criterion validity focuses on whether a disclosure index measure is significantly correlated with an external criterion. In this regard, Hassan and Marston (2010) stated that: “The higher the magnitude of the correlation coefficient, the more valid is this instrument or measure for this particular criterion" (p. 28). Construct validity focuses on the extent to which a measure performs in accordance with theoretical expectations (Hassan and Marston, 2010); it is established when the scores obtained by two different instruments measuring the same concept are highly correlated (Vlachos, 2001). Content validity focuses on how well the instrument measures what it is intended to measure (Hassan and Marston, 2010). It is evident when items that are supposed to measure a particular concept are assessed by a group of expert judges as doing so (Vlachos, 2001).

In the present case the overall checklist of 230 items of information was sent to a sample of experienced external auditors (three from KPMG; three from Ernst and Young; and three from Grant Thornton). In addition one auditor from the Capital Market Authority and three academic researchers in Kuwait reviewed the list to ensure that the items accurately captured the extent of mandatory disclosure as well as to check voluntary items against accounting regulations in Kuwait to avoid including any mandatory items in the voluntary list. Whilst one firm of experienced external auditors in Kuwait confirmed that all mandatory items were applicable in Kuwaiti, disagreement was evident amongst the others regarding the applicability of 20 mandatory items. The comments of the audit firms were discussed extensively with the student's supervisors, balancing these concerns with the desire for inclusiveness completeness and the need to avoid excluding any important items. The researcher decided on balance to include all of these items for the purpose of measuring the extent of corporate mandatory disclosure in Kuwait. The external authors confirmed that all the voluntary items proposed were valid. Table 5.3 shows the number of items required by each standard as is evident, this varied substantially from 2 (IAS 18) to 32 (IAS 1).

Table 5.3: Summary of Validity Tests of Index Items

Standard	Items suggested by the researcher	Items suggested by Auditor from KPMG	Items suggested by Auditor from Ernst and Young	Items suggested by Auditor from Grant Thornton	Items suggested by Auditor from Capital Market Authority	Final index after supervisor's advice
IFRS 2	5	4	3	4	2	5
IFRS 3	5	5	4	5	4	5
IFRS 5	5	1	1	4	1	5
IFRS 7	21	19	15	15	16	21
IFRS 8	10	9	9	9	9	10
IAS 1	32	32	32	32	32	32
IAS 2	4	4	3	3	3	4
IAS 7	4	4	4	4	4	4
IAS 10	3	3	3	3	3	3
IAS 16	9	9	9	9	9	9
IAS 17	6	2	2	4	5	6
IAS 18	2	2	2	2	2	2
IAS 21	6	6	6	6	6	6
IAS 23	3	3	3	3	3	3
IAS 24	5	5	5	5	5	5
IAS 27	4	4	4	4	4	4
IAS 28	6	6	6	6	6	6
IAS 33	4	4	4	4	4	4
IAS 36	4	3	3	3	3	4
IAS 37	5	5	5	5	5	5
IAS 38	4	4	4	2	3	4
IAS 40	3	3	3	3	3	3
Total	**150**	**137**	**130**	**135**	**132**	**150**

Note: This table shows the number of items validated by the researcher, the experienced auditors and included in the final index.

Reliability

Reliability is concerned with the accuracy of measurement; in particular, it refers to the possibility of achieving similar results based on analysis by two (or more) researchers if they used the same index to measure financial disclosure by a specific firm at a specific time (Marston and Shrives, 1991). The results should be comparable since the information measured by the index is extracted from the same annual report (Marston and Shrives, 1991). Reliability implies that the information is "…free from material error and bias…" (Vlachos, 2001, p. 162). Vlachos (2001) stated in this context that:

> "The main threats to reliability of the index scores derive from the possibility of an incorrect application of the scoring instrument and the existence of subjectivity in the scoring procedure" (p. 181).

According to Hassan and Marston (2010), reliability can be assessed in three ways: via test-retest, inter-coder reliability and internal consistency measures. The test-retest procedure measures the stability of the results obtained from a measurement instrument over time. For example, the stability of the result can be assessed when the same researcher codes one piece of work twice at different periods of time and the results compared. Inter-coder reliability testing focuses on the extent to which different researchers get similar results when coding the same annual report (Hassan and Marston, 2010). Internal consistency is the third test for measuring reliability of index scores; Carmines and Zeller (1991) argued that measuring internal consistency is essential for evaluating the reliability of a measurement instrument. The test was described by Litwin (1995) as "an indicator of how well the different items measure the same issue. This is important because a group of items that purports to measure one variable should indeed be clearly focused on that variable" (p. 21). The most common test for internal consistency is Cronbach's alpha (Sekaran, 2003). This test concentrates on how well the different items complement each other in their measurement of different aspects of the same variable. The coefficient alpha can take values from zero to one; the higher the coefficient alpha achieved, the better the reliability of the scale being employed (Hassan and Marston, 2010). There is extensive debate regarding an 'acceptable' alpha value; Sekaran, (2003) has argued that a value of 0.6 or above is acceptable, while Pallant (2001) suggests 0.7. Bryman (2008) argued that the figure should instead be 0.8 or more, however, he accepted that there is room for judgement in the matter. In any case, this measure of internal consistency has been extensively used by previous related studies (e.g. Botosan, 1997; Hassan et al., 2009; Ahmed, 2013; Tahat, 2013)

Given its pedigree, the researcher tested the reliability of the disclosure indices employed in the current study using Cronbach's alpha. The results are presented in Chapter 6. However, to increase confidence in the reliability of the indices used in this study, inter-coder reliability was also examined. The results of these analyses are outlined in Chapter 6.

5.3.1.4 Scoring and Weighting the Items

Once disclosure checklist is developed, scores need to be assigned to each item of information. The scoring process started with reading the annual reports carefully to allow the researcher to understand the nature and complexity of each company's operations. As previously outlined, the un-weighted method of scoring was applied in this study. This approach employs a dichotomous procedure in that companies are awarded a score of one (1) if they disclose an applicable item and zero (0) if not. This procedure is common when such an index is adopted (e.g. Cooke, 1989; Wallace et al., 1994; Ahmed and Nicholls, 1994; Hossain et.al. 1995; and Naser 1998). In practice two scores were calculated in each case: 'Expected Number of Disclosed Items' (ENDI) and the 'Actual Number of Disclosed Items' (ANDI). The Disclosure Index Ratio (DIR) is then calculated for each company's annual report by dividing the ANDI by the ENDI i.e. DIR = ANDI /ENDI.

However, Cooke (1989a, 1989b) reported that this procedure is not entirely free of subjectivity and thus recommended that the entire corporate annual report should be reviewed first to identify whether or not a particular item was relevant to avoid penalising a company by unfairly assigning a score of zero. Similarly in this study, an advance reading of the whole corporate annual report was undertaken to determine which items were applicable and which were not applicable. Consequently, the risk of penalising companies for failing to disclose non applicable items was greatly reduced.

5.3.1.5 Association between Company-Specific Characteristics and the Extent of Aggregate Financial Disclosure

One of the objectives of this research is to identify cross-sectional influences on Kuwaiti firms disclosure practices. To this end, it was necessary to seek out appropriate explanatory company characteristic variables and examine relationships between these and the extent of disclosures.

A number of firm and environmental characteristics have been found to influence levels of financial disclosure (Haniffa and Cooke, 2002). Haniffa and Cooke classified these characteristics into five groups: “economy”, “capital markets”, “accounting and regulatory framework”, “enforcement mechanisms” and “culture”. They argued that “disclosure practices do not develop in a vacuum, but rather reflect the underlying environmental influence that affects managers and companies in different countries” (p. 317). Thus, the financial disclosure level is not only affected by environmental factors external to the economic entity, but is also influenced by factors internal to the company, and these may differ from one company to another (Al-Mulhem, 1997; Omar and Simon, 2011). In this context, Cerf (1961), Suwaidan (1997) and Omar and Simon (2011) have argued that distinguishing the variables that are associated with the extent of financial disclosure will help policy makers to identify suitable ways of improving disclosure practices (Omar and Simon, 2011).

There is extensive empirical work relating company specific characteristics to the extent of financial disclosure in both developed (e.g. Chow and Wong-Boren, 1987; Cooke, 1989; Wallace et al., 1994; Owusu-Aansh, 1998; Leventis, 2001; Street and Gray, 2002) and developing countries (e.g. Naser, 1998 in Jordan; Leventis and Weetman, 2004 in Greece; Hossian and Hammami, 2009 in Qatar; Al-Shammari, 2008 in GCC member states; and Omar and Simon, 2011 in Jordan). In this study, the following criteria were applied for selecting the variables to be tested. First, they should be associated with financial disclosure on clear a-priori and/or theoretical grounds. Second, the variables should reflect those commonly-examined in previous academic research (e.g. size, profitability).[60]

Third, they should be easily measured for the purpose of statistical analysis. Fourth, they should facilitate splitting of the sample firms into sub-groups without ambiguity. Fifth, the data must be available for these factors. Sixth, the characteristics should be relevant to the Kuwaiti socio-economic environment. The discussion below explains the company characteristics (independent variables) that were selected on the above bases and are therefore examined in this study.

Firm size

Size is the most commonly-used variable in disclosure studies (Leventis and Weetman, 2004). Different measures have been used in the literature to proxy for this characteristic. For example, number of shareholders, total assets, current assets, fixed assets, net income, number of employees, market capitalisation and annual sales have all been employed. In this respect, Cooke (1992) argued that there is no theoretical reason to select any one variable over other. One of the most common measure used is total assets (e.g. Buzby, 1975; Belkaoui and Kahl, 1978; McNally et al., 1982; Cooke, 1989; Ahmed and Nicholls, 1994; Wallace et al., 1994; Hossain et al., 1995; Wallace and Naser, 1995; Raffournier, 1995; Marston and Robson, 1997; Tower et al., 1999; Haniffa and Cooke, 2002; Owusu-Ansah and Yeoh, 2005; Hassan et al., 2006; Barako, 2007; Al-Shammari et al., 2008; Aljifiri, 2008; Hossain and Hammami, 2009; Al-Akra et al., 2010; Omar and Simon, 2011; and Omar, 2012). Since there is no definitive measure of company size, the total assets was used here as a proxy for company size.

[60] Marston and Shrives (1991) reviewed disclosure index studies and argued that corporate size, leverage, profitability, listing status and size of audit firm were the most common company characteristics examined with regard to disclosure level.

Leverage

Leverage is another factor that has been suggested by previous literature as a relevant proxy variable in explaining the level of disclosure (e.g. Belkaoui and Kahi, 1978; Meek et al 1995; Naser, 1998; Barako et al 2006; Al Shammari et al 2008). It is argued that companies having high debt tend to disclose more information to assure creditors that shareholders and management are less likely to bypass their claims (Haniffa and Cooke, 2002; Ali et al., 2004; Al Mutawaa and Hewaidy, 2010). Several different alternative leverage measures have been adopted. For example, total debt (liabilities) to total assets, total debt to equity ratio and total liabilities to shareholders' equity. Various authors (e.g. Chow and Wong-Boren, 1987; Wallace et al., 1994; Lopes and Rodrigues, 2007; Landriani and Pisano, 2008; Al-Akra et al., 2010; Al-Mutawaa and Hewaidy, 2010; and Omar, 2012) have used total debt to shareholder equity to measure company leverage. Since there is no definitive measure of company leverage it is appropriate to consider the measures used by the authors mentioned above; in this study, total debt to shareholder equity was therefore used as a proxy for company leverage.

Liquidity

Wallace and Naser (1995) and Omar and Simon (2011) argued that liquidity is an important variable in the evaluation of the firm by interested parties such as investors, creditors and regulators, and any others who have an interest in the going concern status of a company. Thus, firms with higher liquidity are more inclined to disclose more information than those suffering from liquidity problems (Cooke, 1989). In other words, companies tend to disclose more information about their ability to meet when this is likely to dispel the fears of investors and creditors (Wallace and Naser, 1995; Omar and Simon, 2011). It should be noted that no single measure can adequately reflect all aspects of liquidity (Alsaeed, 2006) but in common with other studies (e.g. Naser et al., 2002; Alsaeed, 2006; Al-Akra et al., 2010; Al-Shammari, 2011) the current ratio was selected as a proxy for liquidity here.

Profitability

Profitability is another factor which is expected to explain some of the variation in disclosure practices; the employment of a profitability-based measure reflects the theory that companies having higher profitability disclose more information than those with lower profitability (Owusu-Ansah, 1998). Profitability has been measured by many different proxies, including net profit to sales, earnings growth, dividend growth, return on assets and return on equity. In the present study, in common with other related work (Singhvi and Desai, 1971; Wallace et al., 1994; Wallace and Naser, 1995; Naser et al., 2002; Gul and Leung, 2004; Barako, 2007; Al-Shammari, 2008; Hossain and Hammami, 2009; Al-Akra et al., 2010; Al-Mutawaa and Hewaidy, 2010; Omar and Simon, 2011; and Omar, 2012), return on equity was selected as the profitability proxy.

Listing age

The use of a listing age variable in prior studies reflects the argument that newly quoted firms need to disclose extensive information to reduce scepticism and boost the confidence of investors who may perceive them as more risky (Haniffa and Cook 2002). This attribute could in theory be tested by using the number of years since a company has been listed on a capital market (Haniffa and Cook 2002) as a proxy. In this study, listing age is therefore measured from the first date of the company listing on KSE to the financial year ending in 2010.

Audit firm size

It is argued that external auditors play an important role in the disclosure policies and practices of their clients (Owusu-Ansah, 1998); in this context, DeAngelo (1981) reported that the value of an external audit depends directly on how users view auditors' reports. This type of perception is formed on the basis of users' understanding of both the auditor's ability to uncover a material error and the auditor's willingness to properly report the error

(Owusu-Ansah, 1998). Audit quality is influenced by the size of the audit firm; for example, the large audit firms (e.g. the “Big four”[61]) are more likely to influence firms to disclose detailed information because they have greater resources than smaller audit firms (Wallace et al., 1994). In this study, the measurement of type of audit depends on whether or not the company was audited by one of the Big four audit firms.

Industry Type

It has been widely acknowledged that industry might have explanatory potential regarding corporate disclosure (Leventis and Weetman, 2004); different industries have different reporting structures (Leventis and Weetman, 2004) and it is reasonable to argue that financial disclosure practices will differ on this basis (Inchausti, 1997). In addition, industries have varying proprietary costs that provide motivations to companies in particular industry to disclose either more or less information (Verrecchia, 1983). In Kuwait, companies are grouped by KSE into five sectors: banks, insurance, investment, real estate, industrial, service and food. In this study, only non-financial companies were selected; as in previous disclosure studies, banking, insurance and other financial sectors were excluded, since constituents follow specific patterns of disclosure and do not have characteristics such as sales that are important for other firms (Wallace and Naser, 1995; Naser et al., 2002).[62] The industry variable adopted here is coded as follow:

One for ‘real estate’ and zero if it does not belong to this group.
One for ‘industrial’ and zero if it does not belong to this group.
One for ‘service’ and zero if it does not belong to this group.
One for ‘food’ and zero if it does not belong to this group.

[61] Big Four Audit Firms are: Deloitte, KPMG, Price Waterhouse Coopers (PWC) and Ernst & Young.
[62] A number of related studies specifically excluded financial companies for precisely these reasons (Choi, 1973; McNally et al., 1982; Wallace, 1988; Cooke, 1989; Wallace et al., 1994; Wallace and Naser, 1995; Inchausti, 1997; Owusu-Ansah, 1998; Abd-Elsalam, 1999; Depoers, 2000; Ferguson et al., 2002; Abd-Elsalam and Weetman, 2003; Hassan et al., 2009; Omar and Simon, 2011; Tsalavoutas et al. 2012)

5.3.1.5 Sample Choice

There are various channels through which companies can provide information to the public, including annual reports, websites, newspapers and analysts' meetings. Among these different channels of disclosure, the annual report is considered to be one of the most important sources of information. Stanga (1976) suggested unequivocally that "Published annual reports are extremely important sources of corporate information" (p.42), while Marston and Shrives (1991) concluded that the annual report remained the most comprehensive document available to the public and is therefore firms' "main disclosure vehicle" (p.196). The importance of annual reports as a source of corporate information for decision-making has been acknowledged by a number of studies in both developed (e.g. Lee and Tweedie, 1975; Anderson, 1981; Gray et al, 1995; Botosan, 1997; Dunne et al., 2008) and developing countries (e.g. Hossain, et al., 1994; Naser, 2003; Mirshekary and Saudagaran, 2005; Al-Khater, 2007; Zoysa and Rudkin, 2010; Alzarouni et al. 2011; and Tahat, 2013). These studies all described the annual report as the primary source of information suitable to users; in this context, Naser et al. (2003) argued that the annual report is particularly important as a source of corporate information in developing countries and is used extensively by companies as a medium to disseminate information to external interested parties. In fact, Naser (2003) reported that corporate annual reports in Kuwait, the site for the present study, were ranked as the primary source of information for users. Corporate annual reports play a positive role in helping their users to predict companies' future cash flows for their investments by providing them with anticipated information (Al-Mulhim 1979). Corporate annual reports communicate and shape the reality of the entity in the public mind (Coy and Pratt 1998). In addition, the reports are prepared by companies themselves, which means that the information is not affected by third party interpretations.

Recent corporate failures around the world have pointed to the significance of corporate disclosure. However, the only statutory formal communication medium between companies and their interested parties remains the annual report (Gray et al., 1995) and the documents have therefore continued to a principal area of focus for a large number of researchers (Chatterjee et al., 2010). In this thesis, annual reports for the financial year 2010 were examined in order to measure the extent of disclosure amongst Kuwaiti non-financial listed firms. The research focuses on one year because firms' disclosure practices appear to remain relatively constant over time (Botosan, 1997; Alsaeed, 2006; Omar, 2007); moreover, Botosan has suggested that year-to-year disclosure observations for a given firm are not independent. A number of previous studies examined the extent of disclosure in one point in time (e.g. Chow and Wong-Boren**,** 1987; Cooke, 1989; Wallace et al. 1994; Naser; 1998; Tower et al. 1999; Glaum and Street, 2003; Leventis and Weetman, 2004; Aljifri; 2008; Hodgdon et al. 2009; and Murcia and Santos, 2012) and so the researcher decided to limit the analysis to one year: Financial year ended 2010 was chosen since it was the most recent data available on the listed companies at the start of this study. The research was not restricted to the financial statements, but rather was related to the entire contents of the annual report, which in Kuwait normally includes: (i) chairman's message; (ii) board of directors' report; (iii) auditors' report; and (iv) the company's annual financial statements (balance sheet, income statement, cash flow statement, changes in shareholders' equity, and accounting policies and explanatory notes).

There were 217 companies listed on the KSE at the end of financial year 2010, categorised in eight sectors: 13 non-Kuwaiti companies, 9 banks; 7 insurance firms; 52 investment organisations; 40 real estate companies, 29 industrial firms, 61 service companies and 6 food companies. Table 5.4 presents this data formally.

Table 5.4: Listed Companies on Kuwaiti Stock Exchange for the year ending 2010

Sector	Number of companies in population
Non-Kuwaiti companies	13
Banks	9
Insurance companies	7
Investment sector	52
Real Estate sector	40
Industrial	29
Service sector	61
Food companies	6
Total	**217**

Source: KSE Investor Guide for the year ended 31 Dec. 2010.

Non-Kuwaiti companies follow different regulations to domestic firms so in order to be consistent, the 13 non-Kuwaiti companies were excluded from the sample. The 68 financial companies (9 banks, 7 insurance and 52 investment companies) were also excluded from the sample for the reasons outlined above. Following a review of the annual reports, 15 companies were found to be operating as Islamic companies and because Islamic firms do not adopt IFRS (Al-Hussaini et al. 2008) and follow accounting standards established by the Sharia Board, these firms were also excluded from the sample.

Therefore, the final number of companies were under focus is 121 companies as detailed in Table 5.5. The research then engaged in a process aimed at gathering the annual reports for these firms. Strategies adopted included searching company websites, contacting companies directly by calling, emailing and visiting them plus personal visits to the KSE. After undertaking these steps the annual reports of 30 companies were still not available so these companies were excluded from the study.[63] Upon reading the annual reports, 40 had to be excluded because they contained incomplete information, specifically the chairman’s message and board of directors’ report.

[63] Some companies’ annual reports were not available because these companies had financial problems and not provide the annual reports for users (e.g. when in liquidation).

Table 5.5: Sample Details for Disclosure Index Study

Description		**Overall**
Companies listed in 2010		217
Excluding		
Non-Kuwaiti companies	13	
Banks	9	
Insurance companies	7	
Investment sector	52	
Islamic companies	15	
Total number of companies excluded		**96**
Total of non-financial companies		121
Companies not responding	30	
Companies' annual reports incomplete	40	
Companies included in the study		**51**

Note: This table details the original sample size and reasons for exclusion of parts of this.

Thus, the final number of companies included in this study is 51 companies, or 42% of the population.[64] Table 5.6 details the number of sample companies by sector and Table 5.7 provides summary information for the firms concerned.

Table 5.6: Classification of Sampled Companies by Industrial Sector

Sector	**Total population**	**Sample**
Real Estate	38	16
Industrial	20	10
Service	58	20
Food	5	5
Total	**121**	**51 (42%)**

Note: This table details sampled company numbers across sectors

[64] All of the annual reports were written in both English and Arabic.

Table 5.7: Summary Information for the Final Sample

Company Name	Market Capitalization (KD)[65]	Establishment Year
Real Estate Companies		
1 Alargan International Real Estate	55,120,000	2002
2 Mabanee Company	404,091,600	1964
3 Salhia Real Estate	119,747,965	1974
4 United Real Estate	114,045,544	1973
5 National Real Estate	136,784,770	1973
6 Tamdeen Real State	100,742,400	1998
7 Al-Mazaya Holding	59,937,210	1998
8 Aqar Real Estate Investment	21,082,500	1997
9 Al-Massaleh Real Estate	21,208,895	1989
10 Real Estate Trade Centres	60,900,000	1999
11 AlMudon International Real Estate	24,000,000	1996
Industrial Companies		
12 Acico Industries	81,236,992	1990
13 Al Kout Industrial Projects	33,957,000	1993
14 Equipment Company	9,138,800	1999
15 Kuwait Cement	425,103,692	1968
16 Boubyan Petrochemical	261,954,000	1995
17 Gulf Cable and Electrical	419,862,620	1975
18 Heavy Engineering and Ship Building	61,306,639	1974
19 Ikarus Petroleum Industries	111,000,000	1996
20 Kuwait Pipes Industriesand Oil Services	60,839,384	1966
21 National Industries	135,018,729	1997
22 National Industries Group	446,808,868	1960
23 Qurain Petrochemical Industries	206,800,000	2004
24 United Industries	58,465,313	1979
25 Refrigeration Industries	19,241,884	1973
26 Shuaiba Industrial	10,910,942	1978
Service Companies		
27 Agility Public Warehousing	544,355,089	1979
28 City Group	65,544,576	1999
29 IFA Hotels and Resorts	245,096,280	1995
30 KGL Logistics	66,700,000	2000
31 National Mobile Telecommunication	957,662,244	1997
32 Oula Fuel Marketing	118,391,983	2004
33 Yiaco Medical	54,450,000	1969
34 Combined Group Contracting	175,692,000	2005
35 Independent Petroleum Group	67,751,250	1976
36 Kuwait and Gulf Link Transport	41,226,590	1982
37 National Petroleum Services	18,105,847	1993
38 Soor Fuel Marketing	103,441,305	2006
39 Mobile Telecommunication (Zain)	6,532,088,874	1983
40 Al-Nawadi Holding	9,061,695	2004
41 Jeeran Holding	16,302,000	2001

[65] Kuwaiti diner equal to $3.54 at 31/12/2013

42 The Kuwait for Process Plant Construction & Contracting	26,348,791	1979
43 Mushrif Trading and Contracting	26,400,000	1968
44 Jazeera Airways	27,280,000	2004
45 Sultan Centre	105,346,836	1980
46 Privatization Holding	42,071,400	1994
Food companies		
47 Kuwait Food Company	659,283,395	1963
48 Livestock Transport and Trading	63,894,220	1973
49 Kuwait United Poultry	14,079,279	1974
50 Kout Food Group	29,267,920	1998
51 United Foodstuff Industrial	12,506,483	1992

Note: This table provides information about the sample companies and their distribution across industrial sectors

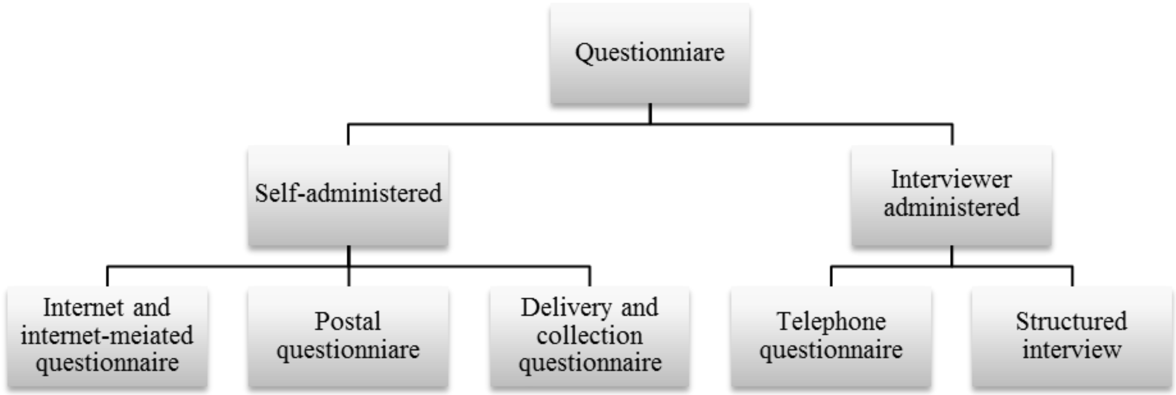
5.3.2 Questionnaire Survey

The questionnaire is a popular and common data collection method in modern business research (Saunders et al. 2009). More specifically, Cohen and Manion (1994) stated that

> "Typically, surveys gather data at a particular point in time with the intention of describing the nature of existing conditions, or identifying standards against which existing conditions can be compared, or determining the relationship that exists between specific events" (p. 83).

Saunders et al. (2009) described questionnaires as a technique of data collection in which each respondent is asked to respond to the same set of questions about his/her attitudes and opinions concerning the subject of the research. The distribution of questionnaires can be conducted by means of post, face-to-face interviews by telephone or via e-mail (Oppenheim, 1992). Saunders et al. (2009) classified questionnaire into two types: self-administered questionnaires, which include those employing the internet and internet-mediated, postal, delivery and collection methods, plus interviewer-administered questionnaires which include telephone and structured interviews.

Figure 5.3: Types of Questionnaire



Source: Adapted form Saunders et al. (2009, p.363)
Note: This figure depicts different types of questionnaire survey.

Two main types open-ended, and closed (Sekaran, 1992). For open-ended questions, the respondents have the opportunity to answer questions in any way they want. Whilst providing flexibility to respondents, Oppenheim (1992) pointed out that free response questions are often easy to ask but difficult to answer and even more difficult to analyse. When closed questions are used, participants are typically given a set of alternative responses by practitioners (Sekaran, 1992). Oppenheim (1992) argued that

> "Closed questions are easier and quicker to answer; they require no writing, and quantification is straightforward, this often means that more questions can be asked within a given length of time and more can be accomplished with a given sum of money" (p.114).

In the same vein, Hussey and Hussey (1997) argued that "Closed questions are very convenient for collecting factual data and are usually easy to analyse, since the range of potential answers is limited" (p.155). Thus closed questions are typically chosen to create question that can be answered and analysed relatively easily.

A number of advantages of questionnaires more generally have been outlined by researchers. For example De Vaus (1990) argued that using a postal survey may reduce the impact of errors that may result from the personal characteristics of interviewers and variability in interviewers' skills. Similar, Marston (1993) pointed out that by using a postal questionnaire technique the researcher explores the perceptions of a large number of respondents spread across a huge geographical area and obtains data in a form suitable for statistical analysis. In this context, Babbie and Halley (1994) highlighted that the questionnaire enables the researcher to gather a large amount of information from a large number of people in a short time. In addition, exploring a questionnaire is typically less costly than other data collection methods while Sarantakos (1998) has argued that questionnaires are less time consuming than interviews and fewer skills are needed to administer them. Finally, Sekaran (2003) argued that a questionnaire is a more suitable method for data collection than other methods because it gives flexibility to respondents in terms of the timing of responses as they can complete it anywhere they prefer.

On the other hand, some researchers have argued that the questionnaire survey method has some inherent disadvantages. In this context, Denscombe (2003) pointed out that the response rate can be variable, documents can be poorly completed and dependent on the method used the researcher will not be able to know for sure the identity of the responder. Another disadvantage was reported by Oppenheim (1992) when he argued that researchers have no chance to correct misunderstandings or to provide explanations encountered when the respondent is completing the survey. However, Saunders et al. (2009) has offered some ideas to attenuate these disadvantages. To increase response rates, he suggested: "careful design of individual questions; clear and pleasing layout of the questionnaire; lucid explanation of the purpose of the questionnaire; pilot testing, and carefully planned and executed administration" (p. 362).

5.3.2.1 Justifications for using the Questionnaire Method

The questionnaire survey has been chosen as a data collection method for the current study for several reasons; First, as one of the main objectives of this study is to focus on the perceptions of a large number of annual report preparers and users, it would be difficult to manage face-to-face interviews in the time-frame of a doctoral thesis. Questionnaires make it possible to ascertain the perspectives of a large number of participants more quickly than interviews. In addition gaining, access to interviewees can be drawn-out process; as the researcher is not from Kuwait it was felt that questionnaires would be more practical. Second, as discussed in Chapter 3, the questionnaire method has been used by a number of previous studies which investigate related issues; the results of this thesis will therefore provide a basis for meaningful comparison with the previous studies in the area. Third, the method is less expensive than other methods such as (interviews) moreover, respondents often feel more comfortable filling in questionnaires as they can do that in their own time and place. Finally, questionnaires are more suitable for respondents who need time to think about the answers (Neuman, 2003; Sekaran, 2003; May 2011). This advantage cannot be found in other methods such as interviews.

5.3.2.2 Questionnaire Design

The design and layout of questionnaires is of paramount importance to the achievement of a high response rate (Kilcommins, 1997). The document should be designed carefully to limit its disadvantages and help achieve its objectives (Saunders et al., 2009). Moreover, questionnaires should be designed so as to encourage participants to complete them fully and with care (Kumar 2005). All these factors are important to take into account in order to increase the validity and reliability of the survey instrument (Saunders et al., 2009).

Keeping these factors in mind, and considering both the Kuwaiti environment and the desire of the researcher to achieve a high response rate, it was decided that self-administered questionnaires would be employed (using both postal and personal administration methods). Babbie (1998) argued that self-administered questionnaires are “the best method available to the social scientist interested in collecting original data for describing a population too large to observe directly” (p. 56). Sekaran (2003) argued that a key step in questionnaire design relates to the choice of questions, i.e. whether they are open-ended or closed. In this regard, Sudman and Bradburn (1982) suggested that a closed question format be used wherever possible, but are particularly suited to mailed questionnaires. Hussey and Hussey (1997) also supported the use of closed questions, pointing out that they are: “very convenient for collecting factual data and are usually easy to analyse, since the range of potential answers is limited” (p. 155). Salant and Dillman (1994) have argued that closed questions are less demanding for the respondent and more easy to code and analyse than open-ended questions. Moreover, open-ended questions are also more difficult for the respondent to answer (Zikmund, 2000; and Hooks and Staden, 2004). Taking all the above points into account, closed questions were selected for this study. The questions included reflected research objectives and were based on an extensive review of related surveys conducted elsewhere, especially in developing countries. The following studies were particularly influential in this regard: (e.g. Lee and Tweedie, 1975; Anderson, 1981; Courtis, 1982; Anderson and Epstein, 1995; Epstein and Pava, 1993; Abu-Nassar and Rutherford, 1995; Abu-Nassar and Rutherford, 1996; Almahmoud, 2000; Nasser et al., 2003; Naser and Nuseibeh, 2003; Al-Razeen and Karbhari, 2004; Mirshekary and Saudagaran, 2005; Mashat et al., 2005; and Yaftian and Mirshekary, 2005; Kribat, 2009; Chatterjee et al., 2010; Alzarouni et al. 2011). The researcher made every effort to ensure that key issues relating to the usefulness of corporate annual reports in evaluating disclosure practices were included in the questionnaire. The majority of the questions were constructed in the form of statements followed by five-point Likert scale response options.[66] The Likert scale was chosen as the basis for response categories because they are simple to understand, are often used in business research (Zikmund, 2002; and Hooks and Staden, 2004) and elicit meaningful result (Almahmoud, 2000).

[66] Likert scaling is a method designed to measure peoples’ attitudes in an objective manner (Nachmias and Nachmias, 1996).

Two questionnaires instruments were devised, one for preparers of Kuwaiti companies' annual reports and a second for users. The questionnaires were each separated into two parts; the first part sought basic demographic and personal information about the respondents. Gathering this data is crucial in attesting to the characteristics of respondents who participate in research (Almahmoud, 2000). This part of document contained four questions asking participants about their occupation, professional qualifications, their major area of expertise, and their accounting and financial experience. The second part of the questionnaire focused on ascertaining the respondents' opinions about issues related to disclosure practices in the annual reports of Kuwaiti companies. The majority of the questions asked respondents to indicate their opinion on a five point Likert scale, with alternatives ranging from 'strongly agree' to 'strongly disagree' and 'very important' to 'not important at all'. This was the core content of the survey as it provided evidence about the central research question regarding the perceptions of preparers and users on disclosure practices in the corporate annual reports of Kuwaiti companies.

To attenuate the disadvantages of the questionnaire survey method, several remedial measures were taken. The test of, each question was planned carefully to ensure that it was easy to read and would be understood by all respondents. In addition a clear explanation of questionnaires purpose was articulated. An early draft of both the English and Arabic[67] versions was piloted; the purpose of this approach is highlighted by Sekaran (1992) and Zikmund (2000), when they argued that conducting a pilot test allows the researcher to check whether the questions are seen as unambiguous by respondents, to examine questionnaires' continuity and flows, and experiment with question sequencing and patterning. The pilot questionnaire (English language version) was reviewed by four PhD students and two staff in the School of Business at the University of Dundee, and several

[67] Arabic is the official language in Kuwait. However, English the language is widely used and understood in business. In addition, some respondents were born overseas and they used English as their first language.

PhD students and Academic staff at the Financial Reporting and Business Communication Conference held in July 2012 at the University of Bristol, UK. As a result, several comments and feedback about the questionnaires' reliability were collected. Based on the feedback, several modifications were made to the wording of certain questions, and some were deleted or combined to reduce the length of the questionnaire.

As two versions of the questionnaire were needed, the researcher had to focus on issues related to translation. In this regard Oppenheim (1992) argued that the translation of questionnaires from one language to another is risky. However, every effort was taken to ensure careful translation of the questionnaire into Arabic and avoidance of any misunderstanding of the questions. The Arabic version of the questionnaire was piloted amongst a number of native Arabic speaker PhD students in School of Business at the University of Dundee and to a number of academic staff in the Accounting Department of the Public Authority for Applied Education and Training in Kuwait. These pilot respondents were asked to provide feedback on the content, validity, reliability and translation of the questionnaire. The majority of this feedback was related to Arabic translation, and some comments were made about the content of the questionnaire. Improvements were therefore made to take this feedback into account. The validity of the questionnaire used in this study was examined by asking two preparers and two users to complete the questionnaire, with the researcher noting comments and points of difficulty and amending the document accordingly once both the English and Arabic versions of the questionnaire were ready for distribution, the online questionnaire survey was set up.[68] Further information on the distribution and data collection are provided in Chapter 7 and 8.

[68] For the English language questionnaire version, the questionnaire survey dissemination protocol employed by the School of Business was used, via www.survey.dundee.ac.uk. For the Arabic questionnaire version, Smart-Survey was used, via www.smart-survey.co.uk.

5.4 Hypotheses Development

A key step in disclosure studies of this nature is to develop hypotheses. A hypothesis is a "tentative answer to a research problem, expressed in the form of a relation between independent and dependent variables" (Nachmias and Nachmias, 1992. p. 61). These authors also highlighted that hypotheses can be derived deductively from theories, directly from observations, intuitively, or using a combination of these approaches. When following a deductive process, the researcher structures hypotheses or expectations based on a general idea or theory and then collects evidence to enable their testing. In the current study the researcher used a deductive approach by structuring hypotheses and collecting evidence to test them. The hypotheses were were derived from close study of related literature (e.g. Wallace et al., 1994; Wallace and Naser, 1995; Naser et al., 2002; Haniffa and Cooke, 2002; Al-Razeen and Karbhari, 2004; Mirshekary and Saudagaran, 2005; Hassan et al., 2006; and Kribat, 2009; and Omar and Simon, 2011) and so as to reflect the decision-usefulness theory and positivistic approach underpinning the current study. Each hypothesis concentrates on answering research questions regarding disclosure practices in Kuwaiti non-financial listed companies that reflect the role of financial reporting in a conventional decision-usefulness framework. Table 5.8 details all 28 hypotheses formulated and link them to the thesis's research specific objectives.

Table 5.8: Hypotheses examined in the Study

Research Objectives	Hypotheses
1. To evaluate the extent of aggregate disclosure (mandatory and voluntary) for Kuwaiti non-financial listed companies. 2. To investigate the extent of compliance with IFRS disclosure requirements by Kuwaiti non-financial listed firms. 3. To determine which company characteristics significantly affect the Kuwaiti listed companies' financial disclosures.	**H1**: Company size is positively associated with the extent of aggregate disclosure. **H2**: Leverage is positively associated with aggregate disclosure. **H3**: Liquidity is positively associated with aggregate disclosure. **H4**: Profitability is positively associated with aggregate disclosure. **H5**: Years since listing is positively associated with aggregate disclosure. **H6**: There is a significant positive association between a company being audited by a "Big 4" firm and the extent of aggregate disclosure. **H7**: There is a significant relationship between industry type and aggregate disclosure.
4. To evaluate preparers' perceptions of financial disclosure in the annual reports of Kuwaiti non-financial listed companies.	**H8**: There is no significant difference among group of preparers regarding the perceived importance of particular users of Kuwaiti non-financial listed companies' annual reports. **H9**: There is no significant difference among groups of preparer in terms of the importance that they attach to different sections of Kuwaiti non-financial listed companies' annual report for financial decision-making. **H10**: There is no significant difference among the groups of preparers in terms of the perceived influence of potential interested parties on Kuwaiti non-financial listed companies' financial disclosure practices. **H11**: There is no significant difference among the groups of preparers in terms of the perceived influence of particular specified factors on financial disclosure practices amongst Kuwaiti non-financial listed companies. **H12**: There is no significant difference among the perceptions of preparer groups in terms of the quality and quantity of financial disclosure in Kuwaiti non-financial listed companies' annual reports. **H13**: There is no significant difference in perception among the groups of preparers regarding the purpose of Kuwaiti non-

	financial listed companies' annual reports. **H14**: There is no significant difference among the groups of preparers in terms of the perceived significance of specific problems influencing disclosures in Kuwaiti non-financial listed companies' annual reports. **H15**: There is no significant difference among the groups of preparers in terms of the perceived significance of problems restricting the use of Kuwaiti non-financial listed companies' annual reports. **H16**: There is no significant difference among the groups of preparers in terms of perceptions about specific factors that might improve the usefulness of Kuwaiti non-financial listed companies' annual reports.
5. To evaluate perceptions of users of accounting information about the content and usefulness of Kuwaiti non-financial listed companies' annual reports.	**H17**: There is no significant difference among user groups in terms of the perceived purpose of Kuwaiti non-financial listed companies' annual reports. **H18**: There is no significant difference among the user groups in terms of the perceived importance they attach to various sources of financial information. **H19**: There is no significant difference among user groups in terms of the importance that they attach to different sections of Kuwaiti non-financial listed companies' annual reports for decision-making. **H20**: There is no significant difference among user groups' in terms of the perceived importance they attach to the criteria that might affect the quantity and quality of financial information disclosed in Kuwaiti non-financial listed companies' annual reports. **H21**: There is no significant difference among user groups' views regarding the understandability of different sections of Kuwaiti non-financial listed companies' annual reports. **H22**: There is no significant difference among user groups, views about the relevance of different sections of Kuwaiti non-financial listed companies' annual reports. **H23**: There is no significant difference among user groups' views regarding the reliability of different sections of Kuwaiti non-financial listed companies' annual reports. **H24**: There is no significant difference among user groups' views regarding the comparability of different sections of Kuwaiti non-financial listed companies' annual reports. **H25**: There is no significant difference among user groups regarding the quantity of disclosure in different sections of Kuwaiti non-financial listed companies' annual reports. **H26**: There is no significant difference among user groups in terms of the perceived significance of problems with usage of Kuwaiti non-financial listed companies' annual reports. **H27**: There is no significant difference among user groups' views about the degree of compliance with IFRSs' mandatory disclosure requirements by Kuwaiti non-financial listed companies'. **H28**: There is no significant difference among the groups of users in terms of perceptions about specific factors that might improve the usefulness of Kuwaiti non-financial listed companies' annual reports.

5.5 Statistical Tests

This section discusses the statistical analyses and tests which were employed to examine the data. The first stage in any statistical analysis is to determine the underlying nature of the research variables. This identification drives the type of test used. Here, Cooke (1998) has stated that "Many statistical tests are based on the assumption that the data come from a normal distribution or that a sufficiently large sample is available to appeal to asymptotical normality of the test statistic" (p. 210). There are two broad classes of statistical test, parametric and non-parametric. As Field (2000) noted, parametric tests require the data to be normally distributed, are more powerful than non-parametric tests when used correctly. However, the normality assumption of the data needs to be examined before deciding on the type of tests to use; this issue is returned to in Section 5.5.2 below

5.5.1 Disclosure Index Analysis

The main statistical techniques employed in Chapter 6, where the disclosure index analysis is reported, are primarily descriptive in nature. Characteristics that might have an influence on the level of financial disclosure of Kuwaiti non-financial companies (as outlined in section 5.3.2.4 above) are examined in two ways; first by means of univariate analysis, i.e. correlation coefficients which are calculated between each of the variables and the extent of aggregate disclosure. In the second stage multivariate regressions are conducted, to examine the simultaneous effect of all the independent variables and the extent of aggregate disclosure.

The model used is of the form:

$$Y = \alpha + \beta_1(X_1) + \beta_2(X_2) + \beta_3(X_3) + e_i \qquad [5.1]$$

Where Y is total of disclosure index, α is constant term, X_1-X_3 are the independent variables and e_i is error term.

More detail about this analysis is presented in Chapter 6 where the results of the analysis are outlined and discussed.

5.5.2 Questionnaire analysis

This section highlights the nature of the statistical tests used to empirically analyse the questionnaires. As noted previously Field (2009) identified two broad types of statistical test, parametric and non-parametric tests. In this regard the author outlined four assumptions that should be fulfilled in order to use parametric tests: (i) the data should be normally distributed; (ii) the variance should be the same throughout the data; (iii) the data collected should be measured at least at interval level; and (iv) data from different participants should be independent. If any of these assumptions are not met by the data, then non-parametric tests should be used.

However, Smith (2003) argued that there are several advantages to employing non-parametric tests: (i) these can be used on all data types; (ii) are easy to use and suitable even if the sample size is small; and (iii) make fewer (and less strict) assumptions than parametric testes do. For the current study the response data was non-normal in distribution, therefore, non-parametric tests were used to analyse the questionnaires. More specifically, the tests used, were Kruskal-Wallis (K-W) and Mann-Whitney (M-W).[69]

5.6 Conclusion

This chapter outlined the methodological approach adopted in the current study, set in the context of the framework introduced by Burrell and Morgan (1979). The chapter discussed in detail functionalist paradigm adopted in the study and the reasons behind selection. It was recognised, however, that an interpretive element is also part of the analysis. The

[69] The Kruskal-Wallis test is the non-parametric version of the parametric ANOVA test for calculating the difference in the sample mean. It tests the hypothesis that K independent groups or samples are the same against the alternative hypothesis that one or more of the groups differ from others. A significant result of the Kruskal-Wallis indicates that at least one of the groups is different from at least one of the others (Siegel and Castellan, 1988). Mann-Whitney test is used to determine whether a difference exists between the location parameter of two populations (Anderson et al., 2009).

chapter then explained and justified the research methods selected. These include, the index used to measure the extent of disclosure in annual reports of Kuwaiti non-financial listed companies and the questionnaire surveys. The questionnaire design, pilot testing, distribution and collection were explained as were the statistical tests adopted to examine 28 the hypotheses set out. Having presented the theoretical, geographical and methodological bases for the study, Chapters 6, 7 and 8 now detail the empirical evidence that emerged from the analyses.

Chapter 6

The Nature and Determinants of Kuwaiti Non-Financial Listed Firms' Annual Report Disclosures

6.1 Introduction

This chapter presents the results of research undertaken in relation to the first and second objectives of this study. The first objective of the thesis is to measure the extent of disclosure by Kuwaiti non-financial listed firms in 2010. To achieve this aim, comprehensive descriptive statistics are provided in order to allow assessment of the extent of aggregate, mandatory and voluntary disclosure for every company in the sample and for each item included in the disclosure index employed. The extent of disclosure is examined for each of the 22 applicable IAS/IFRS in order to identify variation in the impact of each standard on financial reporting. In addition, voluntary disclosure for three separate categories (corporate environment, social responsibility and financial information) is examined.

The second objective of this research is to investigate the extent of any relationships between company characteristics (size, leverage, liquidity, profitability, listing age, audit type, and industry type) and the extent of aggregate disclosure for Kuwaiti non-financial listed companies. In order to achieve this objective, the seven hypotheses which were formulated in Chapter Five will be examined. Two types of analysis are employed. First univariate analysis examines the association between each independent variable and the extent of aggregate disclosure; second, multivariate regression analysis assesses the simultaneous impact of all the company specific characteristics and the level of aggregate disclosure in the annual reports of Kuwaiti non-financial listed companies. This pattern of analysis is popular in previous studies (e.g. Buzby 1975; Firth 1979; Chow and Wong-Boren 1987; Cooke 1992; Wallace et al. 1994; Raffournier 1995; Nasser et al. 2002; and Alsaeed, 2006).

The rest of this chapter is divided into two main sections. The first examines the extent of disclosure amongst Kuwaiti non-financial listed firms, and this is broken into four parts.

The first of these summarises disclosure across the whole sample, while the second reports on a firm-by-firm basis. The third part examines in detail the degree of compliance with IAS/IFRS disclosure requirements and the fourth focuses on levels of voluntary disclosure. The second main section then examines the relationship between company characteristics and the extent of disclosure. This section is divided into two parts, the first of which examines the relationship between each independent variable and the extent of aggregate disclosure while the second employs regression analysis to explore these relationships more fully.

6.2 Disclosure Levels

6.2.1 Summary Results

The extent of disclosure for financial year 2010 was investigated for 51 Kuwaiti non-financial listed companies using an aggregate disclosure index containing 230 items - 150 mandatory and 80 voluntary - as discussed in Chapter Five. The mandatory disclosure items were based on the 22 relevant IAS/IFRSs while the voluntary disclosure items were grouped into three main categories: corporate environment, social responsibility and financial information. The reliability of each disclosure index (i.e. aggregate, mandatory and voluntary) was tested using Cronbach’s Alpha, as outlined in Chapter 5. There is no universally-agreed level of significance of the Alpha coefficient in the literature; for example, Sekaran, (2003) argues that 0.6 or above is acceptable, while Bryman (2008), indicates that 0.80 as the relevant figure. In any case, as shown in Table 6.1, the Alpha values were 0.89 for aggregate, 0.88 for mandatory and 0.83 for voluntary disclosure, suggesting an acceptable level of reliability in all cases.

Table 6.1: Cronbach’s Alpha Coefficient for Disclosure Indices

Disclosure index	No. of items	Cronbach’s Alpha
Aggregate	230	0.89
Mandatory	150	0.88
Voluntary	80	0.83

Note: This table depicts the reliability results for the three disclosures employed in the study.

The reliability of the disclosure index scores was also examined using the inter-coder reliability test. In this case an annual report for 2010 was extracted at random[70] from the sample of the annual reports (in English) and was coded by both the researcher and one of his PhD supervisors. This step was followed to ensure that the scoring was consistent and to avoid any error with the coding before the index scores were analysed and the findings examined. The scores collected by student and supervisor were very similar (greater than 90% agreement); in the few instances where differences were found these were discussed and resolved. Having examined reliability in detail, the overall checklist was then applied to each annual report to investigate the extent of disclosure for each sample company; Table 6.2 provides descriptive statistics for the aggregate (mandatory plus voluntary) index and the mandatory and voluntary index data respectively.

Table 6.2: Descriptive Statistics for the Whole Sample

Disclosure Index	No of items	Mean %	Minimum %	Maximum %	Std. dev. %
Aggregate	230	44.00	23.00	57.00	6.00
Mandatory	150	58.40	31.00	72.00	8.00
Voluntary	80	18.00	7.00	36.00	7.00

Note: This table details descriptive statistics regarding the extent of aggregate, mandatory and voluntary disclosure index scores across all companies in the sample at the end of 2010.

Visual inspection of Table 6.2 reveals that aggregate disclosure index scores ranged from 23% to 57% with a mean of 44%; the latter equates to approximately 102 items out of the 230 possible. The aggregate disclosure level varied greatly among companies, from a low of 23% (Real Estate Trade Centres Company) to a high of 57% (National Mobile Telecommunication Company). The average of 44% is lower than that reported in a related disclosure study by Hassan et al. (2006) in Egypt, where the figure was 75%, but, the difference of 31% reflects the much more comprehensive list of items examined in the

[70] The 2010 annual report of Agility Public Warehousing Company (Service Company) was used for this purpose.

current thesis (230 versus 113). The items included in the checklist were selected on the basis of support in previous studies, theoretical analysis and validation by experienced professional auditors from the four biggest accounting firms in the world. Therefore, the lower figure reported here should not be interpreted as evidence of relatively poor practice in Kuwait, but more properly as indicative of the need to employ comprehensive lists of information items in this type of study.

As in previous studies, the overall index results were broken into their mandatory and voluntary components. Inspection of Table 6.1 reveals that the mean overall mandatory disclosure index value was 58.4%, equivalent, or 88 of the total of 150 mandatory items; individual firm scores ranged from 31% to 72%. These results indicate that Kuwaiti non-financial listed companies do not fully comply with the requirements of IAS/IFRS, a finding comparable with earlier evidence for Kuwait in: (i) Al-Shammari et al. (2008), where the average mandatory disclosure level among 50 companies listed on the Kuwait Stock Exchange between 1996 and 2002 was 72%; and (ii) Al Mutawaa and Hewaidy (2010) where the average mandatory disclosure level among 48 listed companies in 2006 was found to be 69%. Whilst the results therefore suggest that disclosure levels have not improved in Kuwait since the earlier analyses were conducted, it should again be noted that the current investigation is more comprehensive than the two previous studies in terms of the number of IFRSs, covered, the number of disclosure items included in the checklist and the number of companies examined. In addition, this study employs a disclosure index based on 22 IFRSs compared with 14 in the Al-Shammari et al. (2008) study and only 12 in Al Mutawaa and Hewaidy (2010). Comparing the 58.4% average disclosure level reported here with the figures noted in other developing countries it appears that Kuwaiti practice is similar to that elsewhere in the region; for example Al-Akra et al. (2010) reported that the mean level of compliance with IFRS disclosure rules was 55% for Jordanian-listed companies in 1996, but again the comprehensive nature of the present study is relevant to interpretation.

Regarding voluntary disclosure, Table 6.2 shows that Kuwaiti non-financial listed companies generated an average score of only 18%, equivalent to 14 of the 80 voluntary items, with a range across companies of 7% to 36%. Although the figure of 18% appears low, it is not out of line with prior reported figures for developing countries. For example, Al-Shammari (2008) documented a 15% voluntary disclosure score for companies listed on the KSE in 2006, while Chow and Wong-Boren (1987) report an average voluntary disclosure score of 16.87% for Mexican companies and Ferguson et al. (2002) find 13.8% for companies in Hong Kong. Although the 18% average for voluntary disclosure by Kuwaiti non-financial listed companies documented here is close to figures indicated in most developing countries, it is still lower than the level reported in ‘poorer’ developed countries; for example, Leventis and Weetman (2004) report 37.57% average voluntary disclosure for companies listed on the Athens Stock Exchange. Although these comparisons may provide some insight into the relative level of voluntary disclosure, Leventis (2001) argues that it is risky to compare results across nations since the studies vary in terms of the number and quality of items included in the index, as well as the type of index approach used. The present study, as with the mandatory data, employs a voluntary index that is much wider than those in most previous examinations.[71] Having explored the average disclosure level across the whole sample the analysis now adopts a company-by-company focus.

[71] For example, the study of Mexico referred to above employed only 24 items.

6.2.2 Company-by-Company Analysis

Table 6.3 below shows the extent of aggregate, mandatory and voluntary disclosure for each of the 51 Kuwaiti non-financial listed companies in the sample in descending order of the aggregate figure.

Table 6.3: Extent of Aggregate, Mandatory and Voluntary Disclosure for Kuwaiti Non-Financial Companies

Rank	*Company Name*	*Company Sector*	*Aggregate Disclosure %*	*Mandatory Disclosure %*	*Voluntary Disclosure %*
1	National Mobile Telecommunication Company	Service	57	70	31
2	Zain Mobile Telecommunication Company	Service	56	67	36
3	National Industries Group	Industry	53	73	16
4	Agility public Warchousing	Service	53	66	30
5	City Group Company	Service	53	67	25
6	Yiaco Medical	Service	53	65	31
7	Kuwait Food Company	Food	51	65	24
8	United Industries	Industry	50	67	20
9	Aqar Real Estate	Real Estate	49	67	16
10	United Real Estate	Real Estate	49	67	15
11	Alargan International Real Estate	Real Estate	48	63	20
12	Combined Group Contracting	Service	48	55	35
13	Salhiah Real Estate	Real Estate	47	64	15
14	Boubyan Petrochemical	Industry	47	61	21
15	Heavy Engineering Industries	Industry	47	65	14
16	Mushrif Trading and Contracting	Service	47	63	16
17	IFA Hotels	Service	47	62	18
18	Jeeran Holding	Service	47	60	24
19	Oula Fuel Marketing	Service	47	63	18
20	Privatisation Holding	Service	47	64	16
21	Sultan Centre Food	Service	47	63	15
22	Al-Massaleh Real Estate	Real Estate	45	63	13

23	Acico Industries	Industry	45	61	15
24	Gulf Cable and Electrical	Industry	45	61	15
25	Kuwait Pipes Industries	Industry	45	60	14
26	Qurain Petrochemical Industies	Industry	45	57	23
27	Independent Petroleum Group	Service	45	57	21
28	National Industrial Company	Industry	44	57	20
29	Mabanee Company	Real Estate	43	60	11
30	Equipment Company	Industry	43	62	8
31	Kuwait and Gulf Transport	Service	43	58	15
32	Kuwait Food Group	Food	43	62	8
33	Livestock Transport Trading	Food	43	59	14
34	United Foodstuff industrial	Food	43	60	10
35	Al-Mazaya Holding	Real Estate	42	55	18
36	National Real Estate	Real Estate	42	53	21
37	Jazeera Airways	Service	42	55	18
38	Almudon International Real Estate	Real Estate	41	58	10
39	Tamdeen Real Estate	Real Estate	41	57	11
40	Soor Fuel Marketing	Service	41	49	25
41	Al-Kout Industrial Projects	Industry	40	55	11
42	Kuwait Cement	Industry	40	54	14
43	Refrigeration Industries	Industry	40	56	10
44	National Petroleum Services	Service	40	53	16
45	Ikarus Petroleum	Industry	39	50	18
46	Al-Nawadi Holding	Service	38	52	11
47	KGL Logistics	Service	37	50	14
48	The Kuwait Company for Process	Service	32	41	15
49	Kuwait United Poultry	Food	32	43	13
50	Shuaiba Industrial	Industry	30	39	13
51	Real Estate Trade Centres	Real Estate	23	31	9

Note: This table presents the extent of aggregate, mandatory, and voluntary disclosure for each company in the sample.

The table above shows that the National Mobile Telecommunication Company achieved the highest mean aggregate disclosure score of 57%, with the lowest figure of 23% being achieved by Real Estate Trade Centres. In relation to the extent of mandatory disclosure, the highest score of 73% was achieved by the National Industries Group; this company was also ranked third in aggregate disclosure terms with 53%. At the other hand of the scale, Real Estate Trade Centres, which achieved the lowest ratio of aggregate disclosure, also achieved the lowest mandatory index ratio value of 31%. In relation to the extent of voluntary disclosure, Mobile Telecommunication, which was second in the overall disclosure ranking order, achieved the highest voluntary disclosure score of 36%. The lowest level of voluntary disclosure score of 8% was registered by both the Equipment Company and the Kuwait Food Group Company.

Table 6.4: Mean Aggregate, Mandatory and Voluntary Index scores across Industries

Industry	*Aggregate %*	*Mandatory %*	*Voluntary %*
Real Estate	42.70	58.00	14.45
Industrial	43.53	58.53	14.74
Service	46.00	59.00	21.50
Food	42.40	57.80	13.80
ANOVA- F stat	0.909	0.05	5.02
(P-value)	(0.444)	(0.985)	(0.004)**

Note: ** = Significant at 1% level. The figures in the first four rows are mean index scores.

To examine whether identifiable patterns exist in disclosure practices across industries, ANOVA tests of the differences were carried out and the results are reported in Table 6.4. Inspection of the table reveals that there were no significant differences across industries for aggregate and mandatory disclosure, however there was a significant result ($p = 0.004$) in terms of voluntary disclosure. The data reveal that the voluntary disclosure level of 21.5% for the service sector was much higher than for the real estate, industrial and food sectors.[72] A possible explanation for this result lies in the fact that service companies are monitored to relatively high degrees by the respective enforcement bodies in Kuwait, namely the Ministry of Commerce and the KSE. In any case, this result supports the

[72] Although the differences were much less marked and the ANOVA test result was insignificant in the aggregate and mandatory cases, the service industry again generated highest figures.

evidence of Cook (1989b) for Sweden who found that companies in the service sector disclosed more information than companies in the trading sector.[73]

6.2.3 Compliance across Mandatory Accounting Standards.

Inspection of Table 6.5 shows that the extent of compliance with particular accounting standards varied markedly across standards, from a low of 7% for IFRS 2 (Share-Based Payments) to 99% for IAS 10 (Events After the Balance Sheet Date).

Table 6.5: Descriptive Statistics for Compliance with the Disclosure Requirements of Individual Accounting Standards

Standard	*No of mandated items*	*Mean No. of Items Disclosed*	*Mean ratio %*	*Minimum No. of items*	*Maximum No. of items*
IFRS 2	5	0.37	7.00	0	5
IFRS 3	5	1.51	30.00	0	5
IFRS 5	5	2.06	41.00	0	4
IFRS 7	21	14.92	71.00	0	20
IFRS 8	10	6.18	62.00	0	9
IAS 1	32	27.06	85.00	23	29
IAS 2	4	0.96	24.00	0	3
IAS 7	4	3.41	85.00	3	4
IAS 10	3	2.98	99.00	2	3
IAS 16	9	4.51	50.00	0	9
IAS 17	6	0.45	8.00	0	6
IAS 18	2	1.75	88.00	0	2
IAS 21	6	1.16	19.00	0	4
IAS 23	3	0.82	27.00	0	3
IAS 24	5	3.69	74.00	0	5
IAS 27	4	3.00	75.00	0	4
IAS 28	6	3.73	62.00	0	6
IAS 33	4	3.39	85.00	0	4
IAS 36	4	2.10	53.00	0	4
IAS 37	5	1.22	24.00	0	5
IAS 38	4	1.18	30.00	0	4
IAS 40	3	1.22	40.00	0	3

Note: This table details non-financial Kuwaiti-listed firms' compliance levels with individual IAS/IFRSs during 2010.

[73] In this thesis, the service sector has been compared with the real estate, industrial and food sectors. In the study by Cook, the author compared the trading sector to the manufacturing, service and conglomerate sectors, but did not indicate which sector had the highest and lowest disclosure level.

In line with Al-Shammari et al. (2008), the level of compliance is considered as: (i) "high" if the average index score is 80% or more; (ii) "medium" if the level is between 50% and 80%; and (iii) "low" if the figure is less than 50%. On the basis of this classification system, the compliance was high in five cases (IAS 1, IAS 7, IAS 10, IAS 18 and IAS 33). This pattern in findings is consistent with earlier Kuwaiti results obtained by Mutawaa and Hewaidy (2010), with the exception of standards IAS 1 and IAS 7; however, the strong degree of compliance with IAS 1 is consistent with other evidence reported for Kuwait by Al-Shammari et al. (2008). Notwithstanding the smaller number of standards examined in the prior studies, the evidence suggests that disclosure levels at the 'high' end have been maintained in recent years.

A medium level of disclosure was found in seven instances (in this case IAS 16, IAS 24, IAS 27, IAS 28, IAS 36, IFRS 7 and IFRS 8). Elements of this result are similar to those in Al-Shammari et al (2008) where medium compliance was found for IAS 28, and Al Mutawaa and Hewaidy (2010) who found similar evidence for IAS 16, IAS 24 and IFRS 7. Finally, a low level of disclosure was found in eight cases (IAS 2, IAS 17, IAS 21, IAS 23, IAS 37, IAS 38, IFRS 2 and IFRS 3). These results are in line with the evidence in Al-Shammari et al. (2008) as regards IAS 37 and consistent with Mutawaa and Hewaidy regarding disclosure with IAS 21 and IAS 23.

Kuwait does not have its own national accounting standards. Instead, listed firms are required to prepare their financial statements according to relevant IAS/IFRS. In general, the results here indicate that Kuwaiti non-financial listed companies do not fully comply with IAS/IFRS disclosure requirements, although the evidence varies across the standards. A possible reason for this lack of full disclosure is highlighted by Ahmed and Nicholls (1994, p.62) who state that:

> "In developing countries, while there are considerable incentives for voluntary disclosure in corporate annual reports, there are also reasons for not complying with mandatory disclosure regulations, including an inadequate regulatory framework and enforcement mechanisms and a lack of both an effective capital market and accounting profession. Therefore, the assumption that all companies will disclose all mandatory information may not be true in these countries."

This logic is likely to apply in Kuwait; as discussed in Chapter Two the nation's relevant regulatory bodies, including the Kuwait Accounting and Auditing Association (KAAA), are not fully effective in monitoring and enforcing reporting requirements. In particular, they have no practical power to enforce compliance with IAS/IFRS, with their day-to-day work limited instead to education in the areas of accounting standards and financial statement analysis. It therefore appears reasonable to argue that standards with high levels of compliance are often those with requirements that are relatively easy for companies to understand and apply. The reasons for low levels of disclosure with certain standards may also be linked to the costs of disclosure. Abd-Elsalam and Weetman (2003) note that: "In many developing countries or emerging markets, where the supervisory body of the capital market is not strong, the relative cost of non-compliance might be less than the cost of compliance" (p. 80). This may well be the case in Kuwait, given the lack of a pro-active professional accounting body; a number of Kuwaiti companies might reasonably believe that the costs of compliance in certain cases will exceed the benefits.

Another possible reason for non-compliance is that, as mentioned in Chapter Two, the Kuwaiti Minister of Commerce is not strict in penalising non-disclosure and sometimes only cautions the responsible partly. Companies are clearly more likely to comply with mandatory disclosure requirements if the regulation system has adequate enforcement mechanisms, with effective sanctions for non-compliance (Salter et al. 1996; Owusu-Ansa and Yeoh, 2005). Having examined patterns of mandatory disclosure amongst the sample firms, the analysis now turns to the voluntary information provided by sample firms.

6.2.4 Voluntary Disclosure

Table 6.6 provides descriptive statistics regarding the extent of voluntary disclosure across the three main categories and eight sub-categories set out in Chapter Five.

Table 6.6: Voluntary Disclosure across Sub-Categories

Category	*Maximum No. of Items*	*Mean No. of Items Disclosed*	*Mean Ratio %*	*Min*	*Max*
Corporate Environment	43	9.79	23.00	3	20
General Information about Economic Environment	3	0.59	20.00	0	3
General Corporate information	9	4.61	51.00	2	8
Specific Corporate Information	14	1.02	7.00	0	4
Board of Directors	17	3.57	21.00	0	9
Social Responsibility	20	1.12	6.00	0	7
Employee Information	13	0.25	2.00	0	3
Social Policy	7	0.86	12.00	0	7
Financial information	17	3.25	19.00	1	12
Financial Ratios	9	2.00	22.00	0	7
Market-Related Information	8	1.25	16.00	1	5
TOTAL	80	14	18	6	29

Note: This table provides descriptive statistics regarding voluntary disclosure by non-financial Kuwaiti-listed firms during 2010.

As can be seen from Table 6.6, the extent of voluntary disclosure varied substantially among the sub-categories. This finding was not unexpected given the results of previous studies that have applied a similar list format (e.g. Leventis and Weetman, 2004; Al-Shammari, 2008). In these studies, the corporate environment category typically achieves the highest disclosure score, followed by the financial information category and then social responsibility. The pattern is very similar in the current study; the mean index ratio value for the Corporate Environment category was 23% with sub-categories ranging from 7%

(Special Corporate Information) to 51% (General Corporate Information). Financial information achieved the second highest mean score of 19% with sub-categories ranging between 16% (Market-Related Information) and 22% (Financial Ratios). The Social Responsibility category achieved the lowest score with an overall average of just 6% and sub-categories ranging from 2% (Employee Information) to 12% (Social Policy).

The overall mean for voluntary disclosure in Kuwait of 18% suggests that the level has increased slightly recently, with Al-Shammari (2008) reporting a level of only 15%. However these figures are lower than in studies conducted in other Arabic nations including in Saudi Arabia (Alsaeed, 2006) and Qatar (Hossain and Hammami, 2009) where figures of 33% and 37% respectively are documented. Again it needs to be noted that this thesis employs much more comprehensive indices than the earlier studies; in terms of voluntary items 80 were included here, whereas Alsaeed examined only 20 items and Hossain and Hammami used 40. An interesting point to consider here is the relationship between mandatory and voluntary disclosure. Dye (1985; 1986) and Omar and Simon (2011) explore the issue of whether mandatory and voluntary disclosures are substitutes or complements. If they are substitutes, more extensive mandatory disclosure requirements should decrease voluntary disclosure levels. If instead they are complements, then more mandatory disclosure might increase voluntary disclosures. To examine this issue the Pearson correlation is normally used. The result here indicates significant positive correlation (p-value = 0.024)[74] between mandatory and voluntary disclosure. This result is consistent with findings in other nations including Tanzania (Abayo et al., 1993) and Saudi Arabia (Naser and Nuseibeh, 2003); it appears that in Kuwait, as elsewhere, disclosure across the two main categories is complementary in nature.

[74] See Appendix 6.1 for details.

The results revealed so far in this chapter indicate considerable variation among individual companies in terms of the extent of disclosure level, be it aggregate, mandatory or voluntary. It is therefore of interest to investigate whether the differences in level of disclosure are essentially random or are instead associated with identifiable variables. In order to investigate this issue, specific variables suggested in the extant literature in this regard, as discussed in Chapter Five, were employed and this analysis is now discussed.

6.3 The Impact of Company Characteristics on Aggregate Disclosure

6.3.1 Hypothesis Development

The second objective of this study is to investigate whether there is any identifiable relationship between aggregate disclosure (i.e. mandatory plus voluntary) in Kuwait and firm-specific characteristics. Seven characteristics commonly examined in previous studies[75] were tested to examine their influence on disclosure practices amongst Kuwaiti non-financial listed firms. These variables were: Firm size (measured by total assets), Leverage (measured by total liabilities to shareholders' equity); Liquidity (measured by current ratio); Profitability (measured by return on equity); Listing age (number of years listed on KSE); Audit firm size (= 1 if company is audited by one of the big four companies and 0 otherwise); and Industry Type (1 = real estate, 2 = industrial and 3 = service). The following hypotheses were formulated to examine the influence of these variables:

Hypothesis 1: Company size is positively associated with the extent of aggregate disclosure.

Hypothesis 2: Leverage is positively associated with aggregate disclosure.

Hypothesis 3: Liquidity is positively associated with aggregate disclosure.

Hypothesis 4: Profitability is positively associated with aggregate disclosure.

Hypothesis 5: Years since listing is positively associated with aggregate disclosure.

[75] See Chapter Five for further details

Hypothesis 6: There is a significant positive association between a company being audited by a "Big 4" firm and the extent of aggregate disclosure.

Hypothesis 7: There is a significant relationship between industry type and aggregate disclosure.

To test hypothesis H1, H2, H3, H4 and H7, data regarding these variables were obtained from Datastream, while data for H5 and H6 were taken from the annual reports of the sampled companies.

6.3.2 Descriptive statistics

Before the descriptive statistics are outlined, it is necessary to specify the precise form of the model to be estimated. The dependent variable is aggregate disclosure (mandatory and voluntary),[76] while two types of independent variables are used to explain variance in the former. The continuous variables employed were; firm size, leverage, liquidity; profitability and years since listing, while the categorical variables were audit type and industry type. Table 6.7 details the measurements used for the seven independent variables and the expected sign of the relationship with aggregate disclosure relating to each hypothesis. Table 6.8 then provides descriptive statistics for each variable.

Table 6.7: Summary of Independent Variables and Hypotheses

Hypothesis	Expected sign	Measurement
H1: Firm size	+	Total assets
H2: Leverage	+	Total debt (liabilities) to shareholders' equity
H3: Liquidity	+	Current ratio (current asset/current liabilities)
H4: Profitability	+	Return on equity
H5: Listing age	+	Years of listing in the KSE
H6: Audit firm size	+	Company coded 1 if audited by one of Big 4 audit firms, 0 otherwise
H7:Industry Type	n / a	Real estate, Industrial, Service and Food

Note: This table details all the independent variables, their proxies and related hypotheses.

[76] As in related prior studies (e.g. Krabat et al. 2013) the analysis focuses on explaining aggregate disclosure levels, but findings relating to mandatory and voluntary disclosure individually are outlined later.

Table 6.8: Descriptive Statistics for Independent Variables

Continuous variables	Mean	Median	Std. dev.	Minimum	Maximum
Firm Size*	304,796	136,473	587,130	9,102	3,709,937
Leverage	1.411	0.751	1.871	0.009	10.22
Liquidity	1.526	1.09	1.55	0.12	8.83
Profitability (%)	5.7	5.94	12.98	-35.31	43
Listing age (years)	13	11	9.5	1	27
Categorical Variables					
Audit type					
Companies with Big 4 Auditor			28 (55%)		
Others			23 (45%)		
Industry type					
Real Estate			11 (22%)		
Industrial			15 (29%)		
Service			20 (39%)		
Food			5 (10%)		

Note: This table provides descriptive statistics for each independent variable.
* In millions of KD (1.00 KD = 3.55 US $ at the end of 2010).

Inspection of Table 6.8 indicates the great variety in characteristics of Kuwaiti non-financial listed firms. Firm size, measured by total assets, varied from a low of KD 9,102 million to a high of KD 3,709,937 million, with a mean of 304,796 and median of 136,473. The leverage amongst the sample firms also varied markedly, from 0.009 to 10.22 with a mean of 1.411 and a median of 0.75. Liquidity ranged from 0.12 to 8.83 (mean = 1.526, median = 1.09) while profitability levels also varied substantially, from -35.31% to 43% (mean = 5.7%; median = 5.94%) and years since listing ranged from 1 to 27 years, (mean = 13; median = 11 years). Clearly, several of these variables appeared unlikely to be normally distributed and so this issue was investigated further.

Normality Assessment

One of the most commonly-used approaches to assessing the normality of data is the Kolmogorov-Smirnov test. The Kolmogorov-Smirnov test is a test of goodness of fit used to assess the likelihood that a data set comes from a specific distribution (e.g. normal). If the test statistic is insignificant then the distribution of the data is assumed to be normal.

If, however, the test is significant then the distribution of the data is not normal and parametric analysis would therefore be inappropriate (Bryman and Cramer 1990). As Table 6.9 indicates, non normality was rejected for each of continuous variables employed in the analysis.

Table 6.9: Kolmogorov- Smirnov Results for the Continuous Variables

Variable	Mean	St. Dev.	K-S stat	(P-Value)
Firm Size (Kuwaiti millions)	304,796	587,130	0.307	(0.000)**
Leverage	1.411	1.871	0.227	(0.000)**
Liquidity	1.526	1.550	0.271	(0.000)**
Profitability	5.704	12.98	0.149	(0.000)**
Listing Age	13.02	9.501	0.189	(0.000)**

Note: This table reports the mean, standard deviation and Kolmogorov-Smirnov (K-S) results for each continuous variable. ** indicates significance at the 1% level.

One of the most widely-employed techniques used to deal with the non-normality problem is transformation of data. In this regard Field (2005) notes that the purpose of transformation is to modify the distributional problem, in most cases to bring the values closer to a normal distribution. The log transformation approach, widely adopted in previous studies (e.g. Ahmed and Nicholls 1994; Ho and Wong 2001) was employed. As Table 6.10 shows, normality was no longer rejected in four out of five cases; in the one remaining case, listing age, the extent of normality was reduced. The regression model employed in the analysis therefore used the transformed data in its estimation.

Table 6.10: Normality test for Continuous Variables after Transformation

Variable	Code name	Mean	Std. Dev.	K-S stat	P-Value
Log Firm Size (Kuwaiti Million)	LFSize	11.54	1.37	0.071	0.2
Log Leverage	LLEV	-0.404	0.888	0.089	0.2
Log Liquidity	LLIQ	0.08	0.84	0.146	0.08
Log Profitability	LPRFT	1.994	0.892	0.102	0.2
Log Listing Age	LLAGE	2.234	0.926	0.135	0.058**

Note: This table presents the degree of normality for each transformed continuous independent variable.
A ** indicates significance at the 1% level.

6.3.3 Univariate Analysis

Whilst the most robust result in terms of disclosure determination are provided in multivariate regression analysis, several studies in the area (e.g. Kribat et al., 2013) suggest that univariate analysis can still play a useful role in terms of providing a general impression of the impact of the variables. Table 6.11 and 6.12 present the results of univariate analysis for the five continuous and the bimodal (Auditor Type) variables.[77]

The Pearson correlation results in Table 6.11 indicate significant positive relationships between aggregate disclosure and both total assets and leverage, consistent with hypotheses H1 and H2 respectively. The Mann-Whitney results in Table 6.12 are consistent with the auditor-related hypothesis, in this case H6, suggesting that sample companies with a "Big 4" auditor have a significantly higher aggregate disclosure ranking that those audited by a smaller firm.

Table 6.11: Pearson Correlation Results for the Continuous Variables

Variable	Pearson correlation coefficient	Sig. (1-tailed)	No. of observations
Panel A: Size			
Log Total Assets	0.621	0.000**	41
Panel B: Leverage			
Log Leverage	0.327	0.018*	41
Panel C: Liquidity			
Log Liquidity	-0.098	0.272	41
Panel D: Profitability			
Log Profitability	-0.106	0.255	41
Panel E: Listing Age			
Log Listing Age	0.235	0.070	41

Note: This table provides the results of a Pearson correlation test investigating the correlation between the continuous independent variables and aggregate disclosure. A ** indicates that the test statistic is significant at the 1% level and a * indicates significance at the 5% level.

[77] Table 6.4 provided analysis of differences in disclosure across the four industry groups.

Table 6.12: Mann-Whitney Test comparing Disclosure Ranking a cross Audit Firm Type.

Panel A: Audit Type			
	"Big 4" Mean Rank (26 cases)	"Others" Mean Rank (15 cases)	Exact Sig. [2*(1-tailed sig.)]
Aggregate Disclosure	24.67	14.63	0.009**

Note: This table presents the results of a Mann-Whitney test compering the average disclosure ranking across audit firm type. A** represents significance at the 1% level.

6.3.4 Multivariate analysis

Whilst the univariate analysis suggested support for some of the hypotheses, multivariate regression analysis is required to: (i) determine causal relationships; and (ii) allow for individual variable effects to be identified while the impact of others are controlled for (Patton and Zelenka 1997; and Norusis 1993; Haniffa and Cooke, 2002).

6.3.4.1 The Regression Model

In order to assess the impact of each variable on the aggregate disclosure level, the Ordinary Least Square (OLS) regression model was employed. OLS is the most commonly-used technique in disclosure studies (Leventis, 2001) where the dependent variable is measured as a ratio of aggregate disclosure and the independent variables relate to the type of factors discussed above. The model was constructed as below:

$AD = \alpha + \beta_1(TotalAssets_i) + \beta_2(Leverage_i) + \beta_3(Liquidity_i) + \beta_4(Profitability_i) +$

$\beta_5(AuditType_i) + \beta_6(ListingAge_i) + \beta_7(RealEstate\ dummy_i) + \beta_8(Industrial\ Dummy_i) +$

$\beta_9(Food\ Dummy_i) + e_i$

Where:

AD = Aggregate disclosure index;

α = Constant;

$TotalAssets_i$ = Company size measured as logarithm of total assets;

$Leverage_i$ = Leverage measured as logarithm of total liabilities to shareholders' equity;

$Liquidity_i$ = Liquidity measured as logarithm of current ratio;

Profitability$_i$ = Profit as measured as logarithm of return on equity;

Audit Type$_i$ = Coded 1 if audited by one of the Big 4 audit firms, 0 otherwise; and

ListingAge$_i$ = Years since first listing on the KSE. The three dummy variables relate to industry grouping and take the value of 1 if the firm is from the sector concerned and zero otherwise.[78] e_i is a random error term

6.3.4.2 Regression Assumptions

Multicollinearity

Kribat et al. (2013) note a common problem in this type of cross-sectional analysis whereby two or more of the continuous independent variables employed to explain disclosure levels might be correlated, leading to multicollinearity (Abu-Nassar, 1993). Field (2005) suggests that harmful levels of multicollinearity are likely when the absolute value of bivariate correlations (r) above 0.80 or 0.90 exist amongst the variables. To examine possible multicollinearity issues, Pearson's parametric test of correlation amongst the independent variables is used and in the present case, as Table 6.13 shows, the coefficients were all less than 0.5 in magnitude.

Table 6.13: Pearson Correlations among the Continuous Independent Variables

	LFSize	LLEV	LLIQ	LPRFT	LLAGE
LFSize	1				
LLEV	.402** (0.005)	1			
LLIQ	-.245 (0.062)	-.373** (0.008)	1		
LPRFT	.105 (0.256)	-.014 (0.464)	.094 (0279)	1	
LLAGE	.456** (0.001)	.136 (0.198)	.095 (0.276)	.036 (0.412)	1

Note: The figures shown are Pearson correlation coefficients. The figures in brackets are p values. A ** indicates significance at the 1%.

[78] The services sector dummy was removed to avoid model over-specification.

The other approach to assess possible collinearity between the explanatory variables is to calculate the variance inflation factor (VIF)[79] (Gunst and Mason, 1980 and Wallace et al. 1994). As a conservative rule, a VIF value of more than 5 suggests possible multicollinearity (Hutcheson and Sofroniou 1999; and Field, 2005) while if the value exceeds 10 it is generally considered to indicate a serious problem (Neter et al. 1989; Kennedy, 1992; Wallace et al. 1994; Owsus-Ansah, 1998; Hutcheson and Sofroniou 1999; Naser and Al-Khatib, 2000; and Field, 2005). Since the VIFs here did not exceed 1.569 for any variable[80] it can be concluded that multicollinearity is not a serious problem in interpreting the regression results.

6.3.4.3 Results of the Multiple Regression Analysis (aggregate disclosure)

The findings of the regression model are summarised in Table 6.14.[81]

[79] The VIF measures the degree to which each explanatory variable is explained by the other explanatory variables (Chavent et al. 2006).
[80] The VIFs here were: size 1.569; leverage 1.344; liquidity 1.302; profitability 1.048; listing age 1.41.
[81] There were a number of missing observations for some variables. For example, use of the logarithm of return on equity as a measure of profitability dropped the loss-making companies from the sample, reducing the total number of observations from 51 to 41.

Table 6.14: Regression Results for Aggregate Disclosure

Panel A: Model diagnostics

R	*R^2*	*Adjusted R^2*	*Std. Error of the Estimate*	*F*	*Sig.***
.737	.543	.411	.05307	4.099	.002

Panel B: Regression Model

Variable	*Coefficient*	*T*	*Sig.*
Constant	0.169	1.897	0.067
Size	0.491	2.887	0.007**
Auditor Dummy	0.201	1.420	0.166
Leverage	0.028	0.189	0.851
Liquidity	-0.069	-0.436	0.666
Profitability	-0.215	-1.645	0.110
Years listed	0.145	0.795	0.433
Industry Dummy			
Real Estate	-0.212	-1.327	0.194
Industrial	-0.288	-1.613	0.117
Food	-0.074	-0.491	0.627

Note: This table summarises the results of multivariate regression investigating the determinants of aggregate disclosure levels. A** indicates significance at the 1% level (on a two-tailed basis).

Panel A of Table 6.14 indicates that the overall model explanatory power (adjusted R^2) for aggregate disclosure is 0.41, that is the seven explanatory variables included in the model explain 41% of variance in the extent of aggregate disclosure level. This extent of explanatory power is similar to that reported in earlier disclosure studies in Kuwait (Al Mutawaa and Hewaidy, 2010 and Al-Shammari, 2011, where figures of 47.8% and 40% respectively are documented). These figures are, however, higher than many of those found in developed countries (e.g. Meek et al., 1995 and Glaum and Street, 2003 where figures of 35% and 29% were found for US/UK and Germany respectively). Therefore, the evidence can be argued as indicating that the type of independent variables employed in this area are better predictors of aggregate disclosure practices in developing than developed nations. One possible rationale for this pattern lies in the greater dependence on annual reports in the developing world, relative to other media sources and outlets (e.g. Naser et al 2003; Hossain, et al., 1994; Mirshekary and Saudagaran, 2005; Al-Khater, 2007; Zoysa and Rudkin, 2010; Alzarouni et al. 2011) and firms' attempts to address the needs of a wider and more diverse group of stakeholders in a more predictable way. In any case, the figure is well above the 20% 'respectable' result cited in Anderson, et al. (1993) and Abd-Elsalam and Weetman (2003).[82]

Inspection of Panel B of Table 6.14 reveals that when the explanatory variables are investigated together, firm size (measured by total assets) has a significant positive effect on aggregate disclosure level with p-value of 0.007. The remaining variables (audit type, leverage, profitability, liquidity, listing age and industry) were found to be insignificant in explaining variation in aggregate disclosure. One possible explanation for these results is that large firms in Kuwait are economically important and their pronouncements highly valued by government and investors. In addition, they attract more interest from key external parties and so disclosing additional information in the annual report may reduce public criticism or governmental intervention in their affairs and enhance corporate reputation. The other possible reason may lie in large companies' greater ability to absorb the extra costs of broader disclosure. In any case this result, which supports hypothesis 1, is consistent with many previous empirical disclosure studies (e.g. Firth, 1979; Chow and Wong-Boren, 1987; Cook, 1992; Meek et al. 1995; Wallace and Naser, 1995; Owusu-Ansah, 1998; Ahmed and Courtis, 1999; Naser et al. 2002; Marston and Polei, 2004; Alsaeed, 2006; Al-Shammar et al. 2008; Mutawaa and Hewaidy, 2010; Omar 2012; Kribat et al. 2013), despite the differences in regulatory regime and market structures existing in the various research sites.

[82] These authors suggest that having an explanatory level (R^2) of 20% can be considered "useful" in social science.

The coefficient on the audit type dummy was positive but not significant. This result suggests that, despite prior literature suggesting the likely existence of such a pattern, Kuwaiti non-financial listed companies whose annual reports are audited by one of the Big 4 audit firms do not disclose more information in their annual reports than companies audited by smaller Kuwaiti accounting firms. This result is consistent with Wallace et al. (1994) in Spain, Barako et al. (2006) in Kenyan, and Al Mutawaa and Hewaidy (2010) in an earlier study of Kuwait.

The leverage coefficient in Table 6.14 was also positive but not significant. This finding is consistent with prior studies (e.g. Belkaoui and Kahi, 1978; Bradbury, 1992; Malone et al., 1993; Naser, 1998; and Al-Shammari et al. 2008; and Omar and Simon, 2011) all of whom found an insignificant positive relationship between leverage and the extent of disclosure.

Liquidity was associated negatively, but again only weakly, with the extent of aggregate disclosure. It has been argued that companies enjoying higher liquidity are likely to disclose more information than those with lower figures (Cook, 1989b), but this does not seem to be the case amongst KSE-listed non-financial firms. However, the finding is consistent with prior international evidence (e.g. Owusu-Ansah, 1998; Leventis and Weetman, 2004; Alsaeed, 2006, Al-Shammari et al. 2008; and Omar and Simon, 2011).

Profitability was not a significant determinant of variation in the extent of aggregate disclosure. This result confirms previous evidence of a relationship between profitability and disclosure extent that is weaker in practice than in theory (e.g. Wallace et al. 1994; Raffournier, 1995; Ahmed and Courtis, 1999; Marston and Polei, 2004; Leventis and Weetman; 2004; Alsaeed, 2006; Aljifri, 2008; Shammari et al. 2008; and Mutawaa and Hewaidy, 2010). The regression statistics also indicated that no significant relationship exists between industry type and the level of aggregate disclosure; the three dummy variable all had negative coefficients, but without the significance to suggest that service sector disclosure is substantially higher than in other Kuwaiti industries. However, the evidence is again consistent with the results reported in related studies (e.g. Wallace et al. 1994; Wallace and Naser, 1995; Raffournier, 1995; Naser et al. 2002; Owusu-Ansah, 1998; Alsaeed, 2006).

Finally, the listing age variable had a positive coefficient, but again no significant relationship was found. Few previous studies have investigated the effect of listing age on the level of disclosure, although Owusu-Ansah (1998) in Zimbabwe and Omar and Simon (2011) in Jordan found a positive relationship between listing age and disclosure level, while Haniffa and Cooke (2002) did not find any such association in Malaysia.

6.3.4.4 Results of the Multiple Regression Analysis (Mandatory vs. Voluntary disclosure)

The results presented in the previous section suggest that the determinants of aggregate disclosure in Kuwait are similar to those reported in other nations. However, much of the previous literature fails to compare voluntary and mandatory disclosure; in practice the determinants of these may differ markedly with cross-border differences more likely to emerge at this level (Kribat et al. 2013). For example, if the de-facto enforcement of reporting regulation varies in different regimes, the clearest way of examining this will be via analysis of mandatory disclosure. Equally, the extent to which firms' propensity to go beyond the mandated reporting requirements is likely to differ depending on external pressures that vary from country-to-country (Kribat et al. 2013); in this case, the issue is best examined via study of the determinants of the voluntary component of aggregate disclosure.

The findings of the regression model for the two disaggregated disclosure types are presented in Table 6.15. The coefficient for firm size is shown to be significantly positive for voluntary disclosures, but not for mandatory disclosure. This evidence makes sense in that it is the propensity to report on a discretionary basis beyond what is required that is likely to be driven most directly by size; hypothesis 1 is thus supported for voluntary disclosure. In contrast, compliance with mandatory rules is not affected by the scale of Kuwaiti firms' activities. The results for profitability shown in Table 6.15 indicate that profitability was significantly negatively linked to mandatory disclosure levels, but had only a weak relationship with the voluntary figure. The result for mandatory disclosure is hard to reconcile with existing theory, but is consistent with a scenario whereby high profit levels provide Kuwaiti firms with the power to ignore regulatory scrutiny and the attention of the authorities. The results differ from the findings of Hassan et al. (2006) in Egypt who reported a significant positive relationship between profitability and mandatory disclosure, but no significant association between profitability and either voluntary or aggregate disclosure. As suggested earlier, it appears that the disaggregation adopted here allows international differences in disclosure practices to emerge that would not be evident from analysis of the total disclosure figure alone.

Table 6.15: Regression Results for Mandatory and Voluntary Disclosure

Panel A: Model Diagnostics

	R	*R^2*	*Adjusted R^2*	*Std. Error of the Estimate*	*F*	*Sig.*
Mandatory	0.695	0.484	0.334	0.06968	3.226	0.007
Voluntary	0.804	0.646	0.543	0.04905	6.282	0.000

Panel B: Regression Coefficients

Variable	*Mandatory index*			*Voluntary index*		
	Coefficient	*t-stat*	*Sig.*	*Coefficient*	*t-stat*	*Sig.*
Constant	0.348	2.965	0.006**	-0.163	-1.975	0.057
Size	0.323	1.784	0.084	0.621	4.146	0.000**
Auditor dummy	0.286	1.904	0.066	-0.100	-0.806	0.426
Leverage	0.031	0.200	0.843	-0.055	-0.424	0.675
Liquidity	-0.192	-1.144	0.261	0.173	1.249	0.221
Profitability	-0.284	-2.039	0.050*	0.056	0.489	0.628
Year listed	0.194	1.001	0.325	-0.003	-0.020	0.984
Industry Dummy						
Real Estate	-0.045	-0.267	0.791	-0.475	-3.379	0.002**
Industrial	-0.159	-0.841	0.407	-0.460	-2.928	0.006**
Food	0.006	0.038	0.970	-0.232	-1.741	0.092

Note: This table summarises the results of multivariate regression analysis investigating the determinants of mandatory and voluntary disclosure. A**/* indicates significance at the 1%/5% level (on a two-tailed basis).

The final disaggregated results of note shown in Table 6.15 relate to the industry dummies. While not significant for voluntary disclosure, both the Real Estate and Industrial coefficients were significantly negative, with the Food dummy falling just below the 5% threshold employed. These results confirm the impression from the bivariate evidence presented earlier in the chapter whereby firms in the Kuwaiti services sector voluntary disclose more information than others, but this is not replicated with mandatory information.

6.4 Summary and Conclusion

This chapter has presented quantitative analysis of disclosure practices in the annual reports of 51 non-financial Kuwaiti companies in 2010, focusing on the degree of aggregate, mandatory and voluntary disclosure. The main findings of note can be summarised in the following points.

First, the average aggregate disclosure level of compliance was low relative to prior studies, measuring 44% of the 230 possible items with a range of 23.4% to 56.5%, but this almost certainly reflects the more comprehensive index employed here than in previous analyses. Levels differed markedly among companies, from a low of 20% to a higher of 60%.

Second, none of the sample companies complied fully with the disclosure requirements of IAS/IFRS. The average mandatory disclosure index score was only 58.4% (with a range across firms of 31% to 72.6%). This finding is broadly in line with earlier evidence from Kuwait and other developing countries. The analysis also revealed that there was a high level of disclosure for five particular standards (IAS 1, IAS 7, IAS 10, IAS 18 and IAS 33) where average compliance levels of more than 80% were found. As argued earlier, this finding may reflect a strong propensity to comply with requirements that are relatively straight-forward. The lack of full compliance was not unexpected for a range of reasons; these include the lack of enforcement of compliance with IAS/IFRS in Kuwait and the likely impact of this on firms’ assessment of the costs and benefits of following the rules. In addition, difficulties can exist regarding the interpretation of accounting standards in the face of ineffective regulatory systems such as the one in Kuwait (Owusu-Ansa and Yeoh, 2005). It is likely that companies will treat mandatory disclosure requirements as effectively voluntary in nature when they know that the consequence or penalty for non-compliance to them is insubstantial (Zeff, 2007; Al-Akra et al., 2010).

The third main finding in the chapter is that the documented level of voluntary disclosure amongst Kuwaiti non-financial listed firms is higher than in previous studies of this nation. This evidence suggests that the benefits of voluntary disclosure in the nation have increased, and are more widely seen as exceeding the costs than used to be the case (Marston and Polei, 2004).

Finally, with regard to the impact of the seven specific company characteristics on the extent of aggregate, mandatory and voluntary disclosure, the multivariate regression results revealed that large companies provide more information than do small companies, but only in terms of the voluntary measure. More profitable companies disclose less mandatory information than companies with lower income, while leverage, liquidity, listing age and audit type have no significant association with aggregate, mandatory or voluntary figures. Firms in the service sector generated significantly higher mandatory disclosure index scores than did other firms. Whilst not all of these findings were possible to reconcile with existing theory, they illustrate that the novel approach adopted here of performing separate cross-sectional analysis of the two types of disclosure yields very different evidence and should be adopted as a matter of course in such studies in the future.

Having provided a detailed quantitative analysis of disclosure behaviour, the empirical work in the thesis continues by presenting qualitative evidence on Kuwaiti perceptions, beginning in the next chapter with an examination of preparers' opinions.

Chapter 7

Questionnaire Survey Analysis and Discussion: Perceptions of Preparers about Financial Disclosure Practices in Kuwaiti Non-Financial Companies' Annual Reports

7.1 Introduction

One of the main objectives of this study is to evaluate preparers' perceptions regarding disclosure practices in the annual reports of Kuwaiti non-financial listed companies. To help achieve this aim, a questionnaire survey was distributed in Kuwait between October and December 2012, to preparers within Kuwaiti companies, and the responses analysed in detail. The remainder of this chapter proceeds as follows: Section 7.2 describes the questionnaire distribution process and the response rate, while Section 7.3 reports the key results. Section 7.4 concludes.

7.2 Questionnaire Distribution and Collection

In order to increase the response rate, all questionnaires (in both English and Arabic) were delivered and collected personally. In addition, to improve the response rate English and Arabic versions were disseminated online. To maximise the response rate the questionnaire presented a covering letter introducing the researcher, his supervisors, the university and outlining the reasons for the study and its importance. The letter also provided assurance to the respondents that the collected information would be treated in the strictest confidence to encourage them to complete the questionnaire in full. The process of questionnaire distribution commenced in late October 2012 and was completed in early January 2013.

The questionnaires were distributed to three selected groups of preparers of corporate annual reports in Kuwait in order to ascertain their views regarding disclosure. These were: (i) financial managers; (ii) managers of accounting department; and (iii) accountants in every Kuwaiti non-financial company listed on the KSE. The choice of target groups was influenced by the literature (e.g. Abu-Nassar, 1993, and Kribat, 2009), taking into account the Kuwaiti context and the need to identify those responsible for the preparation of annual reports in Kuwait. These target groups were chosen based on their likely knowledge and understanding of financial disclosure processes.

Table 7.1 summarises the number of questionnaires distributed, the number of useable responses received and the response rate for each of the preparer groups. In total 120 questionnaires were distributed and 66 were returned. Three of the latter were excluded because they were incomplete (two from accountants and one from financial managers), reducing the overall response rate to 53%. Accountants provided the highest response rate of 55%, whereas the lowest rate of 44% was generated by managers of accounting departments.

Table 7.1: Preparers Groups and Response Rates

Group	Number Distributed	Useable Number of Responses	Response Rate
Financial Managers	20	10	50%
Managers of Accounting Departments	25	11	44%
Accountants	75	41	55%
Total	**120**	**62**	**52%**

Note: This table reports the number of questionnaires distributed and useable responses cross the respondent preparer groups.

Since almost all the questions were based on a five-point Likert scale, the responses represented ordinal rather than interval or ratio data and therefore non-parametric (Kruskal-Wallis (K-W) and Mann-Whitney (M-W) tests were used.[83] Before running the statistical analysis, reliability and validity tests were performed. In terms of reliability, "Cronbach's Alpha Test"[84] of internal consistency is the most common for questionnaire responses (Field, 2009).[85] The test was carried out on the preparers' questionnaire with results for the three preparer groups (financial managers, managers of accounting departments and accountants) of 0.68, 0.93, and 0.96 respectively, thereby suggesting an acceptable level of internal consistency in the survey results.

[83] Further information about these tests and the justification behind using them in this study is provided in Chapter 5, Section 5.5.2.
[84] Cronbach alpha calculates the average of all possible split-half reliability coefficients. Its value ranges from 1, indicating complete internal reliability, to 0, denoting no internal reliability (Bryman, 2008). More details about the nature and role of this test are provided in Chapter 5, Section 5.3.1.3
[85] Reliability was discussed in detail in Chapter 5, Section 5.3.1.3.

With regard to validity, Field (2009) argues that all research tools should be pilot tested in order to assess their validity. As detailed in Chapter 5, the validity of the questionnaires employed in this study was examined via feedback from a range of professionals and experienced researchers on a draft of the survey document.

7.3 Questionnaire Findings

7.3.1 Background Information on Target Preparer Groups

In the first section of the questionnaire, participants were asked a number of contextual questions regarding, occupation, work experience, educational qualifications and areas of expertise. This type of information was considered helpful in providing an impression of the nature of the sample, and the extent of its diversity. The responses to the background questions are reported in Table 7.2.

Table 7.2: Demographic Information on the Target Preparer Groups

Description	Group			
	Financial Managers	**Managers of Accounting Department**	**Accountants**	**% of Sample**
Sample Size				
Number	10	11	41	62
Work Experience (%)				
Less than 1 year	0	0	7	5
1 to 5 years	0	18	42	31
6 to 10 years	20	27	34	31
More than 10 years	80	55	15	32
Educational qualification (%)				
Less than Bachelor	0	9	12	10
Bachelor	60	64	78	73
Masters	40	9	5	11
PhD	0	18	2	5
Major subject (%)				
Accounting and/or Finance	70	100	78	80
Management	20	0	12	11
Marketing	10	0	7	6

Note: This table depicts demographic information for respondents in each of the three preparers groups and in the sample as a whole.

As can be seen from the table, 32% of the participants had more than 10 years of experience in their place of work, suggesting an advanced level of knowledge and understanding, while only 5% of participants had worked for less than one year. The accountants generally had a lower level of experience compared to the sampled financial managers and managers of accounting departments, suggesting a difference in context that might influence views of the issues concerned

With regard to educational qualifications, Table 7.2 shows that the majority of respondents were well-educated, as 73% of them held bachelor degrees, 11% held master degrees and 5% held a PhD. For the financial managers group, none had less than a bachelors degree although none had a PhD. The table 7.2 also indicates that the majority of the sample (80%) were qualified in an accounting and/or finance subject, 11% specialised in management and 6% in marketing. All managers of accounting departments, 78% of accountants and 70% of financial managers were qualified in accounting and/or finance, suggesting that the majority of respondents are knowledgeable about accounting and therefore appropriate subjects for this investigation.

7.3.2 The Importance of Kuwaiti Non-Financial Companies' Annual Reports across Preparer Groups

Previous studies have found that annual reports are perceived as the most important source of corporate information for decision-making in both developed (e. g. Lee and Tweedie, 1975; Anderson, 1981; Gray et al, 1995; Hossain and Adams, 1995; Botosan, 1997; Dunne et al 2008) and developing countries (e.g. Hossain, et al., 1994; Naser, 2003; Mirshekary and Saudagaran, 2005).[86] However, the question of whom preparers see as the users of annual reports is not central to much of this literature, particularly in developing countries as Chapter 5 here documented. The second section of this questionnaire deals with the issue

[86] The importance of annual reports as an information source is discussed in further detail in Chapter 5, Section 5.4.

by focusing on the attitudes and perceptions of the preparers of Kuwaiti companies' annual reports regarding the importance of different potential users. As Chapter 4 of this study indicated, from a decision-usefulness perspective, the main role of financial reporting is to provide useful information to potential investors, creditors, government, academics and others in making rational decisions. In this context, the participants were asked to rate the importance of each of ten potential users of annual reports on a five-point Likert scale, (where 1 = not important at all to 5 = very important) and with user groups selected based on previous literature (e.g. Abu-Nassar and Rutherford, 1996; Yaftain and Mirshekary, 2005; and Kribat, 2009). Table 7.3 summarises the responses of the three surveyed groups of preparers and these are compared to each other using Kruskal-Wallis (K-W) and Mann-Whitney (M-W) tests. This latter element of the analysis tested the following null hypothesis:

> ***H8: There is no significant difference among groups of preparers regarding the perceived importance of particular users of Kuwaiti non-financial listed companies' annual reports.***

Table 7.3: Preparers' Views about the Importance of Kuwaiti Non-Financial Listed Companies' Annual Reports for Different Users

Questions	No	Mean	SD	Group means			K-W P-value	M-W P-value		
				FM	MAD	AC		FM-MAD	FM-AC	MAD-AC
Q5a. Management and the board of directors	62	4.60	0.95	4.60	4.45	4.63	0.660	0.586	0.485	0.841
Q5b. Government institutions	60	4.18	0.98	4.20	4.00	4.23	0.752	0.569	0.782	0.570
Q5c. Individual investors	60	4.38	0.92	4.30	4.18	4.46	0.989	0.971	0.967	0.912
Q5d. Institutional investors	62	4.50	0.92	4.50	4.64	4.46	0.392	0.793	0.388	0.290
Q5e. Creditors	60	4.38	0.98	4.56	3.91	4.48	0.595	0.438	0.338	0.770
Q5f. Financial analysts	62	4.35	0.89	4.50	4.09	4.39	0.643	0.672	0.355	0.891
Q5g. Stock Exchange	61	4.48	0.91	4.89	4.27	4.44	0.312	0.438	0.141	0.780
Q5h. Employees and labour unions	61	3.48	1.03	3.70	3.27	3.48	0.753	0.545	0.507	0.799
Q5i. Newspapers and other media	62	3.53	0.99	3.60	3.36	3.56	0.666	0.409	0.772	0.507
Q5j. Researchers and academics	61	3.90	0.96	4.20	4.18	3.75	0.256	0.951	0.250	0.194

Note: This table provides the mean and standard deviation (SD) for preparers answers to questions about the importance of Kuwaiti companies' annual reports across users. FM = Financial Managers; MAD = Managers of Accounting Departments and AC = Accountants. Responses are based on a Likert Scale where 1 = not important at all; and 5 = very important. The table also provides the mean for each group and the two-tailed p-value for the Kruskal-Wallis (K-W) and Mann-Whitney (M-W) tests.

As can be seen from Table 7.3, respondents rated management and boards of directors as the most important users of the annual reports of Kuwaiti companies, with an overall mean of 4.6. Following close behind were institutional investors and the stock exchange (with means of 4.5 and 4.48 respectively). The first of these results was in large part driven by the high number of accountants in the sample with this cohort assigning most importance to this factor. In contrast, and not surprisingly given their role, financial managers suggested that the stock exchange is the most important user group (mean = 4.89), while managers of accounting department considered institutional investors to be the most important (mean = 4.64). Other user groups such as individual investors, creditors, financial analysts, government institutions, researchers and academics, newspapers, employees and labour unions were considered to be of less importance. All preparer groups ranked employees and labour unions as the least important user category, with the exception of financial managers who indicated newspapers and other media in this regard. These results imply that preparers overall are most eager to satisfy the information needs of management and the board of directors, which in turn suggests that this group has the power to influence the accounting policies and financial disclosure practices of the company. Users such as employees and labour unions might reasonably be considered less able to influence polices and operations of the company and this would explain the lower importance attached to them. The finding that accountants are potentially strongly focused on management and board of directors as key users is interesting as these groups are internal to the organisation, while the annual report has traditionally been aimed at external constituents (Gray et al., 1996). However, the finding is not unique to this study as the results are consistent with findings provided by Abu-Nassar and Rutherford (1996) in Jordan and Kribat (2009) in Libya who report that preparers in these nations also ranked management and the board of directors as the most important user groups. In contrast, Yaftain and Mirshekary (2005) found that preparers of financial reports of Iranian companies ranked shareholders as the most important, with management and the board of directors second, thereby suggesting variation across the Islamic world.

Kruskal-Wallis and Mann-Whitney tests were conducted in each case to ascertain if there were any significant differences in the views expressed. Table 7.3 shows that there were no significant differences in responses amongst groups and the findings therefore, do not support rejection of hypothesis *H8* that there are no significant differences amongst groups of preparers regarding the importance of Kuwaiti-listed companies' annual reports for different user-groups.

7.3.3 The Importance of Individual Components of Kuwaiti Non-Financial Listed Companies' Annual Report for Financial Decision-Making

The next section of the questionnaire focused on the perceptions of preparers about the importance of particular elements of Kuwaiti corporations annual reports as a source of information for making financial decisions. The respondents were asked to rate the importance of eight sections of the corporate report on a five-point Likert scale as before. The responses to this question are presented in Table 7.4. The related null hypothesis regarding inter-group consistency in responses was:

> ***H9: There is no significant difference among groups of preparers groups in terms of the importance that they attach to different sections of Kuwaiti non-financial listed companies' annual report for financial decision-making.***

Tables 7.4 evidences that the income statement was ranked by the preparers as a whole as the most important element of the annual report, with an overall mean of 4.66; the balance sheet and auditors' report were jointly ranked as the second most important sections while the cash flow statement and the notes to the financial statement were jointly ranked third.

Table 7.4: The Importance of Individual Components of Kuwaiti Non-Financial Listed Companies' Annual Reports for the Purpose of Financial Decision-Making

Questions	No	Mean	SD	Group means			K-W P-value	M-W P-value		
				FM	MAD	AC		FM-MAD	FM-AC	MAD-AC
Q6a. Chairman's message	60	3.68	1.14	3.40	3.45	3.82	0.249	0.837	0.216	0.199
Q6b. Director' report	61	4.11	0.98	4.30	3.82	4.15	0.434	0.254	0.523	0.336
Q6c. Auditors' report	62	4.61	0.82	4.60	4.36	4.68	0.875	1.000	0.713	0.706
Q6d. Balance sheet	62	4.61	0.64	4.80	4.55	4.59	0.420	0.862	0.329	0.415
Q6e. Income statement	61	4.66	0.68	4.80	4.45	4.68	0.776	1.000	0.666	0.706
Q6f. Statement of change in equity	61	4.39	0.69	4.40	4.36	4.4	0.850	0.633	0.895	0.655
Q6g. Cash flow statement	62	4.56	0.69	4.50	4.36	4.63	0.693	0.630	0.470	1.000
Q6h. Notes of financial statement	61	4.56	0.65	4.70	4.36	4.58	0.804	0.629	0.683	0.880

Note: This table provides the mean and standard deviation (SD) for all respondents regarding questions about the importance of different sections of Kuwaiti companies' annual reports for different prepares groups, FM = Financial Managers; MAD = Managers of Accounting Departments and AC = Accountants. Responses are based on a Likert Scale where 1 = not important at all; 5 = very important. The table also provides means for each group and the p-value for the Kruskal-Wallis (K-W) and Mann-Whitney (M-W) tests.

Segregation of the results reveals that in contrast to the other two groups, management of accounting departments indicated the balance sheet as the most important element in decision-making. However, sections of the annual report such as the statement of change in equity, the directors' report and the chairman's message were ranked lowly in importance by all these groups with the latter of these lowest of all. This pattern is comparable to the findings of Yaftain and Mirshekary (2005) who found that preparers of corporate financial reports in Iran ranked the balance sheet as the most important section of the annual report followed by the auditor's report and the income statement. Managers of accounting departments, as opposed to 'hand-on' technical accountants, have a particularly strong interest in the balance sheet as it reflects a pervasive 'snap-shot' of the organisation at the year-end (Elliott and Elliott, 2013).

With regard to disagreement between the selected groups of preparers, the Kruskal-Wallis and Mann-Whitney statistics presented in Table 7.4 indicate no significant differences in opinions across the three categories. This finding suggests that there is no support for rejection of null hypothesis *H9* and is consistent with the evidence in Table 7.3 where the three groups of preparers also had broadly similar view.

7.3.4 The Influence of Different Groups on Financial Disclosure Practices in Kuwaiti Non-Financial Listed Companies' Annual Reports

The next section of the questionnaire investigated preparers' perceptions about the influence of various participants on disclosure practices and accounting policy choice in corporate annual reports in Kuwait. A number of potentially influential parties (tailored to the Kuwaiti context) were provided and respondents were again asked to evaluate these using a five-point Likert scale (where 1 = not influential at all and 5 = very influential); these perceptions are presented in Table 7.5. Kruskal-Wallis and Mann-Whitney tests were then carried out to examine the following null hypothesis relating to differences amongst the three preparer groups.

> ***H10: There is no significant difference among the groups of preparers in terms of the perceived influence of potential interested parties on Kuwaiti non-financial listed companies' financial disclosure practices.***

Table 7.5 demonstrates that the company's chairman (with a mean of 4.39), the board of directors (with a mean of 4.38) and the company's external auditor (with a mean of 4.32) were ranked by respondents overall as the most influential participants in terms of annual reporting in Kuwait. However, disaggregation of the results reveals some variation across the three preparer groups. For example, only accountants ranked a company's chairman as the most influential, while the board of directors was chosen by financial managers as most influential group and managers of accounting departments suggested that a company's external auditor provided the most influence. Financial managers, the chief accountant or the audit committee were considered by respondents to have only a moderate influence on the content of financial reports, but the group perceived as having the lowest influence according to all respondent groups was institutional investors. The p-value (based on the Kruskal-Wallis test) was significant in the case of the board of directors while the results of the Mann-Whitney test suggested that this was driven by a significant difference between financial managers (FM) and managers of accounting department (MAD) with financial managers generating the highest figure. This evidence might logically be attributed to the fact that financial managers in Kuwait typically work under the direct supervision of the board of directors whereas managers of accounting departments generally report at a lower level in the organisation. The null hypothesis *H10* suggesting that there is no significant difference between different groups of users is rejected in this case.

Table 7.5: Preparers' Views about Influence of Potential Interested Parties on Kuwaiti Non-Financial Listed Companies' Financial Disclosure Practices

Questions	No	Mean	SD	Group means			K-W P-value	M-W P-value		
				FM	MAD	AC		FM-MAD	FM-AC	MAD-AC
Q7a. Board of Directors	61	4.38	0.92	4.80	4.00	4.38	0.047*	0.021*	0.219	0.108
Q7b. Company's chairman	61	4.39	0.94	4.70	4.00	4.43	0.147	0.098	0.595	0.107
Q7c. Financial manager	60	4.27	1.12	4.33	4.20	4.27	0.432	0.782	0.208	0.620
Q7d. Chief accountant	61	4.02	1.02	4.00	3.91	4.05	0.975	0.948	0.990	0.823
Q7e. Company's accountants	60	3.63	1.23	3.30	3.30	3.80	0.482	0.939	0.390	0.346
Q7f. Audit committee	61	3.75	1.21	3.40	3.55	3.90	0.426	0.848	0.317	0.336
Q7g. Company's external auditor	62	4.32	0.99	4.20	4.55	4.29	0.636	0.745	0.720	0.369
Q7h. Institutional investors	61	3.38	1.17	3.00	3.18	3.53	0.216	0.568	0.086	0.434

Note: This table provides the mean and standard deviation (SD) for all respondents regarding questions about the source of influences on Kuwaiti companies' financial disclosure practices and the choice of accounting policies. FM = Financial Managers; MAD = Managers of Accounting Departments and AC = Accountants. Responses are based on a Likert Scale where the extremes are 1 = not influential at all; 5 = very influential. The table also provides a mean for each group and the p-value for the Kruskal-Wallis (K-W) and Mann-Whitney (M-W) tests. A * indicates significance at the 5% level on the basis of a two- tailed test.

Importantly, the results presented in Table 7.5 indicate that a company's chairman and board of directors are more influential on Kuwaiti firms disclosure choices than financial managers, suggesting that they may exert substantial influence on disclosure policies despite both being directly responsible for the accounting function. One possible explanation for this is that financial managers in Kuwait are typically appointed by the company chairman and, like the chief accountant (ranked only fifth most influential) have limited power in practice, despite their detailed knowledge. This pattern is consistent with the results of Kribat (2009) who found that the board of directors was the most influential in terms of the content of Libyan banks' annual reports. However, the result of is not consistent with previous studies in other developing countries such as those of Abu-Nassar and Rutherford (1996) in Jordan and Yaftain and Mirshekary (2005) in Iran which reported that the board of directors have only a modest influence on decision-making of this type, with external auditors ranked as the most influential group. In addition, Ho and Wong (2003) in Hong Kong found that the chief financial officer or finance director the strongest influence, suggesting that the role played by key groups in financial reporting differs across developing nations.

7.3.5 The Influence of External Factors on Financial Disclosure Practices in Kuwaiti Non-Financial Listed Companies

As discussed in Chapter 2 of this thesis, the government in Kuwait has emphasised the importance of accounting for the economic system as a whole and the reporting behaviour of KSE-listed firms is now subject to regulation stemming from three government-controlled sources: Company Law, Stock Exchange Law and Ministerial Resolutions. These regulations and rules are likely to influence financial reporting practices and accounting policy choices, but a number of other external influences have also been investigated in the literature, in particular: IFRS; academics; the need for loan finance; and the practice of competitors in the same industry. All of these factors were suggested to the respondents who were again asked to indicate their view regarding the influence of each factor on the disclosure process using a five-point Likert scale (where 1 = not influential at all and 5 = very influential). Kruskal-Wallis and Mann-Whitney tests were used to test the following hypothesis:

> ***H11: There is no significant difference among the groups of preparers in terms of the perceived influence of particular specified factors on financial disclosure practices amongst Kuwaiti non-financial listed companies.***

As can be seen from Table 7.6, respondents indicated that the strongest influence on disclosure practices in Kuwaiti companies' annual reports is Stock Exchange Law, with a mean score of 4.39. One possible explanation for this finding is that the listing rules for the KSE require companies to meet a number of disclosure-related requirements (Naser et al. 2003); given the exchange's power to block/suspend and penalise trading, its regulations thereby strongly influence disclosure practices adopted in practice annual reports.[87] The findings are consistent with results by Ho and Wong (2003) who reported that the stock exchange is the most important influential factor for firms based in Hong Kong.

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[87] The KSE law and listing rules were discussed in detail in Chapter 2, Section 2.5.1.2.

Table 7.6: The Influence of External Factors on Financial Disclosure Practices in Kuwaiti Non-Financial Listed Companies' Annual Reports

Questions	No	Mean	SD	Group means			K-W P-value	M-W P-value		
				FM	MAD	AC		FM-MAD	FM-AC	MAD-AC
Q8a. Company law	61	4.34	0.93	4.20	4.27	4.40	0.929	0.922	0.921	0.767
Q8b. Stock Exchange law	59	4.39	0.93	4.30	4.45	4.39	0.599	0.714	0.766	0.357
Q8c. Ministerial industry law	59	3.95	1.25	4.20	3.20	4.08	0.270	0.172	0.405	0.191
Q8d. Proposals by academics	58	3.14	1.23	2.70	3.00	3.29	0.333	0.685	0.178	0.423
Q8e. International financial reporting standards (IFRS)	60	4.37	0.94	4.20	4.50	4.38	0.759	0.759	0.985	0.488
Q8f. The need for equity and loan finance	58	4.14	0.91	3.80	4.18	4.22	0.432	0.403	0.221	0.979
Q8g. Competitors in the same industry	59	3.76	1.13	3.50	3.82	3.82	0.595	0.533	0.317	0.845

Note: This table provides the mean and standard deviation (SD) for all respondents regarding questions about the influences of regulatory and environmental factors on financial disclosure practices and accounting polices within Kuwaiti Companies' annual reports. FM = Financial Managers; MAD = Managers of Accounting Departments and AC = Accountants. Responses are based on a Likert Scale where 1 = not influential at all; 5 = very influential. The table also provides means for each group and the two-tailed p-value for the Kruskal-Wallis (K-W) and Mann-Whitney (M-W) tests.

International Financial Reporting Standards (IFRS) and company law closely followed exchange requirements in mean score, registering 4.37 and 4.34 respectively. Other factors such as the need for equity and loan finance, ministerial industry law, and competitors were ranked as less influential factors.

When the results were disaggregated, however, it was noticeable that while one specific preparer group (financial managers) indicated stock exchange law as the most influential factor, the managers of accounting departments identified IFRS, while the accountants suggested company law. Although these findings point to some divergence of opinion, they are consistent with evidence presented in Table 7.3 where financial managers viewed the stock exchange as the most important user group. Proposals by academics were ranked as the least influential factor, with a mean of 3.14; this finding is also consistent with the evidence in Table 7.3, where academics were ranked as the least important user group by preparers, suggesting that there is a gap between the theory proposed by academics and the operational practice of accounting in Kuwait. This might partially be explained by the limited academic research culture in Kuwaiti universities.

There were no significant differences in responses amongst preparer groups with respect to the influence of external factors on disclosure practices in Kuwaiti companies. The p-values from both the Kruskal-Wallis and the Mann-Whitney tests were all greater than 0.05; there is therefore no support for rejection of hypothesis *H11*.

7.3.6 The Quality and Quantity of Disclosure in Kuwaiti Non-Financial Listed Companies' Annual Reports

The next set of questions was designed to explore the perceptions of preparers regarding quantitative and qualitative aspects of disclosure in Kuwaiti companies' annual reports. In this context respondents were asked to evaluate the quantity and quality[88] of financial disclosure. As in the previous section, a five-point Likert scale was used (where 1 = very weak and 5 = excellent). Table 7.7 outlines the responses to this question. Kruskal-Wallis and Mann-Whitney statistics were employed to test the following related hypothesis.

> ***H12: There is no significant difference among the perceptions of preparer groups in terms of the quality and quantity of financial disclosure in Kuwaiti non-financial listed companies' annual reports.***

Inspection of Table 7.7 reveals that the recorded means were all greater than 3.5 suggesting that preparer groups were generally satisfied with the quality and quantity of financial disclosure in Kuwaiti companies' annual reports. Overall, the understandability of information was the most satisfactory factor, with a mean of 4.13 although accountants expressed slightly greater satisfaction with the comparability criteria. The results also indicate, however, that preparers were more satisfied with the quality rather than the quantity of disclosure information in Kuwaiti companies' annual reports; the means for the four aspects of the former ranged from 4.13 to 3.75, whilst the latter generated a figure of 3.67. The results of the Kruskal-Wallis test suggest there were no significant differences in opinion at the 5% level amongst preparer groups. At the 10% level, however, there was evidence of a divergence of opinion regarding comparability, with a noticeably higher average score for the accountant groups. However, on the basis of the normal 5% significant criteria in studies of this nature, hypothesis H12 cannot be rejected.

[88] The characteristics included in this section were drawn from the IASC Conceptual Framework for the Preparation and Presentation of Financial Statements issued in 1989. The use of this framework rather than the 2010 framework was explained in Chapter 2 as reflecting the Kuwaiti accounting profession limited ability to keep up with developments; accountants in Kuwait are generally not familiar with new framework adopted in 2010 and the 1989 document is the one most relevant in practice.

Table 7.7: Preparers' Views about the Quality and Quantity of Financial Disclosures in Kuwaiti Non-Financial Listed Companies' Annual Reports

Questions	No	Mean	SD	Group means			K-W P-value	M-W P-value		
				FM	MAD	AC		FM-MAD	FM-AC	MAD-AC
Q9a. Understandability of information	61	4.13	0.94	4.10	4.36	4.08	0.534	0.335	0.843	0.347
Q9b. Relevance of information	61	4.03	1.00	3.90	4.09	4.05	0.698	0.539	0.450	0.893
Q9c. Reliability of information	61	3.75	0.98	3.50	3.36	3.93	0.114	0.568	0.122	0.113
Q9d. Comparability of information	61	3.92	0.94	3.60	3.55	4.10	0.079	0.907	0.073	0.104
Q9e. Quantity of information	61	3.67	1.03	3.50	3.45	3.78	0.421	0.903	0.309	0.325

Note: This table provides the mean and standard deviation (SD) for all respondents regarding questions about the quantity and quality of disclosure information in Kuwaiti Companies' annual reports. FM = Financial Managers; MAD = Managers of Accounting Departments and AC = Accountants. Responses are based on a Likert Scale where 1 = very weak; 5 = excellent. The table also provides means for each group and the p-value for the Kruskal-Wallis (K-W) and Mann-Whitney (M-W) tests.

7.3.7 The Purpose of Kuwaiti Non-Financial Listed Companies' Annual Reports

This section of the questionnaire sought respondents' views about the purpose of financial reports. The respondents were asked to indicate their opinions regarding a list of ten possible purposes of annual reports commonly examined in previous literature (e.g. Al-Mubarak, 1997 and Kribat, 2009). In this regard the respondents were asked to indicate the perceived degree of importance again using a five-point Likert scale (where 1 = not important at all and 5 = very important). Table 7.8 summarises the responses in each case and the results of Kruskal-Wallis and Mann-Whitney tests employed to examine the following related hypothesis:

> ***H13: There is no significant difference in perception among the groups of preparers regarding the purpose of Kuwaiti non-financial listed companies' annual reports.***

The results, summarised in Table 7.8, suggest that the respondents as whole believed all the stated purposes to be important, as the overall means were greater than 4 in each case. "Providing information to investors to help them make investment decisions" was rated the most important purpose of annual reports, with an overall mean score of 4.43 while the second most important was "to provide information to creditors to assist them with future lending decisions" (with mean of 4.38) and "to help investors to evaluate company performance over time" was ranked with a reported mean of 4.36.

These results imply that preparers saw annual reports as being of more importance to external parties than for internal management. This finding is consistent with evidence presented in Table 7.3 where investors and creditors were ranked as the second and fourth most important groups of users.

Table 7.8: Preparers' Views about the Purposes of Kuwaiti Non-Financial Listed Companies' Annual Reports

Questions	No	Mean	SD	Group means			K-W P-value	M-W P-value		
				FM	MAD	AC		FM-MAD	FM-AC	MAD-AC
Q10a. Providing information to investors to help them make investment decisions	61	4.43	1.10	4.40	4.73	4.35	0.637	0.505	0.899	0.347
Q10b. Providing information to investors to assist them in monitoring their investment	61	4.31	1.09	4.00	4.4	4.35	0.224	0.164	0.125	0.674
Q10c. To help investors make comparisons across companies	61	4.26	1.03	4.00	4.27	4.33	0.491	0.456	0.246	0.847
Q10d. To help investors to evaluate company performance over time	61	4.36	0.88	4.00	4.64	4.38	0.085	0.049*	0.190	0.134
Q10e. To help to predict dividends	61	4.31	0.99	4.10	4.64	4.28	0.339	0.148	0.451	0.311
Q10f. To provide information to creditors to assist them with future lending decisions	61	4.38	0.80	4.40	4.45	4.35	0.547	0.630	0.294	0.750
Q10g. To help creditors to assist them in monitoring their loans	61	4.21	0.95	4.20	4.45	4.15	0.632	0.798	0.631	0.422
Q10h. To provide information to creditors regarding the company	61	4.21	0.91	4.30	4.27	4.18	0.899	0.956	0.809	0.703
Q10i. To help managers to assist them in running their business	61	4.08	0.97	3.80	4.27	4.10	0.218	0.134	0.143	0.579
Q10j. To help discharge accountability	61	4.18	0.99	4.30	4.09	4.18	0.893	0.681	0.693	0.900

Note: This table provides the mean and standard deviation (SD) for all respondents regarding questions about the purpose of Kuwaiti Companies' annual reports. FM = Financial Managers; MAD = Managers of Accounting Departments and AC = Accountants. Responses are based on a Likert Scale where 1 = not important at all; 5 = very important. It also provides the mean for each group and the p-value for the Kruskal-Wallis (K-W) and Mann-Whitney (M-W) tests. A * indicates significance at the 5% level on a two-tailed basis.

These results might be explained by the fact that economic policies in Kuwait pay specific direct attention to investors, resulting in a large volume of regulations aimed at increasing the transparency of the market, improving levels of disclosure and attracting local and foreign investors (Almujamed, 2011). [89] There were some inter-group differences in responses. For example, two of the three groups of preparers (financial managers and managers of accounting departments) believed that the most important purpose of financial reports is to provide “information to investors to help them make investment decisions”, whereas the accountants believed that “to help investors to evaluate company performance over time” was their main role.

Regarding the extent to which the differences among the preparers’ responses were statistically significant, the Mann-Whitney test revealed significant differences at the 5% level between financial managers and managers of accounting departments regarding the role of the report in helping investors evaluate performance over time. Given the significance at 10% level of the Kruskal-Wallis statistic in this case, hypothesis *H13* can be rejected.

7.3.8 The Influence of Specific Problems in Kuwaiti Non-Financial Listed Companies’ Annual Report disclosure

The concept of decision usefulness requires preparers to present financial reports that contain all the information necessary to help users make informed decisions (Ijiri, 1983). The more disclosure provided by a company, the more informed and ‘better’ decisions the users can make; this should in turn help to create more efficient securities markets and healthier corporations (Glautier and Underdown, 2001). However, there are a number of factors that in practice restrict disclosure levels in financial reports (Mohannad and Soheila,

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[89] Further discussion of this matter is provided in Chapter 2 of this thesis.

2009); a number of these were identified from careful study of the previous literature and respondents asked to indicate their opinion regarding the importance of each. A five-point Likert scale was used again (where 1 = not important at all and 5 = very important) and Table 7.9 summarises the responses. The following related hypothesis was employed and examined via Kruskal-Wallis and Mann-Whitney tests.

> ***H14: There is no significant difference among the groups of preparers in terms of the perceived significance of specific problems influencing disclosures in Kuwaiti non-financial listed companies' annual reports.***

Inspection of Table 7.9 reveals that all seven factors yielded mean responses above the midpoint of 3, suggesting that a range of problems are seen as impacting on disclosure practices in Kuwaiti companies' annual reports. Respondents ranked weaknesses in accounting practices as the most important, with an overall mean score of 4.23; this was closely followed by "lack of a mechanism for Kuwaiti authorities to enforce accounting rules" with a mean of 4.22. An explanation for these results is likely to lie in the fact that the state of Kuwait has a weak and generally inactive professional accounting body, with no organisation regulating the activities of the accounting profession (Al-Shammari, 2008).[90] Of the three sub-groups only the accountants ranked weaknesses in accounting practices as the most important problem influencing disclosure in annual reports (with a mean of 4.28); financial managers (FM) and managers of accounting departments (MAD) believed that the lack of an enforcement mechanism is the most significant problem, with means of 3.9 and 4.64 respectively. However, the results of the Kruskal-Wallis and Mann-Whitney tests indicated that there were no significant differences between the views of the three preparer groups, therefore this evidence does not support the rejection of the *H14* hypothesis.

[90] For more detail see Chapter 2, Section 2.5.2.

Table 7.9: Preparers' Views about the Influence of Specific Problems in Kuwaiti Non-Financial Listed Companies' Annual Report Disclosures

Questions	No	Mean	SD	Group means			K-W P-value	M-W P-value		
				FM	MAD	AC		FM-MAD	FM-AC	MAD-AC
Q11a. Lack of professional or qualified accountants	61	4.16	1.19	3.70	4.64	4.15	0.438	0.301	0.703	0.267
Q11b. Weaknesses in accounting practices	60	4.23	1.13	3.60	4.7	4.28	0.222	0.139	0.267	0.303
Q11c. Lack of knowledge of external users' needs	60	3.82	1.11	3.40	4.27	3.79	0.260	0.124	0.422	0.227
Q11d. Lack of an enforcement mechanism for Kuwaiti authorities to enforce accounting rules	60	4.22	1.01	3.90	4.64	4.18	0.301	0.226	0.711	0.187
Q11e. Fear of misuse of extra published information by competitors	61	3.97	1.02	3.70	4.36	3.93	0.351	0.304	0.861	0.150
Q11f. The cost of information preparation and publication	61	3.41	1.17	3.30	3.45	3.43	0.864	0.666	0.607	0.968
Q11g. Lack of demand for information	61	3.66	1.11	3.50	3.55	3.73	0.807	0.972	0.617	0.645

Note: This table provides the mean and standard deviation (SD) for all respondents regarding questions about potential problems restrict disclosure in Kuwaiti Companies' annual reports from point of view of FM = Financial Managers; MAD = Managers of Accounting Departments and AC = Accountants. Responses are based on a Likert Scale where 1 = not important at all; 5 = very important. It the table also provides the mean for each group and the p-value for the Kruskal-Wallis (K-W) and Mann-Whitney (M-W) tests.

7.3.9 Problems Restricting the Use of Kuwaiti Non-Financial Listed Companies' Annual Reports

Having looked at factors impacting the generation of accounting disclosures, the next section of the questionnaire sought to shed light on the potential problems that may influence the use of the information. The possible problems investigated were those suggested in the extant literature as well as deficiencies relating to the characteristics of financial reports as set out in the 1989 IASC Conceptual Framework; these are: understandability, relevance, reliability, and comparability. In this context the respondents were asked to indicate their opinions about particular problems that may influence the use of Kuwaiti companies' annual reports. A five-point Likert scale was used (where 1= not important at all and 5 = very important) to generate the results summarised in Table 7.10. As before, Kruskal-Wallis and Mann-Whitney tests were employed to examine differences across preparer groups and in this context the relevant hypothesis was:

> ***H15: There is no significant difference among the groups of preparers in terms of the perceived significance of problems restricting the use of Kuwaiti non-financial listed companies' annual reports.***

Table 7.10 reports that the overall means were all greater than 3.5, suggesting that respondents believed all the problems to be significant for users of annual reports. The delay in publishing annual reports generated the highest mean of 4.2; this was followed by lack of compliance with IFRS (mean = 4.05). While the cause of delay was rated highest by both the financial managers and the accountants, managers of accounting departments ranked poor compliance with IFRS as the most significant, with delays only fifth on their list.

Table 7.10: Preparers' Views about Problems Restricting the Use of Kuwaiti Non-Financial Listed Companies' Annual Reports

Questions	No	Mean	SD	Group means			K-W P-value	M-W P-value		
				FM	MAD	AC		FM-MAD	FM-AC	MAD-AC
Q12a. Difficulty in obtaining annual reports	61	3.85	1.22	3.40	3.82	3.98	0.43	0.406	0.197	0.963
Q12b. Delay in publishing annual reports	61	4.20	1.00	4.20	4.00	4.25	0.97	0.847	1.000	0.837
Q12c. Difficulty in understanding the information	61	4.02	1.13	4.10	3.91	4.03	0.773	0.993	0.579	0.647
Q12d. Lack of relevance of the information	60	4.02	0.97	3.70	4.36	4.00	0.237	0.162	0.562	0.152
Q12e. Lack of reliability of the information	61	4.03	1.00	3.50	4.45	4.05	0.099	0.077	0.227	0.089
Q12f. Difficulty of comparability of the information	61	3.98	0.97	3.60	4.18	4.03	0.455	0.246	0.362	0.584
Q12g. Poor compliance with International Financial Reporting Standards	61	4.05	1.12	3.40	4.45	4.08	0.145	0.077	0.191	0.233

Note: This table provides the mean and standard deviation (SD) for all respondents regarding questions about potential problems for users of Kuwaiti Companies' annual reports. FM = Financial Managers; MAD = Managers of Accounting Departments and AC = Accountants. Responses are based on a Likert Scale where 1 = not important at all; 5 = very important. The table also provides the mean for each group and the p-value for the Kruskal-Wallis (K-W) and Mann-Whitney (M-W) tests.

Notwithstanding these differences, the overall results suggest that preparers consider delays in publishing annual reports in Kuwait to affect the usefulness of the information in a substantive way. However, the concern over poor compliance with IFRS suggests that the content of the annual reports is also an issue for users; this latter result may reflect the underdeveloped nature of the accounting profession in Kuwait, and accountants' lack of power to improve compliance levels. The evidence supports the findings reported in Chapter 6 of this thesis which indicated that the level of compliance with IFRS disclosure requirements by Kuwaiti non-financial-listed companies was still low even though these standards have in theory been mandatory in the country for more than 20 years. In order to resolve this problem it may be useful for Kuwaiti authorities to consider ways to improve the confidence of preparers and run training programmes on IFRS implementation.

The lack of reliability of information was ranked by respondents as the third most significant problem for users of annual reports, suggesting preparers believe users of annual reports to have doubts regarding the reliability of information presented in annual reports even though they are all subject to external audit. Difficulty in understanding the information provided and a lack of relevance were jointly ranked by the respondents as the fourth most significant problems for users of annual reports. These two issues might obviously be related and almost certainly reflect concerns about educational deficiencies in Kuwait as alluded to earlier. Respondents ranked difficulty in obtaining annual reports as the least significant problem for users; this perception might reflect preparers' beliefs that their annual reports are available to users whenever they want.[91]

It seems reasonable to conclude that preparers perceive a wide range of problems regarding the current state of Kuwait annual reports. From a decision-usefulness perspective, it

[91] However the researcher's own experiences in trying to obtain annual reports for this study suggest that this is unrealistic.

therefore appears reasonable to argue that those overseeing the reporting process in the nation need to take significant remedial action.

According to the Kruskal-Wallis test there were a number of significant differences at the 10% level between members of the preparers group but not at the conventional 5% level and so *H15* hypothesis cannot be rejected.

Consideration of Tables 7.9 and 7.10 together indicates low mean figures for financial managers regarding both the influences of specific problems on disclosure in Kuwaiti companies' annual reports and problems restricting the use of the latter. A possible explanation for this pattern is that financial managers in Kuwait are more responsible for companies' annual reports than are managers of accounting departments and accountants; financial managers therefore try to give the impression that their financial reporting processes are going well and prefer not to dwell on difficulties problems which may impact on the case of use.

7.3.10 Factors that might improve the Usefulness of Kuwaiti Non-Financial Listed Companies' Annual Reports

The next section of the questionnaire elicited opinions regarding factors that might improve the usefulness of Kuwaiti companies' annual reports. The preparers were asked to evaluate five statements, with the selection of factors again based on careful examination of previous literature (e.g. Al-Mubarak, 1997 and Almahmoud, 2000) and indicate their agreement or disagreement on a five-point Likert scale (where 1 = strongly disagree and 5 = strongly agree). Table 7.11 summarises responses to individual proposed factors. Kruskal-Wallis and Mann-Whitney tests were used to investigate whether there were significant differences between preparer groups in terms of the following hypothesis:

H16: There is no significant difference among the groups of preparers in terms of perceptions about specific factors that might improve the usefulness of Kuwaiti non-financial listed companies' annual reports.

The whole sample results in Table 7.11 indicate that each of the issues raised was acknowledged as important by the respondents, with the overall means all greater than 4. Overall, respondents most strongly agreed that the inclusion of financial ratios (such as profitability, gearing ratios and earning per share) measuring company performance (with overall mean of 4.67) would aid usefulness. This finding is consistent with the result reported in Table 7.8 where preparers agreed that the provision of information to investors to help them to make investment decisions was the most important purpose of financial reports. The respondents also expressed strong support for regulation preventing insiders getting early access to information, with an overall mean score of 4.52. This finding is consistent with evidence reported in Tables 7.3 and 7.8 where preparers indicated that the main propose of annual reports is the provision of useful information.

Further evidence of an investor focus is evident in the need for information about a company's share capital such as book value, market value and volume, generating the third highest mean of 4.43; this was followed by the need for improvements in the timeliness of reporting. Table 7.10 revealed that respondents thought the delay in publishing annual reports was the most significant problem for users of annual reports; whilst not in first place here, the mean of 4.23 confirms the existence of substantial concern about this issue. The least important information requirement as perceived by participants related to the danger of information leaks caused by the lag between the authorisation of annual financial statements and their publication. However, the mean was still above 4, pointing to further concern about the information efficiency of the KSE.

With regard to differences of opinion between the preparer groups, the Kruskal-Wallis test revealed a significant difference at the 5% level regarding the need to include some financial ratios in annual reports. The result of the Mann-Whitney test suggested that this was driven by the (relatively) low mean of 4.53 from the accountants. This evidence, which supports rejection of the *H16* hypothesis, is consistent with accountants i.e. those closest to the day-to-day recording of financial information having a more measured view of the potential of ratio analysis to transform the value of accounting information.

Table 7.11: Preparers' Views about Factors that might improve the Usefulness of Kuwaiti Non-Financial Listed Companies' Annual Reports for Decision-Making Purposes

Questions	No	Mean	SD	Group means			K-W P-value	M-W P-value		
				FM	MAD	AC		FM-MAD	FM-AC	MAD-AC
Q13a. The annual reports of a company should include some financial ratios (e. g. profitability, gearing ratios and earnings per share ...) to help measure company performance	60	4.67	0.60	5.00	4.90	4.53	0.02*	1.000	0.025*	0.106
Q13b. The annual report of a company should include information about its shares (e. g. book value, market value and volume of shares traded during the year)	60	4.43	0.85	4.80	4.40	4.35	0.30	0.466	0.141	0.778
Q13c. Length of time for publication of financial statements makes such information unimportant	60	4.23	0.87	4.30	3.90	4.30	0.56	0.489	0.971	0.317
Q13d. There needs to be stronger regulation to prevent insiders from benefitting from financial information before other investors in the market	60	4.52	0.68	4.70	4.70	4.43	0.43	1.000	0.367	0.367
Q13e. The time lag between the authorisation of annual financial statements and their publication is too long and may result in information leakage	60	4.22	0.88	4.10	4.20	4.25	0.86	0.725	0.788	0.684

Note: This table provides the mean and standard deviation (SD) for all respondents regarding questions about factors might improve Kuwaiti Companies' annual reports from a decision-making point of view. FM = Financial Managers; MAD = Managers of Accounting Departments and AC = Accountants. Responses are based on a Likert Scale where 1 = strongly disagree; 5 = strongly agree. The table also provides the mean for each group and the p-value for the Kruskal-Wallis (K-W) and Mann-Whitney (M-W) tests. A * indicates significance at the 5% level on the basis of a two- tailed test.

7.4 Discussion and Conclusion

One of the main objectives of this study is to examine how preparers of corporate annual reports evaluate financial disclosure practices in Kuwaiti non-financial listed companies' annual reports. This issue reflects the decision-usefulness approach adopted for this research in the context of a developing country with a fast emerging capital market that has experienced remarkable growth. With respect to perceived the importance of companies' annual reports to each of group of users and the relative importance of various sections of the corporate annual report, the results presented in this chapter indicate that the selected preparer groups consider management and the board of directors to be the most important users, with income statements the most important section of the reports themselves. In terms of participants' perceptions regarding the parties and factors that impact upon disclosure practices, a company's chairman was ranked by preparers as the main internal influence, while the stock exchange was rated as the most important external factor. With respect to the qualitative characteristics of accounting information, the understandability of information was considered most crucial, with the key purpose of annual reports being to provide information to investors to help them make investment decisions.

Finally, with respect to the problems that restrict disclosure in annual reports and the factors that could improve their usefulness, the results indicate that the respondents ranked 'weaknesses in accounting practices' and providing key financial ratio information respectively as most important.

As the present study is set within a decision-usefulness framework, the findings should be of assistance to preparers, users and regulators in aiding understanding of the corporate disclosure environment in Kuwait. In term of differences across the three sub-groups of preparers identified here (financial managers, managers of accounting departments and accountants), the results demonstrate a degree of unanimity in perceptions, although the views of the first of the three differed in terms of the types of restriction that impact on disclosure usefulness.

Having investigated the way in which preparers view Kuwaiti practices, the next chapter shifts the focus to users by presenting the results from a survey examining their perceptions. The results are presented in the context of the evidence provided in this chapter concerning preparers' views, to investigate the extent to which the opinions agree and diverge.

Chapter 8

Questionnaire Survey Analysis and Discussion: Perceptions of Users Regarding the Usefulness of Kuwaiti Non-Financial Listed Companies' Annual Reports

8.1 Introduction

The main purpose of this chapter is to investigate users' perceptions regarding how, and to what extent, the annual reports of Kuwaiti companies are useful; the analysis includes comparison of this evidence with the preparers' views as outlined in the previous chapter. The results presented in this chapter are based on data collected via a questionnaire designed so as to emphasise decision-usefulness that was sent to three user groups. The chapter outlines the findings of the questionnaire analysis and discusses the differences in perceptions amongst the three groups of users regarding Kuwaiti disclosure practices. This chapter is organised as follows. The second section outlines the distribution and collection of the questionnaire. The third section provides information about the respondents before outlining and discussing the key results. The fourth section concludes the chapter by summarising the evidence and implications.

8.2 Questionnaire Distribution and Collection

In order to increase the response rate, the same steps adopted in Chapter 7 for collecting preparers' responses were followed by the researcher. In order to evaluate users' views regarding the usefulness of financial reporting, three groups were chosen to participate in this part of the study: (i) individual investors; (ii) institutional investors; and (iii) financial analysts. Once again the selection of target groups was based on the literature (e.g. Marston, 1986; Ahmad, 1988; Marston, 1993; Naser and Nuseibeh, 2003; Naser et al. 2003; Al-Razeen, 2004; Mirshekary and Saudagaran, 2005; and Zoysa and Rudkin, 2010) as well as the Kuwaiti environment and the decision-usefulness foundation of the thesis. The recipients were therefore expected to use the annual reports on a regular basis and thus to possess the knowledge and experience necessary to complete the survey on a meaningful basis. Two methods of contacting individual investors were employed: approaches at the KSE and via direct personal contact. The institutional investors were selected from a 2010 investor guide for listed companies and the researcher visited these companies and handed the questionnaires to them personally. Financial analysts were chosen from brokerage firms, commercial banks, investment companies and investment consulting centres.

Table 8.1 details the number of questionnaires distributed, useable responses and response rates for each of the groups surveyed. In total 160 questionnaires were distributed and 80 were returned. Five of the latter were excluded because they proved to be unusable due to incompleteness (four from individual investors and one from institutional investors), reducing the overall response rate to 47%; individual investors provided the highest response rate of 49% with the lowest rate of 44% coming from the institutional investors.

Table 8.1: Subject users Groups and Response Rates

Group	Number Distributed	Useable Number of Responses	Response Rate
Institutional Investors	25	11	44%
Individual Investors	80	39	49%
Financial Analysts	55	25	45%
Total	**160**	**75**	**47%**

Note: This table reports the number of questionnaires distributed and useable responses across the user groups.

The final step in the questionnaire process involved the analysis of the survey data, following the same process adopted when analysing the preparers' questionnaire (see Chapter 7, section 7.2). Again, Cronbach's Alpha Test was carried out on responses[92] with results for the three user groups (institutional investors, individual investors, and financial analysts) of 0.95, 0.79, and 0.97 respectively. The results therefore suggest an acceptable level of internal consistency in preparers' survey results. The validity of the questionnaires employed in this study was examined by gleaning input from the range of professionals and experienced researchers who participated in the pilot study.[93]

[92] The justification for using this test to assess the reliability of questionnaire responses was discussed in Chapter 5, Section 5.3.1.3.
[93] For more information about validity of questionnaire see Chapter 5, Section 5.3.2.2.

8.3 Questionnaire Findings

8.3.1 Background Information on Target Users Groups

The first part of the questionnaire dealt with respondents' background; in this regard, they were asked questions regarding their occupation, experience, qualifications and major academic subject. The answers to these questions are reported in Table 8.2. Inspection of the table reveals that the majority of respondents had experience of more than a year (35% had 1-to-5 years, 31% had 6-to-10 years and 27% had more than 10 years) suggesting a reasonable level of experience and knowledge amongst those taking part in the study. The respondents were well educated, as 72% held a bachelor degree, 16% had a master degree and 11% had a PhD. The majority of the respondents (71%) were qualified in the accounting and/or finance area, suggesting a substantive degree of knowledge and understanding of the information presented in annual reports.

Table 8.2: Demographic Information

	Subject Group			
Description	**Individual Investors**	**Institutional Investors**	**Financial Analysts**	**Total Sample**
Sample Size				
Number	39	11	25	75
Work Experience (%)				
Less than 1 year	10	0	4	7
1 to 5 years	51	18	16	35
6 to 10 years	10	36	60	31
More than 10 years	28	45	20	27
Educational qualification (%)				
Less than Bachelor	3	0	0	1
Bachelor	64	55	92	72
Masters	15	36	8	16
PhD	18	9	0	11
Major subject (%)				
Accounting and/or Finance	64	67	88	71
Management	18	18	8	15
Marketing	5	0	4	4
Other	13	18	0	9

Note: This table depicts demographic information for respondents in each of the three user groups and in the sample as a whole.

8.3.2 The Purposes of Kuwaiti Non-Financial Listed Companies' Annual Reports

Company annual reports are used by several different parties, for a range of purposes including investing and lending decision-making (IASC, 1989). In order to investigate users' views in this context in Kuwait, ten possible purposes were provided to the respondents and they were asked to indicate the importance that they attach to each one.[94] A five-point Likert scale was used, where 1 = not important at all and 5 = very important. A summary of the participants' responses is presented in Table 8.3 along with Kruskal-Wallis and Mann-Whitney statistics; the following null hypothesis underpins this analysis:

> ***H17: There is no significant difference among user groups in terms of the perceived purpose of Kuwaiti non-financial listed companies' annual reports.***

The respondents attached the highest importance to the proposal that the purpose of corporate annual reports is "to provide information to investors to help them making investment decisions", with an overall mean score of 4.47. The second highest mean score related to the proposals that the purposes of Kuwaiti companies' annual reports are to "provide information to investors to assist them in monitoring their investments", to "help investors to evaluate company performance over time" and to "provide information to creditors regarding the company" all of which generated a mean response of 4.35. The suggestion that the purpose of annual reports is to "help investors make comparisons across companies" was next with a mean of 4.25. Examination of the disaggregated data revealed that two out of the three groups of users (individual investors and financial analysts) believed that "providing information to investors to help them make investment decisions" was the main purpose of annual report; in contrast, institutional investors rated "to help investors to evaluate company performance over time" most highly.

[94] As Chapter 5 explains the possible purposes were selected primarily on the basis of a review of previous literature (e.g. Al-Mubarak, 1997 and Kribat, 2009).

Table 8.3: Users' Perceptions about the Purpose of Kuwaiti Non-Financial Listed Companies' Annual Reports

Questions	No	Mean	SD	Group means			K-W P-value	M-W P-value		
				IDV	INS	FA		IDV-INS	IDV-FA	INS-FA
Q5 a. Providing information to investors to help them make investment decisions	75	4.47	0.88	4.38	4.36	4.64	0.341	0.875	0.190	0.215
Q5 b. Providing information to investors to assist them in monitoring their investment	75	4.35	0.88	4.31	4.18	4.48	0.425	0.526	0.388	0.225
Q5 c. To help investors make comparisons across companies	75	4.25	0.87	4.18	4.27	4.36	0.713	0.746	0.418	0.833
Q5 d. To help investors to evaluate company performance over time	75	4.35	0.74	4.33	4.45	4.32	0.885	0.754	0.900	0.643
Q5 e. To help to predict dividends	75	4.07	1.07	3.97	4.27	4.12	0.798	0.519	0.768	0.716
Q5 f. To provide information to creditors to assist them with future lending decisions	74	4.24	0.92	4.16	4.36	4.32	0.817	0.582	0.701	0.768
Q5 g. To help creditors to assist them in monitoring their loans	75	4.16	1.01	4.00	4.18	4.4	0.379	0.634	0.170	0.726
Q5 h. To provide information to creditors regarding the company	75	4.35	0.89	4.33	4.36	4.36	0.922	0.938	0.713	0.886
Q5 i. To help managers to assist them in running their business	75	4.15	0.91	4.10	3.91	4.32	0.573	0.576	0.555	0.313
Q5 j. To help discharge accountability	75	4.13	1.09	4.08	3.64	4.44	0.046*	0.130	0.181	0.012*

Note: This table provides the mean and standard deviation (SD) for all respondents regarding questions about the purposes of annual reports. IDV = Individual Investors; INS = Institutional Investors; and FA = Financial Analysts. Responses are based on a Likert Scale where 1 = not important at all; and 5 = very important. The table also provides the results of Kruskal-Wallis (K-W) and Mann-Whitney (M-W) tests. A */** indicates significance at the 5% / 1% level respectively on a two-tailed basis.

This evidence is consistent with the evidence of Naser and Abu Baker (1999) in Jordan and Al-Kater and Naser (2003) in Qatar who found that the main purpose of corporate disclosure is to provide information to investors and creditors to assist them in making investment decisions; there is thus a clear pattern in the findings across the Middle East in this regard[95]. Other purposes, such as helping to discharge accountability and to help managers in running their businesses are seen as being of less importance, in this study generating the lowest means of 4.13 and 4.15 respectively.

Comparing users' and preparers' opinions, the perceptions of users presented here are consistent with the preparers' views reported in Chapter 7 in relation to both the most and least important purposes of financial disclosure in Kuwaiti companies' annual reports. Regarding differences amongst users, the Kruskal-Wallis test result highlighted a significant difference (at the 5% level) in respondents' opinions about the importance that they attach to the proposal that the purpose of annual reports is to help discharge accountability. The Mann-Whitney test result indicates that this finding was driven by a significantly lower figure for institutional investors than financial analysts suggesting that the professional investor group are relatively more concerned with the decision usefulness properties of accounting information. In this case, therefore, the null hypothesis, *H17,* is rejected.

8.3.3 The Importance of Different Sources of Information for Decision-Making

A variety of alternative sources of information are available to users of corporate financial information in Kuwait, but the majority of previous studies have found that the formal annual report remains the most important[96]. The respondents here were given nine possible sources of information and asked to rate the importance of each on a five-point Likert scale

[95] These prior studies focus on the corporate sector as a whole, however, whereas the present study concentrates on non-financial companies.
[96] This body of work was discussed in Chapter 3, Section 3.6.

(where 1 = not important at all and 5 = very important). The responses to this question are summarised in Table 8.4. Kruskal-Wallis and Mann-Whitney tests were used to test the following related hypothesis:

> ***Hl8: There is no significant difference among the user groups in terms of the perceived importance they attach to various sources of financial information.***

As can be seen from Table 8.4, respondents ranked, by some distance, the corporate annual report (online and/or hard copy) of Kuwaiti companies as the most important source of information, with a mean score of 4.61; no other sources generated means of more than 4.2.

Table 8.4: Users' View about the Importance of Different Sources of Information for Decision-Making

Questions	No	Mean	SD	Group means			K-W P-value	M-W P-value		
				IDV	INS	FA		IDV-INS	IDV-FA	INS-FA
Q6 a. Annual reports (online and/or hard copy)	75	4.61	0.73	4.49	4.55	4.84	0.075	0.728	0.039*	0.076
Q6 b. Direct contact with company's management	75	3.81	1.18	3.44	4.18	4.24	0.028*	0.104	0.013*	0.823
Q6 c. Government publications	75	3.44	1.11	3.23	3.18	3.88	0.016*	0.952	0.009**	0.019*
Q6 d. Newspaper and magazine	74	3.64	1.13	3.72	3.36	3.63	0.495	0.223	0.760	0.443
Q6 e. Advisory services (e.g. accountant, broker, etc.)	75	3.93	1.08	4.00	3.64	3.96	0.391	0.196	0.914	0.276
Q6 f. Advice of friends	74	3.16	1.14	3.31	2.73	3.13	0.293	0.134	0.582	0.265
Q6 g. Trading units in commercial banks	74	3.46	1.26	3.26	2.91	4.00	0.020*	0.450	0.020**	0.013*
Q6 h. Personal knowledge about the company	75	4.13	0.99	4.10	3.91	4.28	0.461	0.665	0.358	0.252
Q6 i. Market rumours	75	2.97	1.31	3.08	4.55	2.92	0.709	0.425	0.622	0.780

Note: This table provides the mean and standard deviation (SD) for all respondents regarding questions about the importance of different sources of information for decision making. IDV = Individual Investors; INS = Institutional Investors; and FA = Financial Analysts. Responses are based on a Likert Scale where 1 = not important at all; and 5 = very important. The table also provides the results of Kruskal-Wallis (K-W) and Mann-Whitney (M-W) tests. A */** indicates significance at the 5% / 1% level respectively on a two-tailed basis.

Interestingly, the institutional investors ranked market rumours as being an equally important source of information (means 4.55), whereas this source of information was ranked as much less important by the other groups, with means close to the mid-point of 3. This finding suggests that when professional investors make their investment decisions, rumours are very important, a finding that suggests an underlying issue with the informational efficiency of developing market such as Kuwait.

Personal knowledge about the company ranked as the second most important source of information, with a mean of 4.13, followed by advisory services with a mean of 3.93. Direct contact with company's management, newspaper and magazine stores, trading units in commercial banks, and government publications were seen as being of more moderate in importance.

Market rumours (notwithstanding the previous point) and the advice of friends were regarded by respondents overall as the least important source of information, with means of 2.97 and 3.16 respectively, and the overall picture emerging from Table 8.4 is of a preference for formal sources of information in Kuwait. One possible explanation for this is that a majority of the respondents are well educated, with experience typically between 6 to 10 years; it is thus unlikely that friends' advice or market rumours would be a major influence on behaviour, although again the institutional investor results run counter to this point. That newspaper and magazines are not seen as a key information source might be explained by the fact that corporate information from this source is of little benefit to the user groups in Kuwait as the coverage of business activity is often thin and of a general nature.

In general, the findings here are consistent with previous studies of developed (e.g. Anderson, 1981; Epstein and Pava, 1993) and developing countries (e.g. Abu-Nassar and Rutherford, 1996; Almahmoud, 2000; Hossain, 2000; Nasser et al., 2003; Naser and Nuseibeh, 2003; Mirshekary and Saudagaran, 2005; Bribesh, 2006; Al-Khater, 2007; Zoysa and Rudkin, 2010; and Alzarouni et al., 2011) where annual reports have been found to be the most important source of information for users making economic decisions.[97]

With regard to variation across groups of users, the results of the Kruskal-Wallis test indicate that there were significant differences between the respondents' opinions in relation to annual reports (although only at the 10% level), direct contact with company's management, government publications, and trading units in commercial banks. The complementary Mann-Whitney tests reveal that behind these results lay significant differences at the 5% level between individual investors (IDV) and financial analysts (FA), and institution investors (INS) and financial analysts (FA); clearly the FA responses differed markedly from the rest of the sample. For example, the mean score for the annual report from financial analysts was 4.84, compared to 4.49 and 4.55 for the IDV and INS groups respectively. One possible explanation for this evidence is that financial analysts need up-to-date financial information to analyse company performance on a professional basis, therefore they give particular high scores for corporate annual reports. In any case, the results support rejection of null hypothesis *H18*.

8.3.4 The Importance of Different Sections of Kuwaiti Non-Financial Listed Companies' Annual Reports for Decision-Making

The next section of the questionnaire was intended to explore the opinions of the three groups of users regarding the importance of different sections of Kuwaiti firms' annual reports. The respondents were asked to rate the importance of eight sections of the corporate annual report on a five-point Likert scale (where 1= not important at all and 5= very important); the responses are shown Table 8.5 which also displays Kruskal-Wallis and

[97] Although, Pike et al. (1993) found the annual report to be the third most important source of company information in the UK and Germany, while Bence et al. (1995) found it to be the second most important; more recently Chen and Hsu (2005) found annual reports to be lower in importance than several other information sources in Hong Kong.

Mann-Whitney tests employed to test for differences between user groups; in this context the following hypothesis was tested:

> ***H19: There is no significant difference among user groups in terms of the importance that they attach to different sections of Kuwaiti non-financial listed companies' annual reports for decision-making.***

Table 8.5 evidences that the income statement was ranked by respondents as the most important section of Kuwaiti corporate annual reports, with an overall mean of 4.69, followed by the balance sheet and notes to the financial statements (4.68 and 4.56 respectively). However, institutional investors suggested that the balance sheet is most important, followed by notes to the financial statements and then the income statement, indicating a different ordering of priorities. The chairman's message was ranked by all three groups of users as the least important section of the corporate annual report with a mean of 3.64, suggesting a degree of cynicism in Kuwait about its relevance. Other sections, the director's report, auditor's report, statement of change in equity and the cash flow statement fell in between these extremes. The dominance of the income statement, balance sheet, and notes to the financial statements is not surprising since these three sections provide the tangible information likely to be needed for users regarding their investment decision. This finding is also consistent with the results of Table 7.4 where preparers ranked income statements as the most important part of the annual report as well as the evidence in several previous studies of both developed (e.g. Anderson, 1981; Courtis. 1982; Chang and Most, 1981; and Epstein and Pava, 1993) and developing countries (e.g. Abu-Nassar and Rutherford, 1996; Naser and Idris, 1997; Hossain, 2000; Rahman, 2001; Nasser and Nuseibeh, 2003; Al-Razeen and Karbhari, 2004; Mirshekary and Saudagaran, 2005; Bribesh, 2006; and Zoysa and Rudkin, 2010).

Table 8.5: Users' View about the Importance of Individual Components of Kuwaiti Non-Financial Listed Companies' Annual Reports for the Purpose of Financial Decision Making

Questions	No	Mean	SD	Group means			K-W P-value	M-W P-value		
				IDV	INS	FA		IDV-INS	IDV-FA	INS-FA
Q7 a. Chairman's message	75	3.64	1.17	3.23	4.00	4.12	0.009*	0.062	0.004*	0.774
Q7 b. Director' report	75	3.80	1.09	3.46	4.18	4.16	0.034**	0.098	0.019**	0.902
Q7 c. Auditors' report	74	4.51	0.62	4.41	4.50	4.68	0.309	0.760	0.129	0.525
Q7 d. Balance sheet	75	4.68	0.60	4.64	4.82	4.68	0.715	0.582	0.772	0.458
Q7 e. Income statement	75	4.69	0.54	4.74	4.55	4.68	0.487	0.381	0.379	0.743
Q7 f. Statement of change in equity	75	4.39	0.91	4.36	4.45	4.40	0.924	1.000	0.739	0.897
Q7 g. Cash flow statement	75	4.44	0.89	4.44	4.45	4.44	0.791	0.593	0.598	0.981
Q7 h. Notes to the financial statement	75	4.56	0.83	4.56	4.64	4.52	0.991	0.920	0.972	0.906

Note: This table provides the mean and standard deviation (SD) for all respondents regarding questions about the importance of different section of annual reports. IDV = Individual Investors; INS = Institutional Investors; and FA = Financial Analysts. Responses are based on a Likert Scale where 1 = not important at all; and 5 = very important. It the table also provides the results of Kruskal-Wallis (K-W) and Mann-Whitney (M-W) tests. A */** indicates significance at the 1% / 5% level respectively on a two-tailed basis.

However the results here, are inconsistent with Anderson and Epstein's (1995) study of Australia, which found that the profit and loss account and balance sheet were ranked by individual investors in second and fourth position respectively, and Bartlett and Chandler (1997), who found that the profit and loss account and balance sheet were ranked by individual investors in UK in only third and ninth position respectively.

Regarding significant differences between groups of users, the results of the Kruskal-Wallis test indicate that there was significant difference amongst groups at the 1% level in relation to the chairman's message and at the 5% level in relation to the directors' report. The results of the Mann-Whitney tests in these cases show that there was: (i) a significant difference (but only at the 10% level in both cases) between individual investors (IDV) and institutional investors (INS), and (ii) a strongly significant difference (at the 1% and 5% levels respectively) between individual investors (IDV) and financial analysts (FA) in relation to the importance of the chairman's message and the director's report. This evidence suggests that institutional investors and financial analysts have markedly different views to individual investors; in particular, the latter assigned lower importance to these parts of report than did either institutional investors and financial analysts. Therefore, this evidence supports the rejection of null hypothesis *H19.*

8.3.5 The Potential Importance of Quantity and Quality Attributes of the Financial Information Disclosed in Kuwaiti Non-Financial Listed Companies' Annual Reports

This section of the questionnaire investigated the views of participants concerning the quantity and quality of the financial information provided in Kuwaiti companies' annual reports. In this regard a number of characteristics of financial reporting[98] were provided to the respondents and they were asked to indicate their opinions regarding these characteristics using a five-point Likert scale (where 1= not important at all and 5 = very important). The

[98] The characteristics included in this section were drawn from the conceptual IASC Framework for the Preparation and Presentation of Financial Statements provided in (1989); the justification for the use of this framework here rather than the 2010 framework is discussed in Chapter 2.

views of the three groups of users were again compared using a Kruskal-Wallis and Mann-Whitney tests; the following null hypothesis underpins this analysis:

> ***H20: There is no significant difference among user groups in terms of the perceived importance they attach to the criteria that might affect the quantity and quality of financial information disclosed in Kuwaiti non-financial listed companies' annual reports.***

Table 8.6 demonstrates that each overall mean was greater than 4, suggesting that all the suggested factors were considered important by the users. Overall, the reliability of information was the most important, followed by understandability, with mean scores of 4.7 and 4.66 respectively, although disaggregation of the results reveals that one of the three groups (financial analysts) in fact ranked understandability as most important. The whole sample results also indicate that quantity of information was seen as less important than quality with a mean score of 4.34 that was lower than for any of the four quality-based characteristics. This finding suggests that users value information that is understandable, relevant, reliable and comparable with the amount of data being less of a direct concern.

Table 8.6: Users' Views about the Importance of Criteria relating to the Quality and Quantity of the Financial Information in Kuwaiti Non-Financial Listed Companies' Annual Reports

Questions	No	Mean	SD	Group means			K-W P-value	M-W P-value		
				IDV	INS	FA		IDV-INS	IDV-FA	INS-FA
Q8 a. Understandability of information	74	4.66	0.50	4.66	4.55	4.72	0.494	0.724	0.493	0.252
Q8 b. Relevance of information	74	4.57	0.55	4.55	4.73	4.52	0.590	0.461	0.906	0.426
Q8 c. Reliability of information	74	4.70	0.59	4.76	4.73	4.60	0.508	0.673	0.250	0.919
Q8 d. Comparability of information	74	4.47	0.76	4.50	4.45	4.44	0.641	0.318	0.302	1.000
Q8 e. Quantity of information	74	4.34	0.76	4.37	4.36	4.28	0.900	1.000	0.705	0.792

Note: This table provides the mean and standard deviation (SD) for all respondents regarding questions about the importance of criteria to the quality and quantity of information in annual reports. IDV = Individual Investors; INS = Institutional Investors; and FA = Financial Analysts. Responses are based on a Likert Scale where 1 = not important at all; and 5 = very important. It the table also provides the results of Kruskal-Wallis (K-W) and Mann-Whitney (M-W) tests. A */** indicates significance at the 5% / 1% level respectively on a two-tailed basis.

Comparability was perceived as the least important of the four quality factors by each user group. This result may be explained by the fact that Kuwaiti companies are required to comply with international financial reporting standards, which means that comparability can be taken for granted to a large extent.

In regard to the reliability of the information, the findings of this analysis are consistent with evidence in previous developing county studies such as those of Naser et al. (2003) in Kuwait; Naser and Nuseibeh (2003) in Saudi Arabia; Chen and Hsu (2005) in Hong Kong; Bribesh (2006) and Kribat (2009) in Libya. All of these found that users perceived reliability to be the most important quality of information disclosed in corporate annual reports. In contrast, however, an earlier Jordanian study by Abu-Nassar and Rutherford (1996) found that consistency was ranked by user groups as the most important quality aspect, with reliability of the information ranked only in fourth. Again though, it should be noted that these earlier studies include all industrial sectors, while the present one focuses exclusively on non-financial companies.

In terms of differences between participant groups' views, Table 8.6 indicates no significant Kruskal-Wallis or Mann-Whitney statistics; the null hypothesis *H20* therefore cannot be rejected.

8.3.6 The Understandability of Different Sections of Kuwaiti Non-Financial Listed Companies' Annual Reports

The usefulness of information provided in annual reports depends upon it being provided in an understandable form. Ijiri et al (1966) argues that information contained in the annual report should be presented in an 'obvious' and 'understandable' form in order to help users of the financial report to make informed decisions. In this section of the questionnaire all respondents were asked to indicate their level of understanding regarding the information included in each section of the annual report examined earlier in terms of importance. Again a five-point Likert scale was used (where 1 = not understood at all and 5 = very well understood) and Kruskal-Wallis and Mann-Whitney tests employed to test the following formal null hypothesis about differences in opinions amongst the groups of users:

> ***H21: There is no significant difference among user groups regarding the understandability of different sections of Kuwaiti non-financial listed companies' annual reports.***

Inspection of Table 8.7 reveals that the surveyed users seemed to understand the information contained in Kuwaiti companies' annual reports, with overall means greater than 3.9 in each case. The auditor's report generated the highest mean score of 4.18, followed by the income statement (4.16). However, the participants indicated that the cash flow statement and notes to the financial statements are the least straight-forward to understand with overall mean scores of 3.91 and 3.95 respectively. That the auditor's report was the least difficult section is not surprising because in Kuwait, as in many other countries, auditors usually use standard phrases which might increase the ease of comprehension.

Table 8.7: Users' Views about the Understandability of Different Sections of Kuwaiti Non-Financial Listed Companies' Annual Reports

Questions	No	Mean	SD	Group means			K-W P-value	M-W P-value		
				IDV	INS	FA		IDV-INS	IDV-FA	INS-FA
Q9 a. Chairman's message	72	4.07	0.76	4.08	3.91	4.12	0.654	0.578	0.757	0.429
Q9 b. Directors' report	72	4.06	0.73	4.08	3.82	4.12	0.521	0.386	0.989	0.301
Q9 c. Auditors' report	73	4.18	0.77	4.16	3.90	4.32	0.137	0.372	0.139	0.100
Q9 d. Balance sheet	74	4.05	0.87	4.03	4.00	4.12	0.618	0.763	0.471	0.378
Q9 e. Income statement	74	4.16	0.74	4.05	4.18	4.32	0.465	0.686	0.224	0.722
Q9 f. Statement of changes in equity	74	3.99	0.97	3.79	4.09	4.24	0.159	0.530	0.064	0.397
Q9 g. Cash flow statement	74	3.91	1.04	3.63	4.09	4.24	0.060	0.278	0.023*	0.407
Q9 h. Notes to the financial statements	74	3.95	0.96	3.66	4.09	4.32	0.021*	0.251	0.006**	0.285

Note: This table provides the mean and standard deviation (SD) for all respondents regarding questions about the degree of understandability of different section of annual reports. IDV = Individual Investors; INS = Institutional Investors; and FA = Financial Analysts. Responses are based on a Likert Scale where 1 = very difficult to understand; and 5 = very much understood. It the table also provides the results of Kruskal-Wallis (K-W) and Mann-Whitney (M-W) tests. A */** indicates significance at the 5% / 1% level respectively on a two-tailed basis.

In contrast, notes to financial statements contain technical matters that require specific knowledge to understand while cash flow statements are relatively new, compared to balance sheet and income statements. In any case, individual investors, the group with the lowest educational qualifications in the sample, perceived all eight sections to be easy to understand.

These findings are consistent with a number of previous studies such as Abu-Nassar and Rutherford's (1996) study of Jordan; Naser et al. (2003) evidence for Kuwait and Nasser and Nuseibeh (2003) analysis of Saudi Arabia, all of whom found that the auditor's report is the easiest section of the annual report to understand and the notes to the financial statements the least comprehensible.

In regard to significant differences among groups of users, the result of the Kruskal-Wallis test showed a weak difference (i.e. at the 10% level) between groups in relation to the understandability of the cash flow statement section and a stronger difference (at the 5% level) in terms of understandability of the notes to the financial statements. To investigate which groups' responses lay behind these differences, a Mann-Whitney test was carried out. The results revealed that individual investors' opinions are significantly different from those of financial analysts, in relation to the statement of change in equity, the cash flow statement section and notes to the financial statements; the differences are driven by the low figures generated by individual investors and the high figures generated by financial analysts. The explanation for this pattern is likely to lie in the fact that financial analysts in Kuwait require qualifications and experience linked to understand the information presented in annual reports; as noted earlier, the majority (60%) of financial analysts who took part in this survey have experience of between 6 to 10 years which allows them to fully comprehend the information provided in sections such as the statement of change in equity, cash flow and notes to financial statements. However, the individual investors in the study come from a wide range of backgrounds and it therefore, likely for them to face some difficulties in understanding the information provided in annual reports, particular those sections which need some technical knowledge to fully understand it. Therefore, the results support rejection of null hypothesis *H21*.

8.3.7 The Relevance of Different Sections of Kuwaiti Non-Financial Listed Companies' Annual Reports

In regard to the relevance of accounting information, it is argued that "Information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations" (IASC 1989, para.26). To investigate the relevance of the information contained in the different sections of annual reports in Kuwait, the respondents were asked to specify the degree of relevance that they attach to each one. As before, a five-point Likert scale (where 1 = not relevant at all and 5 = very highly relevant) was used and Kruskal-Wallis Mann-Whitney tests employed to examine the following null hypothesis underpinning this analysis;

> ***H22: There is no significant difference among user groups about the relevance of different sections of Kuwaiti non-financial listed companies' annual reports.***

Table 8.8 evidences that all eight sections were considered to be relevant to the users as whole, (all means were greater than 3.5) with the cash flow statement and the notes to the financial statements being ranked as the most relevant followed by the income statement and the balance sheet (4.47, 4.62, and 4.6 respectively). In contrast, the chairman's message and directors' report were seen as being of less relevance in generating the lowest means of 3.54 and 3.71 respectively. These findings are consistent with results in Table 8.5 regarding the overall importance of these sections again suggesting the under robustness of patterns in the evidence in the relatively small sample of questionnaire. The highest figures were generated by institutional investors, with the lowest ones coming as in previous table, from individual investors.

Table 8.8: Users' Perceptions about the Relevance of Different Sections of Kuwaiti Non-Financial Listed Companies' Annual Reports

Questions	No	Mean	SD	Group means			K-W P-value	M-W P-value		
				IDV	INS	FA		IDV-INS	IDV-FA	INS-FA
Q10 a. Chairman's message	72	3.54	1.26	3.00	4.00	4.12	0.001**	0.022*	0.000**	0.940
Q10 b. Directors' report	72	3.71	1.11	3.22	4.00	4.28	0.001**	0.056*	0.000**	0.548
Q10 c. Auditors' report	73	4.42	0.83	4.24	4.64	4.6	0.221	0.230	0.148	0.957
Q10 d. Balance sheet	72	4.60	0.60	4.59	4.70	4.56	0.815	0.848	0.690	0.648
Q10 e. Income statement	73	4.62	0.57	4.59	4.55	4.68	0.660	0.720	0.622	0.446
Q10 f. Statement of changes in equity	73	4.34	0.79	4.19	4.73	4.4	0.115	0.053*	0.378	0.158
Q10 g. Cash flow statement	73	4.47	0.73	4.32	4.64	4.6	0.298	0.257	0.216	0.729
Q10 h. Notes to the financial statements	73	4.47	0.77	4.32	4.73	4.56	0.310	0.167	0.557	0.259

Note: This table provides the mean and standard deviation (SD) for all respondents regarding questions about the degree of relevance of different section of annual reports. IDV = Individual Investors; INS = Institutional Investors; and FA = Financial Analysts. Responses are based on a Likert Scale where 1 = not relevant at all; and 5 = very much relevant. It the table also provides the results of Kruskal-Wallis (K-W) and Mann-Whitney (M-W) tests. A */** indicates significance at the 5% / 1% level respectively on a two-tailed basis.

However, it is interesting that even individual investors perceived all eight sections to be relevant. More generally,these results are consistent with the findings in Table 8.6 where institutional investors ranked the relevance of the information disclosed in Kuwaiti non-financial companies' annual reports as the most important qualitative criteria. The disaggregated results here indicate that individual investors and financial analysts ranked the income statement and balance sheet as the most relevant sections of annual report; this is consistent with the results presented previously, in this case in Table 8.5 where individual investors and financial analysts ranked these as the most important.

In regard to significant differences among groups of users, the results of the Kruskal-Wallis test show that there was a significant difference (at the 1% level) between groups in relation to the relevance of the chairman's message and director's report. The results of the Mann-Whitney tests in these cases indicate that there was: (i) a significant difference (at the 5% and the 10% levels respectively) between individual investors and institutional investors; and (ii) a strongly significant difference (at the 1% level) between individual investors and financial analysts in relation to the relevance of the chairman's message and the director's report. It is clear that individual investors have concern about the relevance of the most subjective parts of the annual report; this in turn suggests that investment professionals have the tools to extract relevant points from such disclosure in a way that individuals do not. The evidence provided here in Table 8.8 therefore supports the rejection of null hypothesis *H22*.

8.3.8 The Reliability of Different Sections of Kuwaiti Non-Financial Listed Companies' Annual Reports

To be useful, information must also be reliable (IASC, 1989). Information has the quality of reliability when it is free from material error and bias and can be depended upon by users (IASC 1989, para. 31). Reliability was seen by the users as the most important aspect of quality of information disclosed in Kuwaiti non-financial companies' annual reports (see Table 8.6). In this regard respondents were asked to indicate their views regarding the degree of reliability of the information contained in each of the eight sections of the corporate annual report. Using a five-point Likert scale (where 1 = not reliable at all and 5 = very highly reliable) and Kruskal-Wallis and Mann-Whitney to compare perceptions across the three of user groups, the following hypothesis was tested:

> ***H23: There is no significant difference among user groups regarding the reliability of different sections of Kuwaiti non-financial listed companies' annual reports.***

As with the relevance results, the reliability findings presented in Table 8.9 indicate that the balance sheet was ranked highest (mean= 4.18) followed by the income statement and the cash flow statement, with means of 4.09. In contrast, the chairman's message and director's report were considered to be the least reliable section of Kuwaiti corporate annual reports, with mean scores of 3.32 and 3.41 respectively. This is consistent with related evidence presented earlier in Table 8.5 where the balance sheet and income statement were ranked by respondents as two of the most important sections of annual reports and the chairman's message and director's report were ranked as the least important.

This type of evidence might be attributable to the fact that the financial statements themselves are subject to professional confirmation by external auditors, while the chairman's message and director's report in Kuwait are not and are discretionary in nature; thus, users may choose to pay little attention to what the chairman and directors say in their reports. The results indicate that the highest mean were generally those generated by financial analysts, consistent with the results in Table 8.6 whereby financial analysts expressed a high degree of satisfaction (mean = 4.6) with the reliability of information disclosed in Kuwaiti companies' annual reports as a whole.

Table 8.9: Users' Views about the Reliability of Different Sections of Kuwaiti Non-Financial Listed Companies' Annual Reports

Questions	No	Mean	SD	Group means			K-W P-value	M-W P-value		
				IDV	INS	FA		IDV-INS	IDV-FA	INS-FA
Q11 a. Chairman's message	74	3.32	1.19	3.05	3.55	3.64	0.110	0.274	0.044*	0.732
Q11 b. Directors' report	73	3.41	1.15	3.11	3.64	3.79	0.049*	0.199	0.017*	0.675
Q11 c. Auditors' report	74	4.07	0.91	4.11	3.64	4.20	0.067	0.062	0.475	0.015*
Q11 d. Balance sheet	73	4.18	0.87	4.05	3.91	4.50	0.015*	0.244	0.045*	0.003**
Q11 e. Income statement	74	4.09	0.86	4.00	4.00	4.28	0.284	0.659	0.229	0.117
Q11 f. Statement of changes in equity	74	4.07	0.85	3.92	3.91	4.36	0.042*	0.688	0.041**	0.024*
Q11 g. Cash flow statement	74	4.09	0.91	3.97	3.91	4.36	0.060	0.637	0.051**	0.046*
Q11 h. Notes to the financial statements	74	4.05	0.95	3.95	3.73	4.36	0.019*	0.221	0.045**	0.004**

Note: This table provides the mean and standard deviation (SD) for all respondents regarding questions about the degree of reliability of different section of annual reports. IDV = Individual Investors; INS = Institutional Investors; and FA = Financial Analysts. Responses are based on a Likert Scale where 1 = very much reliable; and 5 = not reliable at all. It the table also provides the results of Kruskal-Wallis (K-W) and Mann-Whitney (M-W) tests. A */** indicates significance at the 5% / 1% level respectively on a two-tailed basis.

It is evident, therefore, that the investors see the overall reliability of the reports as being the same as the sum of its parts. In general, the result suggest that participants trust all sections of the Kuwaiti non-financial companies' annual reports, as reflected by overall mean scores above 3 in each case. These findings are similar to those of a number of prior studies in developing countries, such as Abu-Nassar and Rutherford's (1996) study of Jordan, Alrazeen (1999) analysis in Saudi Arabia, Naser et al., (2003) Kuwait study and Nasser and Nuseibeh's (2003) research in Saudi Arabia, all of whom found that while the income statement and balance sheet were seen as the most reliable sections of the annual report, they were by no means the only ones.[99]

In terms of differences amongst user groups regarding the reliability in different sections of annual reports, the result of Kruskal-Wallis shows that there were significant differences (at the 5% level) between groups of users in relation to the director's report, the balance sheet, the statement of change in equity and the notes to the financial statements and differences (but only at the 10% level) between groups in relation to auditor's report and the cash flow statement. The results of Mann-Whitney test revealed that there were strongly significance different at (the 5% level) between individual investors and financial analysts in terms of the chairman's message and directors' report, in both cases driven by the low ranks given by individual investors to these sections of annual reports. This evidence can best be explained on the grounds that individual investors in Kuwait are mainly concerned with the financial statement whereas financial analysts have the experience and knowledge to acquire financial information in many ways which allows them to place more confidence in the subjective parts of the annual report than can individuals. Indeed, the Mann-Whitney results point to the analysis also generating significantly high means than the in institutional investors as well, suggesting particularly high degrees of reliability amongst analysts in

[99] The studies suggest that the directors' report is seen as the least reliable section of the annual report as whole.

many parts of the annual reports. The results also point to institutional investors generating different means to the other groups with significant differences (but only at the 10% level) between individual investors and institutional investors and (at the 5% level) between institutional investors and financial analysts in relation to the reliability of the auditor's report; these differences were driven by the low average generated by institutional investors. This result is most likely explained by institutional investors being concerned primarily with profitability and liquidity, focusing more on financial ratios to enable them to make their investment decisions. Thus, they build trust about the company from this information and not the audit report. Given these differences, the null hypothesis, *H23* is clearly rejected.

8.3.9 The Comparability of Different Sections of Kuwaiti Non-Financial Listed Companies' Annual Reports

The comparability notion relates to the ease of comparing financial information disclosed in corporate annual reports with similar information in prior years in order to identify trends in financial position and performance (IASC 1989, para.39). To investigate the quality of the comparability in Kuwaiti companies' annual reports, the respondents were asked to rate eight sections of the corporate annual report on five-point Likert scale (where 1 = very difficult to compare and 5 = very easily comparable). Table 8.10 summarises the responses of the three surveyed groups of users and these are analysed using Kruskal-Wallis (K-W) and Mann-Whitney (M-W) tests. This element of the questionnaire tested the following null hypothesis:

> ***H24: There is no significant difference among user groups regarding the comparability of different sections of Kuwaiti non-financial listed companies' annual reports.***

Inspection Table 8.10 suggests that, in general, the participants do not seem to have major difficulties regarding the comparability of annual reports; the overall means are all above 3.

The respondents ranked income statement as the most comparable section, with a mean score of 4.19 followed by the balance sheet and the statement of changes in equity with mean scores of 4.16 and 4.03 respectively. The director's report was ranked as the least comparable section of annual report (mean = 3.31). This pattern can be explained on the grounds that companies in Kuwait prepare their financial statements under IFRS so the output of these statements should come in common format, making it relatively easy to compare.

Table 8.10: Users' Views about the Comparability of Different Sections of Kuwaiti Non-Financial Listed Companies' Annual Reports

Questions	No	Mean	SD	Group means			K-W P-value	M-W P-value		
				IDV	INS	FA		IDV-INS	IDV-FA	INS-FA
Q12 a. Chairman's message	73	3.33	1.18	3.00	3.36	3.80	0.031*	0.427	0.008**	0.302
Q12 b. Directors' report	72	3.31	1.13	2.97	3.45	3.75	0.028*	0.241	0.008**	0.479
Q12 c. Auditors' report	74	3.95	0.90	3.82	4.09	4.08	0.713	0.588	0.466	1.000
Q12 d. Balance sheet	73	4.16	0.83	4.16	4.10	4.20	0.911	0.859	0.763	0.695
Q12 e. Income statement	74	4.19	0.81	4.18	4.09	4.24	0.902	0.659	0.991	0.662
Q12 f. Statement of changes in equity	74	4.03	0.84	3.95	4.36	4.00	0.422	0.274	0.985	0.235
Q12 g. Cash flow statement	74	3.88	0.89	4.00	3.73	3.76	0.446	0.437	0.248	0.957
Q12 h. Notes to the financial statements	74	3.81	1.02	3.63	3.91	4.04	0.300	0.271	0.179	0.822

Note: This table provides the mean and standard deviation (SD) for all respondents regarding questions about the degree of comparability of different section of annual reports. IDV = Individual Investors; INS = Institutional Investors; and FA = Financial Analysts. Responses are based on a Likert Scale where 1 = very difficult to compare; and 5 = very easily comparable. It the table also provides the results of Kruskal-Wallis (K-W) and Mann-Whitney (M-W) tests. A */** indicates significance at the 5% / 1% level respectively on a two-tailed basis.

In most cases, the lowest degree of agreement was reported by individual investors, suggesting that a lack of access to professional data and other resources leads to some greater concern about the comparability of information. In regard to the differences between views of groups of users, the result of Kruskal-Wallis test indicate that there was a significant difference (at the 5% level) between groups in terms of the comparability of the chairman's message and directors' report. The results of the Mann-Whitney tests in these cases indicate that there was: strongly significant difference (at the 1% level) between individual investors (IDV) and financial analysts (FA). This difference was driven by the low rank given by individual investors to the chairman's message and directors' report regarding its comparability. This result is consistent with that of Table 8.5 where individual investors ranked the chairman's message and the directors' report as the least important sections of annual reports suggesting that this group of users is not particularly interested in statements which are prone to relatively high subjectivity; relevance, comparability and reliability have all been shown in this chapter to be a concern for IDV group. Therefore, differences in views of respondents regarding the comparability of different sections of annual reports support rejection of null hypothesis *H24*.

8.3.10: The Quantity of information of Different Sections of Kuwaiti Non-Financial Listed Companies' Annual Reports

The next section of the questionnaire sought to shed the light on the quantity dimension, again focusing on the information disclosed in each section of the annual report. Respondents were asked to indicate the extent of detail in each of eight sections of the annual reports using a five-point Likert scale (where 1 = not detailed at all and 5 = very detailed), with Kruskal-Wallis and Mann-Whitney tests once again employed to test the relevant null hypothesis regarding differences amongst the three user groups, i.e.:

H25: There is no significant difference among user groups regarding the quantity of disclosures in different sections of Kuwaiti non-financial listed companies' annual reports.

Inspection of Table 8.11 reveals that user groups were broadly satisfied with the amount of information included in Kuwaiti annual reports, with overall means all above 3. However, the results suggest that the quantity dimension is less satisfactory than the qualitative, consistent with the result shown in Table 8.6 where quantity of information was ranked to be least important than its quality. This pattern suggests clearly that users focus more on quality than quantity in terms of the information disclosed in Kuwait companies' annual report.

The results also reveal that respondents as a whole ranked the income statement as the best part of the annual report in terms of the quantity of information contained, with an overall mean score of 4.03, followed by the cash flow statement and the balance sheet with mean of 3.96 and 3.95 respectively. However, only two out of the three user groups (institutional investors and financial analysts) assigned the highest mean to the income statement; in contrast, individual investors suggested that the balance sheet contains most details. At the other end of scale, the chairman's message and the director's report were ranked by respondents as the poorest sections in terms of quantity in annual report. More generally, the highest averages were typically achieved by the financial analysts, followed by the institutional investors and then the individual investors.

Table 8.11: Users' Perceptions about the Quantity of Information in Different Sections of Kuwaiti Non-Financial Listed Companies' Annual Reports

Questions	No	Mean	SD	Group means			K-W P-value	M-W P-value		
				IDV	INS	FA		IDV-INS	IDV-FA	INS-FA
Q13 a. Chairman's message	75	3.16	1.20	2.82	3.09	3.72	0.008**	0.461	0.001**	0.189
Q13 b. Directors' report	74	3.24	1.13	2.97	3.18	3.71	0.042*	0.667	0.011*	0.222
Q13 c. Auditors' report	74	3.73	0.93	3.53	3.64	4.08	0.068	0.808	0.027*	0.167
Q13 d. Balance sheet	75	3.95	0.85	3.95	3.64	4.08	0.236	0.226	0.413	0.113
Q13 e. Income statement	74	4.03	0.92	3.89	4.00	4.24	0.180	0.837	0.083	0.204
Q13 f. Statement of changes in equity	75	3.85	0.94	3.77	4.00	3.92	0.543	0.368	0.362	0.739
Q13 g. Cash flow statement	74	3.96	0.88	3.90	3.82	4.13	0.364	0.768	0.266	0.206
Q13 h. Notes to the financial statements	75	3.87	1.00	3.69	3.82	4.16	0.121	0.770	0.050*	0.198

Note: This table provides the mean and standard deviation (SD) for all respondents regarding questions about the degree of details of information in different section of annual reports. IDV = Individual Investors; INS = Institutional Investors; and FA = Financial Analysts. Responses are based on a Likert Scale where 1 = not detailed at all; and 5 = very detailed. It the table also provides the results of Kruskal-Wallis (K-W) and Mann-Whitney (M-W) tests. A */** indicates significance at the 5% / 1% level respectively on a two-tailed basis.

These differences are reflected to some extent in the significant test result. For example, the Mann-Whitney test reveals that there were significant differences (at the 5% level or better) between individual investors and financial analysts in relation to quantity of information in chairman's message, director's report and auditor report, plus significant differences (but only at the 10% level) between the same groups in relation to the quantity of information in income statements and in the notes to the financial statements. These differences were mainly driven by the low rank given by individual investors to the amount of information disclosed in these sections, this finding can in turn be explained on the grounds that individual investors are mainly concerned with tangible financial statements and they therefore pay little attention to what the chairman and directors say in their more subjective reports. More generally the individual investors group's concern with quantity in the director and chairmen's report is consistent with their lack of confidence regarding these in the various quality converse evidenced in the three previous tables. Therefore, the null hypothesis *H25* can be rejected.

8.3.11: The Significance of Problems Restricting the Use of Kuwaiti Non-Financial Listed Companies' Annual Reports

A number of problems have been suggested as restricting the use of corporate annual reports by different group of users in developing countries (Zoysa and Rudkin, 2010). To investigate the problems faced by users of Kuwaiti annual reports, a list of possible problems that might be met when using the annual reports [100] was provided to the respondents and they were asked to indicate degree of importance they attached to each of these using a Likert scale (where 1 = not important at all and 5 = very important) and Kruskal-Wallis and Mann-Whitney tests were employed to compare the views of the three groups of users and the following formal null hypothesis tested:

[100] These possible problems were selected based on previous literature (e.g. Mirshekary and Saudagaran, 2005; and Zoysa and Rudkin, 2010).

H26: There is no significant difference among user groups in terms of the perceived significance of problems with usage of Kuwaiti non-financial listed companies' annual reports.

Table 8.12 demonstrates that each overall mean was greater than 4, indicating that each of the suggested problems was considered significant by the users. Overall, the delay in publishing annual reports was the most important, followed by the lack of reliability of the information and the lack of relevance of the information, with mean scores of 4.44, 4.38 and 4.33 respectively. However, disaggregation of the results shows that in fact only one of three groups (institutional investors) ranked the delay in publishing annual reports as the most important problem. This result is consistent with perceptions of preparers reported in Table 7.10 where delays in publishing annual reports was also seen as the most important problem. In contrast, compliance with IFRS was ranked here as the least significant problem facing the selected group of users when using the annual reports of Kuwaiti non-financial companies'. This evidence is not consistent with the perceptions of preparers from Table 7.10 where difficulty in obtaining annual reports was found to be the least significant problem, with IFRS issues actually generating the second highest mean.

Table 8.12 indicates that individual investors rated the lack of reliability of the information as the most significant problem (mean = 4.50). This result is consistent with the findings in Table 8.6 where the individual investors group considered the reliability of information to be the most important quality of information in Kuwaiti non-financial companies' annual reports. In contrast, financial analysts rated the difficulty in obtaining annual reports to be the most significant problem with a mean of 4.58, suggesting issues with information flows to a key group of market professional.

Table 8.12: Users' Views about the Significance of Problems restrict their use of Kuwaiti Non-Financial Listed Companies' Annual Reports

Questions	No	Mean	SD	Group means			K-W P-value	M-W P-value		
				IDV	INS	FA		IDV-INS	IDV-FA	INS-FA
Q14 a. Difficulty in obtaining annual reports	72	4.32	0.78	4.14	4.36	4.58	0.108	0.434	0.038*	0.516
Q14 b. Delay in publishing annual reports	72	4.44	0.69	4.43	4.73	4.33	0.336	0.232	0.766	0.209
Q14 c. Difficulty in understanding the information	72	4.24	0.66	4.16	4.36	4.29	0.786	0.564	0.719	0.709
Q14 d. Lack of relevance of the information	72	4.33	0.77	4.35	4.36	4.29	0.957	0.999	0.849	0.890
Q14 e. Lack of reliability of the information	71	4.38	0.72	4.50	4.27	4.25	0.260	0.518	0.120	0.728
Q14 f. Difficulty of comparability of the information	72	4.22	0.79	4.24	4.09	4.25	0.562	0.313	0.927	0.322
Q14 g. Poor compliance with International Financial Reporting Standards	72	4.18	0.84	4.35	3.91	4.04	0.178	0.133	0.143	0.699

Note: This table provides the mean and standard deviation (SD) for all respondents regarding questions about the degree of important of problem reducing the use of annual reports. IDV = Individual Investors; INS = Institutional Investors; and FA = Financial Analysts. Responses are based on a Likert Scale where 1 = not important at all; and 5 = very important. It the table also provides the results of Kruskal-Wallis (K-W) and Mann-Whitney (M-W) tests. A */** indicates significance at the 5% / 1% level respectively on a two-tailed basis.

The lack of understandability of the information, the lack of relevance of the information and the difficulty of comparing the information were not considered by any of the three selected user groups to be the most significant problem. This result is expected since the majority of users groups are well educated and qualified in accounting and finance areas (see Table 8.2). Regarding consisting between the perceptions of user and preparer groups in relation to problems restricting the use of annual reports, the users' perceptions were consistent with the views of preparers revealed in Table 7.10 where as noted before, preparers also ranked the delay in publishing annual reports as the most significant problem restricting the use of annual reports. In relation to the lack of reliability of the information, the perceptions of users and preparers were similar in this regard; the users ranked this as the second most significant problem whilst the preparers had the same problem in third position. More generally, comparison of Table 7.10 and 8.12 reveal higher means for every factor in the latter, suggesting that preparers of annual reports in Kuwait do not fully appreciate the problems as previewed by users. This should be of concern to the relevant regulators. From broader developing nation perspective, the results in Table 8.12 are consistent with the findings provided by Mirshekary and Saudagaran (2005) for Iran and Zoysa and Rudkin (2010) in Sri Lanka who both found the delay in publishing annual reports to be the most significant problem encountered by users of annual reports. In terms of differences between participant groups, Table 8.12 indicates no significant Kruskal-Wallis statistics and only one for the Mann-Whitney tests (IDV versus FA for difficulty in obtaining the reports); the hull hypothesis *H26* therefore cannot be rejected.

8.3.12: The Degree of Compliance with IFRS Mandatory Disclosure Requirements by Kuwaiti Non-Financial Listed Companies

One of the main objectives of the this study is to investigate the extent of compliance with IFRS mandatory disclosure requirements by Kuwaiti companies; the users were thereforeasked to evaluate the level of such compliance in the annual reports of Kuwaiti non-financial listed companies using a five-point Likert scale (where 1 = very low and 5 = very high). Again Kruskal-Wallis and Mann-Whitney tests were employed to test the related null hypothesis in this case:

> ***H27: There is no significant difference among user groups' views about the degree of compliance with IFRSs' mandatory disclosure requirements by Kuwaiti non-financial listed companies'.***

Table 8.13 indicates that respondents as a whole rated the degree of companies with IFRS disclosure requirements modestly, with a mean of 3.1 and consistently across the three user groups. This evidence is consistent with findings in Table 8.11 where users did not rate the weak compliance with IFRS as a significant problem to them when using annual reports,[101] although clearly a higher figure would be desirable if IFRS standards are assumed to have intrinsic merits. Nonetheless, the results presented in Table 8.13 are consistent with the average level of compliance with IFRS of 58% reported in Chapter 6.

Regarding variation in responses amongst user groups, the Kruskal-Wallis and Mann-Whitney tests indicated that there were no significant differences and so the evidence does not support rejection of null hypothesis *H27*.

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[101] Table 8.6 where quality of information has given higher priority than quantity.

Table 8.13: Users' Views about the Degree of Compliance with IFRS Mandatory Disclosure Requirements by Kuwaiti Non-Financial Listed Companies

Questions	No	Mean	SD	Group means			K-W P-value	M-W P-value		
				IDV	INS	FA		IDV-INS	IDV-FA	INS-FA
Q 15. The degree of compliance with IFRS disclosure requirements by Kuwaiti non-financial listed companies	70	3.100	0.84	3.08	3.18	3.09	0.933	1.00	0.761	0.713

Note: This table provides the mean and standard deviation (SD) for all respondents regarding questions about the degree of compliance with IFRS in annual reports. IDV = Individual Investors; INS = Institutional Investors; and FA = Financial Analysts. Responses are based on a Likert Scale where 1 = very low; and 5 = Very high. It the table also provides the results of Kruskal-Wallis (K-W) and Mann-Whitney (M-W) tests.

8.3.13: Factors that Might Improve the Usefulness of Kuwaiti Non-Financial Listed Companies' Annual Reports

The final section of the questionnaire aimed to identify the perceptions of users regarding potential enhancement to the annual reports of Kuwaiti non-financial listed companies for decision-making.[102] To achieve this, respondents were given a number of statements and they were asked to indicate their agreement with each statement using a five-point Likert scale (where 1 = strongly disagree and 5 = strongly agree). The perceptions of the three groups of users were again compared using Kruskal-Wallis and Mann-Whitney tests; the following null hypothesis underpins this analysis:

> ***H28: There is no significant difference among the groups of users in terms of perceptions about specific factors that might improve the usefulness of Kuwaiti non-financial listed companies' annual reports.***

Inspection of Table 8.14 reveals that the surveyed users agreed all five statements presented in the question, as reflected by overall means of more than 4.2 in each case. The same table also indicates that respondents ranked the proposal that stronger regulation is needed to prevent insiders benefiting from financial information before other investors first, with an overall mean score of 4.62. This was followed by the related proposal that the time lag between the authorisation of annual financial statements and their publication is too long and may result in information leakage with an overall mean score of 4.53. However, this was clearly followed by the proposal that company's annual reports should include some financial ratios (e. g. Profitability, gearing ratios and earning per share ...) to help measure the company's performance, with a mean of 4.52. Whilst, two out of the three user groups (individual investors and institutional investors) ranked the statement concerning insider access to information as first, financial analysts rated the proposal regarding financial ratios most highly.

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[102] These factors were selected based on previous literature (e.g. Al-Mubarak, 1997 and Almahmoud, 2000).

Table 8.14: Users' Views about Factors that might improve the Usefulness of Kuwaiti Non-Financial Listed Companies' Annual Reports for Decision Making Purposes

Questions	No	Mean	SD	Group means			K-W P-value	M-W P-value		
				IDV	INS	FA		IDV-INS	IDV-FA	INS-FA
Q16 a. The annual reports of a company should include some financial ratios (e. g. Profitability, gearing ratios and earning per share ...) to help measure the company's performance	73	4.52	0.80	4.59	3.70	4.75	0.000*	0.000**	0.781	0.000**
Q16 b. The annual report of a company should include information about its shares (e. g. book value, market value, and volume of shares traded during the year)	73	4.44	0.78	4.51	4.00	4.50	0.232	0.100	0.556	0.207
Q16 c. Length-time period for publication of financial statements makes such information unimportant	73	4.26	0.94	4.41	4.50	3.92	0.329	0.986	0.163	0.324
Q16 d. There needs to be stronger regulation to prevent an insider from benefitting from financial information before other investors in the market	73	4.62	0.68	4.82	4.60	4.29	0.006**	0.306	0.002*	0.311
Q16 e. The time lag between the authorisation of annual financial statements and their publication is too long and may result in information leakage	73	4.53	0.71	4.56	4.50	4.50	0.887	0.760	0.720	0.996

Note: This table provides the mean and standard deviation (SD) for all respondents regarding questions about specific information need to be included in annual reports. IDV = Individual Investors; INS = Institutional Investors; and FA = Financial Analysts. Responses are based on a Likert Scale where 1 = strongly disagree; and 5 = strongly agree. It the table also provides the results of Kruskal-Wallis (K-W) and Mann-Whitney (M-W) tests. A */** indicates significance at the 5% / 1% level respectively on a two-tailed basis.

This result can be likely explained on the grounds that investors' main concern is about getting access to trustworthy the financial information quickly which is reflected in the findings presented in Table 8.12 (where investors ranked the delay in publishing annual reports and the lack of reliability of the information as most significant problems they face); in contrast, the main concern of financial analysts is the profitability and liquidity of the company assessable via financial ratios, as this is critical when trying to provide valuable advice to their customers.

In regard to significant differences amongst groups of users, the results of the Kruskal-Wallis test show that there were significant differences (at the 1% level) between groups in relation to the proposal that company's annual reports should include some financial ratios and (at the 5% level) in terms of regulation targeting insiders. The results of the Mann-Whitney test indicated significant differences (at the 1% level) between individual investors and institutional investors, as well as between institutional investors and financial analysts in relation to the financial ratios suggesting that institutional investors prefer to rely on their own professional experience when it comes to financial statement analysis. Mann-Whitney test also indicate that there was a difference (at the 1% level) between individual investors and financial analysts in relation to information leaks to insider; the relatively low score amongst the FA group may reflect analysts having quick access to the information themselves and a lack of desire to see these addressed robustly. In any case, the differences between groups of users support rejection of null hypothesis *H28*.

8.4 Discussion and Conclusion

The main objective of this chapter was to investigate the usefulness of the annual reports of Kuwaiti non-financial listed companies. To this end, the chapter has presented the findings derived from the results of a questionnaire-based investigation into the views of three key user groups; (i) individual investors; (ii) institutional investors; and (iii) financial analysts, in relation to the role, the quality and quantity, and the influences on disclosure practices in annual reports in the context of decision-usefulness. These large sample results could then be linked to the views of preparers which were presented in Chapter 7. A study of the responses to this survey indicates that the main perceived purpose of Kuwaiti non-financial listed companies' annual reports is to: "provide information to investors to help them make investment decisions". Regarding the main source of information, the traditional annual report remains the most important source of information. This is reflected in all groups of users being satisfied to some extent with the information included in corporate annual reports relative to information from other sources in Kuwait. With respect to the importance of different sections of the annual report, the results presented in this chapter indicate that user groups consider the income statement to be primary. Whilst users suggested that all aspects of quality and quantity are highly important in Kuwaiti non-financial companies' annual reports, the reliability of information was considered the most crucial. The auditor's report was considered to be the most understandable section, while cash flow statements and the notes to financial statements were ranked as the most relevant. The balance sheet was considered as the most reliable section. Users reported having no difficulties relating to the comparability of different sections of annual reports, however they ranked income statements as the strongest in this regard. Concern appears to exist about the degree of compliance with IFRS mandatory disclosure requirements in Kuwait, but users were broadly satisfied with the amount of information presented in annual reports, possibly reflecting the quantity of accounting information being seem as of less importance than quality. It was obvious from the results that Kuwaiti financial statements provide useful information to investors which help them in making informed decision and in evaluating a company's performance over time, although it was notable that individual investors consistently exhibited concern about the quality and quantity of the most subjective parts of the statements, i.e. the chairman's and directors' reports.

Finally, the results indicate strong user support for regulation preventing insiders getting early access to information and addressing the delay in publishing annual reports; there was also a desire for inclusion of financial ratios (e. g. profitability, gearing ratios and earning per share etc) to aid in decision-making as the most.

The perceptions of users were similar to those of preparers reported in the previous chapter in many cases. As regards the purpose of annual reports, both preparers and users highlighted the main purpose of annual reports as providing information in assisting investors and creditors in making decisions. Also, both groups ranked the income statement as the most important part of the annual report, whilst publishing delays were seen by both as the most significant problem impacting on use. However, the viewpoints of both preparers and users were different regarding the factors that might improve the usefulness of Kuwaiti companies' annual reports for decision making purposes, where preparers prioritised the inclusion of financial ratios much higher than the factors relating to information flow that the users rated most strongly. However, perhaps the most significant result to emerge when comparing the findings of the last two chapters is that users ranked each suggested differently with using Kuwaiti annual reports as more important than did the preparers. This points to a need for the nation's regulations to address what represents an important gap in perceptions.

Having completed the presentation of the empirical results, the next chapter concludes the thesis by providing a summary of the main findings, suggestion for future work and an outline of the study's main limitations.

Chapter 9

Conclusion

9.1 Introduction

The purpose of this chapter is to summarise the study's results, and explain the main implications emanating from them. The associated limitations of the work are discussed as are suggestions for further research in the area. The remainder of this chapter is structured as follows: Section 9.2 provides a summary of the three empirical chapters: (i) the disclosure index study reported in Chapter 5; (ii) the perceptions of annual report preparers detailed in Chapter 7; and (iii) the perspectives of users described in Chapter 8. The implications of this study are the focus of Section 9.3, while Section 9.4 outlines the limitations of the current study and suggests a number of avenues for further work building on the thesis' insights.

9.2 Key Findings

The objective of the research reported in Chapter 6 was to measure the extent of disclosure in the annual reports of Kuwaiti non-financial listed firms at the end of 2010. The chapter also investigated the influence of particular company characteristics (size, leverage, liquidity, profitability, listing age, audit type, and industry type). The analysis included assessment of the level of aggregate (i.e. mandatory plus voluntary) disclosure before separately examining the level of: (i) compliance with the mandatory disclosure requirements of IAS/IFRSs; and (ii) the level of voluntary disclosure, as well as determining the impact of particular company specific characteristics on the level of each of the three types.

The evidence from Chapter 6 regarding the examination of disclosure within Kuwaiti non-financial listed companies' annual reports was conducted via construction of a disclosure index; this indicated that the average aggregate disclosure level was low relative to prior studies of developing countries, at 44% of the 230 possible items (with a range of 23.4% to 56.5%), but this reflects the more comprehensive index employed here and therefore represents a more realistic impression of practice. The aggregate disclosure level varied markedly among companies, from low of 20% to a high of 60.

With regard to mandatory disclosure, none of the sample companies fully complied with the IAS/IFRS requirements. The average mandatory disclosure level was only 58.4% (with a range across firms of 31% to 72.6%). However, this result is broadly in line with earlier evidence from Kuwait and other developing countries. The analysis revealed that there was a high level of disclosure for five particular standards (IAS 1, IAS 7, IAS 10, IAS 18 and IAS 33), where average compliance levels of more than 80% were evidenced. As argued in the chapter this finding may reflect a high propensity to disclose items that are relatively straight-forward. However, the lack of full of disclosure more generally was not unexpected, given the absence of enforcement and the low penalties associated with non-disclosure penalties in Kuwait, penalties that are often greater than the costs of disclosure. In addition, difficulties can exist regarding interpretation of IAS/IFRS requirements in the face of ineffective regulatory systems such as the one in Kuwait (Owusu-Ansa and Yeoh, 2005). Companies tend to comply with mandatory disclosure requirements if regulation systems are effective, with adequate enforcement mechanisms and meaningful sanctions for non-compliance (Zeff, 2007; Al-Akra et al., 2010).

Chapter 6 also documented that the average voluntary disclosure level amongst Kuwaiti non-financial listed firms was 18%, with a range of 7% to 36%. This level is higher than in previous Kuwaiti studies, suggesting that the benefits of voluntary disclosure in the nation have increased, and are (Marston and Polei, 2004). Regarding the association between mandatory and voluntary disclosure, the result here indicated a significant positive link between the two types. This finding supports the view that mandatory and voluntary disclosure are not separate elements in financial reporting in Kuwait and this should both be taken into consideration when researchers explore corporate disclosure in the developing world in the future.

Finally, in term of the impact of the various company characteristics on the extent of aggregate, mandatory and voluntary disclosure, the multivariate regression analysis revealed that large companies disclose more information than do small companies, but only in terms of the voluntary element. More profitable companies disclose less mandatory information than companies with lower income, while listing age, liquidity, leverage and audit type have no significant impact on any of these disclosure categories. In addition, voluntary disclosure was significantly higher for the service sector than any other, reflecting the impact of differences in regulatory extent across industries in Kuwait.

Having investigated disclosure behaviour in Chapter 6, Chapter 7 shifted the focus to preparers' perceptions regarding the former activity. The adopted approach reflected the decision-usefulness framework underpinning the research, tailored for the context of a developing country with a fast-emerging capital market that has experienced remarkable growth. The evidence in the chapter indicated that the three selected preparer groups consider management and the board of directors to be the most important user groups, followed by institutional investors. Regarding the important parts of the annual report as a source of information for making financial decisions, the preparers viewed the income statement as the most important followed by the balance sheet and the auditors' report. In terms of influences on financial disclosure practices and the choice of accounting policies, company chairmen were ranked as the most influential group, followed by external auditors. Regarding external influences, the Stock Exchange was rated as the most significant. The evidence presented in the chapter also suggested that preparers are satisfied with the quality and quantity of financial disclosure in Kuwaiti companies' annual reports, although the understandability of the information was the most highly ranked by the respondents, with quality more generally generating higher scores than quantity.

In terms of the annual report, the preparers believed that providing information to investors to help them make investment decisions is the most important with the provision of information to creditors to assist them with future lending decisions in second place.

Despite evidence of broad satisfaction with disclosure behaviour, the preparers viewed weaknesses in accounting practices as the most important problem with Kuwaiti companies' annual reports, with the delay in publishing the reports believed to be the most significant problem faced by users. The majority of the preparers also agreed that some financial ratios could usefully be added to the set of information provided in the documents.

Chapter 8 described the findings from the complementary questionnaire survey of user perceptions regarding disclosure practices in Kuwait. The evidence in the chapter indicates that users perceive the main purpose of corporate annual reports as being to provide information to investors to help them make investment decisions. The evidence also suggests that the traditional corporate annual report remains the most important source of information for users when making economic and financial decisions about such firms. This perception is reflected in all the selected groups of users being satisfied with the information included in annual reports, but not that presented in various other sources. With regards to the importance of the quality and quantity of information contained in different sections of the annual report, the evidence suggests that the income statement was viewed most favourably by users. Reliability was perceived as the most important quality.

Users appear to have no basic problems in understanding different sections of annual reports, with the auditor's report scoring most highly in this regard. The cash flow statement and notes to financial statements were revealed to be the most relevant sections, with the balance sheet ranked as the most reliable. The users also seem to have no difficulties with the comparability of different sections of the annual report, although they ranked the income statement first in this regard. Whilst users were broadly satisfied with the amount of information presented in annual reports, concern appears to exist about the degree of compliance by Kuwaiti non-financial companies with IFRS mandatory disclosure requirements. However, users ranked the overall quantity of accounting information disclosed to be less important than its quality. Finally, the evidence from Chapter 8 indicates that users view the delay in publishing annual reports as the most significant problem restricting the use of Kuwaiti non- financial companies' annual reports. However, the evidence also highlighted a perceived need for stronger regulation to prevent insiders benefiting from financial information ahead of other investors in the market.

The perceptions of preparers and users groups were comparable in some, but not all, cases. In regard to the purpose of annual reports, both preparers and users viewed the main purpose of annual reports as providing information to assist investors and creditors in making decisions about the company. Also, both groups ranked the income statement as the most important part of the annual report, with the delay in publishing annual reports being seen by both as the most significant problem in Kuwait. However, the viewpoints of both preparers and users differed regarding the factors that might improve the usefulness of Kuwaiti companies' annual reports for decision-making purposes; whereas preparers believed that annual reports should most usefully include calculations of financial ratios, users viewed the need for stronger regulation to prevent insider access to financial information as being more important. However, at a more general level it was revealed that users ranked each of seven purported impediments to usage of annual reports more highly than did preparers. Either the latter have an overly optimistic view about the ease of using the information, or instead, Kuwaiti users could be encouraged to seek ways round the (perceived) difficulties. In any case, regulators should take account of the mis-match in responses.

Chapter 7 and 8 tested specific hypothesises relating to inter-group differences in the views of preparers and users. In both cases responses were generally consistent across the sub-groups. However, amongst the users, there were noticeable differences between the responses from individual investors and financial analysts, suggesting a gap in financial sophistication that Kuwait market regulations might want to take note of.

9.3 Implications of the Findings

The findings of the current study should be of interest to companies, regulators, users and standard-setters in Kuwait. The failure to fully disclose mandated items reported in this thesis might reflect the absence of a developed regulatory framework. The evidence thereby provides preparers, regulators and the KSE with a clear idea about where efforts to improve the relevant systems might be concentrated; this should in turn help improve the KSE's efficiency, both operationally and allocationally (Cerf, 1961; Choi, 1974; Emmanuel and Garrod, 1992) and allow Kuwaiti companies to attract local, regional, and foreign investment more cheaply. For individual investors and other users who rely on company reporting to make investment decisions, fuller disclosure would provide them with the information they seek for making informed choices regarding whether to buy, sell or hold corporate securities. The reduction in uncertainty should increase the demand for company shares, stabilise fluctuations in market prices and make access to finance easier and less expensive.

Also in terms of mandatory disclosure, the study provides the IASB with potentially useful information about the extent of compliance with the IASs/IFRSs in developing countries, highlighting areas of potential concern. In particular, the findings in Chapter 6 indicated that there was a "high" (80%) level of compliance with five standards (IAS 1, IAS 7, IAS 10, IAS 18 and IAS 33), while there was a "low" level (50%) in eight cases (IAS 2, IAS 17, IAS 21, IAS 23, IAS 37, IAS 38, IFRS 2 and IFRS 3). Given recent events in the global economy the lack of disclosure in these instances might be seen as worrying for Kuwaiti regulators, and in need of urgent address in order to improve practice.

The slight increase in the level of voluntary disclosure reported for Kuwait in this research may not guarantee an improvement in the quality of financial reporting. However, it gives an indication of the enhancement in voluntary disclosure practices of the nation's non-financial listed firms, particularly given the more comprehensive index used here than in the previous studies. It may take a long time for 'high' quality and quantity to define Kuwaiti financial reporting, but continuity of the development reported here would be welcome. It is therefore important to continue to educate firms and the public on the importance and benefit of corporate disclosures.

In this study, firm size was found to be the most powerful variable in explaining the variability in disclosure among companies. This finding not only supports evidence from elsewhere, but is also relevant to authorities in Kuwait who might seek to understand corporate disclosure practices on the ground. The knowledge that small firms disclose relatively little at present offers a significant insight for users of information presented in corporate reports because it may help them predict the types and extent of information provided by listed firms. Consequently, users can adjust their strategy in collecting additional information from other information sources for such firms and act cautiously when evaluating investment therein.

Weaknesses in accounting practices and the lack of an enforcement mechanism for accounting rules were considered by preparer groups to be the most significant problems influencing disclosure in Kuwaiti companies' annual reports; this evidence should be taken into account by regulators and training and qualifying programs should be provided to reinvigorate the weak and generally inactive profession in the nation.

The evidence in this study suggests that Kuwaiti non-financial companies' annual reports remain the most important source of information for decision-making. However, preparers and users both viewed the delay in publishing annual reports to be the most significant problem restricting the use of Kuwaiti non- financial companies' annual reports and it is therefore necessary for the authorities to ensure that domestic companies publish their annual reports in a timely fashion. Although the listing rules in the KSE provide for a fine to be paid by companies that do not issue their financial reports by a specified time, it is evident that this regime has not worked.

The findings of the questionnaire revealed that company chairman and the board of directors are the most influential parties in terms of choosing financial disclosure practices and accounting policies. However, given the lack of checks and balances elsewhere in the system, this pattern is not ideal from the point of view of modern governance thinking and the Kuwaiti authorities should seriously consider addressing this issue to ensure that the choice of financial disclosure practices and accounting policies is subject to greater accountability.

Finally, in the light of the findings on preparers and users' perceptions about improving annual reports, it is evident that the inclusion of some financial ratios (e.g. profitability, gearing, earnings per share, book-too market value) should be mandated for listed companies on the KSE.

9.4 Limitations and Suggestions for Further Research

As with any study, the thesis has several limitations that need to be acknowledged. First, the analysis provided empirical evidence about the nature of corporate disclosure, but in a single emerging market. It would be interesting to carry out a cross-national study between Kuwait and other developing countries both within and outside the Arabic world to allow for more generalised conclusion about financial reporting in different environments.

Second, the current study focused only on corporate annual reports. However, this is not the only way that Kuwaiti companies now communicate with external users. Whilst annual reports were investigated because they remain the most important corporate document in Kuwait, further research could usefully examine disclosure through other media (e.g. newspapers, government publications, etc.) to provide a more comprehensive picture of disclosure practices amongst Kuwaiti non-financial companies.

Third, the present study was conducted using the functionalist paradigm, for the reasons outlined in Chapter 4. Future research could consider employing a different research paradigm that would incorporate other qualitative techniques: for example, it would be interesting to investigate corporate disclosure using research tools such as case studies or interviews to examine specific issues more deeply e.g. the possible reasons behind companies failure to comply with IFRS disclosure requirements. This investigation would add to our understanding of disclosure and financial reporting practices in general.

Fourth, notwithstanding its widespread use, the disclosure index technique has a number of limitations. The selection of the items included in the disclosure index, the classification into mandatory and voluntary disclosure indices, and the scoring process may be limited by subjectivity; these concerns are acknowledged here, as in previous disclosure studies, however, as Chapter 6 documented, several measures were taken to reduce the inherent subjectivity of the research instruments.

Fifth, the use of questionnaire surveys is also subject to some limitations, primarily relating to low response rate, response bias and the possibility of questions being misunderstood. A number of steps were again undertaken to minimise the impact of these disadvantages, but as argued by Courtis (1992), a complete elimination of this bias is never likely.

Sixth, the current study questioned three groups of users of corporate annual reports, (financial analysts, institutional investors and individual investors) but because of cost and time constraints, it was not possible to examine the views of other groups such as the government, employees, suppliers and academics who may have different opinions about financial reporting in Kuwait. It would be useful if future research investigated the perceptions of these and other groups in the future, given the gradual increase in awareness of the stakeholder concept in the developing world.

Seventh, the present study focused on the relationship between the extent of aggregate, mandatory and voluntary disclosure and a range of seven explanatory variables. However, the goodness-of-fit results suggest other variables also have an impact on the extent of disclosure in Kuwait. Additional variables were not included in this study on the grounds of both data availability and the lack of clear theoretical foundation but, future research maybe also to add additional explanatory variables, representing factors such as culture, ownership structure and governance when the role of these in the developing world is better understood.

Finally, the current study investigated the extent of disclosure for a single year, 2010, for reasons outlined in Chapter 5. The sample size was limited by data availability and the time constraints associated with the manual data collection method required. In the longer term, inter-temporal changes in levels of disclosure could usefully be explored. Similarly, this study's scope is limited to non-financial KSE-listed firms, and caution is needed if generalising these results to the very important banking sector.

Despite these limitations, it is believed that the findings of the research study represent significant contributions to existing knowledge. It is the first study of its kind in Kuwait, and adds to the growing literature on financial disclosure in general and in developing countries in particular. Although the study was deliberately exploratory in nature, it has made several tangible contributions to an under-researched area that will hopefully be the focus of greater academic attention in the future.

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Appendices

Appendix 2.1: The Main Objectives of the Kuwait Stock Exchange

The stated objectives of the Kuwait Stock Exchange are:

1- To introduce governing regulations and implement rules relating to the scope of stock exchange activities. Adoption of international financial reporting standards as the basis of laws and regulations and improvement in operations via working actively with the rest of the world.

2- To follow the processes necessary to control and improve securing in stock and security dealing and avoid unlawful activities.

3- To encourage saving and development of investment awareness by protecting savers and providing investors with financial and non-financial information regarding listed firms. All listed firms must provide annual financial reports, approved by at least two external registered auditors. In addition, companies have as on-going obligation to provide news of any other important financial information to investors, such as, dividends or increases in issued capital, etc.

4- To provide opinions and advice to the competent government bodies regarding the financial positions of listed companies, by promoting research aimed at improving security trading and general the development of the stock exchange. The KSE will work on developing its trading systems by implementing new technology that improves the efficiency of the market.

5- To work with the competent authorities to contribute to co-ordination between integration financial and economic activities as well as the movement of capital in order to guarantee economic development and stability in the State of Kuwait.

Appendix 5.1: International Financial Reporting Standards and Their Effective Date and Whether They are Included in the Index Employed in This Study

Standard	Title	Effective Date
IFRS 1	First-time Adoption of International Financial Reporting Standards	1 Jan 2004
IFRS 2	Share-Based Payment	1 Jan 2005
IFRS 3	Business Combinations	31 March 2004
IFRS 4	Insurance Contracts	1 Jan 2005
IFRS 5	Non-Current Assets Hel for Sale and Discontinued Operations	1 Jan 2005
IFRS 6	Exploration for and Evaluation of Mineral Resources	1 Jan 2006
IFRS 7	Financial Instruments: Disclosure	1 Jan 2007
IFRS 8	Operating Segments	1 Jan 2009
IAS 1	Presentation of Financial Statements	1 Jan 2005
IAS 2	Inventories	1 Jan 2005
IAS 7	Cash-Flow Statements	1 Jan 1994
IAS 8	Accounting Polices, Changes in Accounting Estimates and Errors	1 Jan 2005
IAS 10	Events after the Balance-Sheet Date	1 Jan 2005
IAS 11	Construction Contracts	1 Jan 1995
IAS 12	Income Taxes	1 Jan 1998
IAS 16	Property, Plant and Equipment	1 Jan 2005
IAS 17	Leases	1 Jan 2005
IAS 18	Revenue	1 Jan 1995
IAS 19	Employee Benefits	1 Jan 1999
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance	1 Jan 1984
IAS 21	Effects of Changes in Foreign Exchange Rates	1 Jan 2005
IAS 23	Borrowing Costs	1 Jan 1995
IAS 24	Related Party Disclosures	1 Jan 2005
IAS 26	Accounting and Reporting by Retirement Benefit Plans	1 Jan 1988
IAS 27	Consolidated and Separate Financial Statements	1 Jan 2005
IAS 28	Investment In Associates	1 Jan 2005
IAS 29	Financial Reporting in Hyperinflationary Economies	1 Jan 1990
IAS 30	Disclosure in Financial Statements of Banks and Similar Financial Institutions	1 Jan 1991
IAS 31	Interests in Joint Ventures	1 Jan 2005
IAS 33	Earnings Per Share	1 Jan 2005
IAS 34	Interim Financial Reporting	1 Jan 1999
IAS 36	Impairment of Assets	31 March 2004
IAS 37	Provisions, Contingent Liabilities	1 July 1999
IAS 38	Intangible Assets	31 March 2004
IAS 39	Financial Instruments: Recognition and Measurement	1 Jan 2005
IAS 40	Investment Property	1 Jan 2005
IAS 41	Agriculture	1 Jan 2003

Appendix 5.2: Excluded Standards and The Reasons for Excluding Them form Index Employed in This Study

Standard	Title	Justification for Exclusion
IFRS 1	First-Time Adoption of IFRS	KSE-listed companies are not first-time IFRS adopters
IFRS 4	Insurance Contracts	Not relevant to the focus of this study
IFRS 6	Exploration for and Evaluation of Mineral Resources	Target firms of study not engaged in the exploration
IAS 8	Accounting Polices, Changes in Accounting Estimates and Errors	Not common accounting practice in the companies surveyed
IAS 11	Construction Contracts	Not applicable to companies surveyed
IAS 12	Income Taxes	KSE-listed firms are not subject to income tax
IAS 19	Employee Benefits	KSE firms are obligated to adhere to local law
IAS 20	Accounting for Government Grants	Not relevant to KSE-listed companies
IAS 26	Accounting and Reporting by Retirement Benefit Plans	KSE firms are obligated to adhere to local law
IAS 29	Financial Reporting in Hyperinflationary Economies	Not applicable to Kuwaiti economy
IAS 34	Interim Financial Reporting	Not related to the focus of the study
IAS 39	Financial Instruments: Recognition and Measurement	Does not include any presentation or disclosure requirements
IAS 30	Disclosure in Financial Statements of Banks and Similar Financial Institutions	Not relevant to the focus of this study
IAS 41	Agriculture	Not relevant to the companies surveyed

Appendix 5.3: Standards Included in the Study

Standard	Title
IFRS 2	Share-Based Payment
IFRS 3	Business Combinations
IFRS 5	Non-Current Assets Hel for Sale and Discontinued Operations
IFRS 7	Financial Instruments: Disclosure
IFRS 8	Operating Segments
IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 7	Cash-Flow Statements
IAS 10	Events after the Balance-Sheet Date
IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 18	Revenue
IAS 21	Effects of Changes in Foreign Exchange Rates
IAS 23	Borrowing Costs
IAS 24	Related Party Disclosures
IAS 27	Consolidated and Separate Financial Statements
IAS 28	Investment In Associates
IAS 33	Earnings Per Share
IAS 36	Impairment of Assets
IAS 37	Provisions, Contingent Liabilities
IAS 38	Intangible Assets
IAS 40	Investment Property

Appendix 5.4: Mandatory Disclosure Index Employed in This Study

(عربي)......................... .... : اسم الشركة
(English) ....

Disclosure Items			
	IFRS 2 Share-based Payment	Ndx	Page
1	The entity should disclose a description of each type of share-based payment arrangement that existed at any time during the period, including the general terms and conditions of each arrangement		
2	The entity should disclose the number and weighted average exercise prices of share options for each of the following groups of options: (i) outstanding at the beginning of the period; (ii) granted during the period; (iii) forfeited during the period; (iv) exercised during the period; (v) expired during the period; (vi) outstanding at the end of the period; and (vii) exercisable at the end of the period		
3	The entity should disclose the total expense recognised for the period arising from share-based payment transactions in which the goods or services received did not qualify for recognition as assets		
4	The entity should disclose the portion of the total expense that arises from transactions accounted for as equity-settled share-based payment transactions.		
5	The entity should disclose the total carrying amount at the end of the period for liabilities arising from share-based payment transactions.		
	IFRS 3 Business Combinations		
6	The company should disclose the names and descriptions of the combining entities or businesses		
7	For each material business combination that was effected during the period, the company should disclose the acquisition date		
8	For each material business combination that was effected during the period, the company should disclose the percentage of voting equity instruments acquired		
9	For each material business combination that was effected during the period, the company should disclose the cost of the combination and a description of the components of that cost, including any costs directly attributable to the combination		
10	The company should disclose details of any operations the entity has decided to dispose of as a result of the combination		
	IFRS 5 Non-Current Assets Held for Sale and discontinued operations		
11	A non-current asset classified as held for sale disclosed separately from other assets		
12	A non-current liabilities classified as held for sale disclosed separately from other liabilities		
13	Any gain or loss arising on disposal of entity should presented separately from other gain or loss		
14	A description of non-current asset (or disposal group)		
15	Description of facts and circumstances of the sale (disposal) and the expected timing		
	IFRS 7 Financial Instruments Disclosure ***Accounting policies***		
16	held-to-maturity investments		

17	loans and receivables		
18	available-for-sale assets		
19	Trade or settlement date		
	Fair Value		
20	financial assets measured at fair value through profit and loss, showing separately those held for trading and those designated at initial recognition		
21	financial liabilities at fair value through profit and loss, showing separately those held for trading and those designated at initial recognition		
22	Measurement method		
	Risks		
23	Risk management policy		
24	Segregation by risk types		
25	Exposure to risk		
26	Description of how those risks arises		
27	Method used to measure the risk		
	Interest Risk		
28	Sensitivity analysis		
29	Methods and assumptions used in the sensitivity analysis		
	Currency Rate Risk		
30	Sensitivity analysis		
31	Methods and assumptions used in the sensitivity analysis		
	Credit Risk		
32	Maximum amount of credit risk exposure		
33	Analysis of the age of financial assets		
34	Description of the collateral policies		
	Liquidity Risk		
35	A maturity analysis, showing the remaining contractual maturities		
36	Description of how company manages the liquidity risk		
	IFRS 8 Operating Segment		
37	Factors used to identify the entity's segments		
38	Interest revenue		
39	Interest expense		
40	Profit for each segment		
41	Liabilities for each segment		
42	Depreciation and amortisation for each segment		
43	Profit from associates and joint ventures for secondary segment		
44	Basis of measurement		
45	Information on products and services or groups of products and services		
46	Transactions with major customers		
	IAS 1 Presentation of Financial Statements		
47	Disclosing the company's name		
48	Disclosing the financial statements cover either the individual company or a group of companies		
49	Disclosing the balance sheet date or the period covered by the financial statements		
50	Disclosing the reporting currency		
51	Disclosing the level of precision the currency (e.g. thousands or millions ….etc)		
52	A balance sheet		
53	An income statement		
54	A cash flow statement		
55	A statement of change in equity		
56	Notes, comprising a summary of significant accounting policies and		

	other explanatory notes		
57	The financial statements include an explicit and unreserved statement to the effect that they comply with IFRSs		
58	Disclosing comparative information in respect of previous period for all amount reported in the financial statements		
59	Comparative information should be included in narrative and descriptive information when it is relevant to an understanding of the current period's financial statements		
60	Presenting assets and liabilities in order of their liquidity		
61	The number of shares authorised		
62	The number of shares issued and fully paid and issued but not fully paid		
63	Par value per share, or that the shares have no par value		
64	A reconciliation of the number of shares outstanding at the beginning and at the end of the year		
65	Shares in the company held by the company itself or by subsidiaries or associates		
66	Shares reserved for issue under options and contracts for the sales of shares		
67	Disclosing a description of the nature and purpose of each reserve within owners' equity, either on the face of the balance sheet or in the notes		
68	Disclosing an analysis of expenses either by nature of expenses (raw materials, staff costs, depreciation …etc) or by function (cost of sales/services, selling, administrative,.etc)		
69	In case of categorising expenses by function, the company should disclose additional information on the nature of expenses, at a minimum depreciation, amortisation, and staff costs		
70	Each item on the face of the balance sheet, income statement and cash flow statement is cross-referenced to any related information in the notes		
71	The accounting policies section should describe the measurement basis used in preparing the financial statements		
72	Disclosing the company's domicile		
73	Disclosing the company's legal form		
74	Disclosing the company's Country of incorporation		
75	Disclosing the company's address of registered office		
76	Disclosing a description of the nature of the company's operations and its main activities.		
77	Disclosing the name of the parent company and the ultimate parent company of the group.		
78	Disclosing either the number of employees at the end of the period or the average for the period.		
	IAS 2 Inventories		
79	Accounting Policies Adopted in Measuring Inventories		
80	The amount of inventories write-down that is recognised as expenses		
81	The circumstances or Events that led to the Reversal of a write-down of inventories		
82	Carrying Amount of Inventories Pledged as Security		
	IAS 7 Cash Flow Statement:		
83	A Cash Flow Statement should be presented as Integral Part of an Enterprise's financial Statements for each Period for Which the Financial Statements are presented.		
84	Reporting Cash Flows Classified by Operating, Investing and Financial Activities.		
85	Cash Flows from Interest and Dividends Received and Paid should each be Disclosed Separately. Each should be classified in a Consistent Manner from Period to Period as Either Operating, Investing or		

	Financing		
86	The Aggregate Cash Flow Arising From Acquisition and from Disposals of Subsidiaries or other Business Units should be Presented Separately and Classified as Investing Activities		
	IAS 10 Events after the balance sheet date		
87	Disclosing the date when the financial statements were authorised for issue.		
88	Disclosing the body who give the authorisation of issuing the financial statements.		
89	Disclosing whether shareholders or others have the power to amend these financial statements after issuance.		
	IAS 16 Property, Plant & Equipment (PPE)		
90	Disclosing land and building separately		
91	Disclosing the measurement basis used for determining the gross carrying amount		
92	Disclosing the depreciation method for each class of asset		
93	Disclosing the useful lives or the depreciation rate used for each class of asset		
94	Disclosing the gross carrying amount and the accumulated depreciation at the beginning and end of the period for each class of PPE		
	In case of PPE stated at revalued amount, a company should disclose:		
95	The effective date of revaluation.		
96	Disclosing whether an independent valuer was involved.		
97	Disclosing the nature of any indices used to determine the replacement cost.		
98	Disclosing the revaluation surplus.		
	IAS 17 Leases		
99	For finance leases, in which company is lessee, the company should disclose the net carrying amount at the balance sheet date for each class of asset		
100	For finance leases, in which company is lessee, the company should disclose the reconciliation between the total of future minimum lease payments at the balance sheet date, and their present value		
101	For operating leases, the company should disclose a general description of the lessor’s leasing arrangements		
102	For operating leases, the company should disclose the total of future minimum sublease payments expected to be received under non-cancellable subleases at the balance sheet date		
103	For operating leases, the company should disclose lease and sublease payments recognised as an expense in the period, with separate amounts for minimum lease payments, contingent rents, and sublease payments		
104	For operating leases, the company should disclose total contingent rents recognised as income in the period		
	IAS 18 Revenue		
105	A company discloses the amount of each category of revenue recognized during the period including revenue arising from sale of goods (rendering services), interest, and dividends.		
106	Disclosing the accounting policies adopted for the recognition of revenue.		
	IAS 21 Foreign Operations ***In case of foreign operations, a company should disclose:***		
107	The net exchange differences classified as equity as a separate component of equity.		
108	A reconciliation of the amount of the exchange differences classified as equity at the beginning and end of the period.		

109	The amount of exchange differences arising during the period, which is included in the carrying amount of an asset in accordance with the allowed alternative treatment.		
	When there is a change in the classification of a significant foreign operation, the company should disclose:		
110	The reason for the change		
111	The impact of the change in classification shareholders' equity		
112	The impact of the change on net profit of loss for each prior period presented		
	IAS 23 Borrowing Costs ***In case of Borrowing, a company should disclose:***		
113	The accounting policy adopted for borrowing costs.		
114	Amount of borrowing costs capitalized during the period		
115	The capitalization rate used to determine the amount of borrowing costs eligible for capitalization when fund is used for the purpose of obtaining a qualifying asset		
	IAS 24 Related Party Disclosure ***Where there have been transactions between the related parties, the company should disclose:***		
116	Disclosing related party relationship irrespective of whether there have been transactions between the related parties or not.		
117	The nature of the related parties relationships		
118	The type of transactions with related parties		
119	The volume of the transactions either as an amount or as an appropriate proportion.		
120	The pricing policies of transactions.		
	IAS 27 Consolidated financial statements and accounting for subsidiaries ***In this context, the parent company should disclose:***		
121	A listing of names of significant subsidiaries		
122	A listing of the country or incorporation or residence of significant subsidiaries		
123	Proportion of ownership interest and , if different, proportion of voting power held		
124	A description of the method used to account for subsidiaries		
	IAS 28 Accounting for investment in associates ***In this regard, the company should disclose:***		
125	A listing of names of significant associated		
126	A description of significant associated		
127	Proportion of ownership interest and , if different, proportion of voting power held		
128	A description of the method used to account for investment in associates		
129	When using equity method to account for investments in associates, such investment should be classified as long term investment, and disclosed as a separate item in the balance sheet		
130	Profits or losses of investments in associates should be disclosed as a separate item in the income statement		
	IAS 33 Earning Per Share (EPS) **For EPS, the company should disclose the following**		
131	The basic EPS on the face of the income statement for each class of ordinary shares		
132	The diluted EPS on the face of the income statement for each class of ordinary shares that has a different right to share in the net profit for the period		

133	The amount used as the numerators in calculating basic EPS		
134	The weighted average number of ordinary shares used as the denominator in calculating basic and diluted EPS, and a reconciliation of the denominator to each other		
	IAS 36 Impairment of Assets		
135	The policies adopted for impairment losses and impairment losses (reversed) in the income statement for classes of assets		
136	Primary segments impairment losses and reversals		
137	disclose the main events and circumstances resulting in the impairment loss		
138	disclose the amount of impairment loss (reversal) recognised		
	IAS 37 Provisions, Contingent Liabilities, and Contingent Assets		
139	the carrying amount at the beginning and end of the period		
140	additional provisions made in the period, including increases to existing provisions		
141	amounts used (ie incurred and charged against the provision) during the period		
142	unused amounts reversed during the period		
143	the increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate		
	IAS 38 Intangible Assets		
144	For each class of intangible assets, the company should disclose whether the useful lives are indefinite or finite		
145	For each class of intangible assets, the company should disclose the useful life or amortisation rate used for intangible assets with finite useful lives		
146	For each class of intangible assets, the company should disclose the amortisation methods used for intangible assets with finite useful lives		
147	For each class of intangible assets, the company should disclose the gross carrying amount and any accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the period		
	IAS 40 Investment Property		
148	A disclosure on whether the fair value or the cost model is used		
149	The methods and significant assumptions applied in determining the fair value of investment property		
150	The extent to which the fair value of investment property is based on a valuation by a qualified independent valuer; if there has been no such valuation, has that fact must be disclosed?		
Total			

Appendix 5.5: Voluntary disclosure index employed in this study

(عربي)......................... .... : اسم الشركة
(English)……………………………………………………………...……

Disclosure Items			
No	**Category**	Index	Page. No
	Corporate Environment *General information about the economic environment*		
1	General information about the economy		
2	General information about the industry		
3	Specific factors influencing business		
	General Corporate information		
4	Brief narrative history of company		
5	Basic organizational structure		
6	Date of establishment of the company		
7	Statement of strategy and objective-general		
8	Statement of strategy and objectives-financial		
9	Statement of strategy and objectives- marketing		
10	Description of marketing network		
11	Information on last years performance		
12	Financial history or summary-five or more years		
	Specific Corporate Information		
13	Specific statement of strategy and objectives (financial - marketing - social)		
14	Impact of strategy on current results		
15	Impact of strategy on future results		
16	Discussion of new products (services) development		
17	Qualitative forecast of sales (revenues)		
18	Quantitative forecast of sales (revenues)		
19	Qualitative forecast of profits		
20	Quantitative forecast of profits		
21	Qualitative forecast of cash flow		
22	Quantitative forecast of cash flow		
23	Forecast earnings per share		
24	Assumptions underlying the forecasts		
25	Discussion of competitive position of the company		
26	Discussion of financial strength of the company		
	Information about board of directors		
27	Name of chairman		
28	Picture of chairperson		
29	background of the chairman/academic/professional		
30	business experiences		
31	Name of the directors		
32	Age of the directors		
33	Picture of all directors/board of directors		
34	Educational qualifications (Academic and professional)		
35	Commercial experience of the executive		
36	Other directorships held by executive directors		
37	Commercial experience of the non-executive directors		
38	Other directorship held by non-executive directors		

39	Shareholdings in the company		
40	Number of shares owned by management		
41	Number of shares held by directors		
42	composition of board of directors		
43	Remuneration of directors		
	Social responsibility *Employee information*		
44	Information on geographical distributions of employees		
45	Line-of-business distributions of employees (disaggregated)		
46	Categories of employees (sex-age-education)		
47	Categories of employees by function		
48	Identification of senior management and their functions		
49	Names and salaries of senior management		
50	Number or % of Kuwaiti employees		
51	Amount spent on training		
52	Nature of training		
53	Policy of training		
54	Number of employees trained		
55	Impact of training on results		
56	Recruitment policy		
	Social responsibility *Social Policy*		
57	Environmental protection programs -qualitative information		
58	Environmental protection programs quantitative information		
59	information on donations to charitable organizations		
60	Community programs		
61	Sponsoring public health, sporting and recreational projects		
62	Sponsoring educational conferences, seminars or art exhibits		
63	Funding scholarship programs or activities		
	Financial Information *Financial ratios*		
64	Brief discussion and analysis of a financial position		
65	Profitability ratios		
66	Liquidity ratios		
67	Earnings per share		
68	Dividends information		
69	Growth rate on earnings		
70	Return on capital employed		
71	Return on equity		
72	Other ratios		
	Market-related information		
73	Stock exchanges where shares are listed		
74	Share price at the year end		
75	Share price trend		
76	Volume of shares traded trend		
77	Market capitalization at year end		
78	Market capitalization trend		
79	Type of shareholders (e.g., institutions, individuals)		
80	Geographical distributions of shareholders		
Total			

Appendix 5.6: Questionnaire Survey for Preparers (English Version)

Preparers' Perceptions about Financial Disclosure in annual reports of Kuwaiti non-financial listed Companies

Issa Dawd

PhD Student, I am currently doing research about corporate financial disclosure in Kuwaiti non-financial listed firms: practice and perceptions, working under supervision of Dr. Theresa Dunne and Professor. Bruce Burton at School of Business, University of Dundee, U.K

This survey is an essential part of research project seeks to find your views about financial disclosure practices in annual reports of Kuwaiti non-financial listed companies. Your responses are important in enable me to explore these issues and the outcomes may guide future developments in companies' financial reporting

Your answer will be treated with total confidentiality and used only for research purposes

School of Business, University of Dundee, Dundee, DD1 4HN, UK
Tel: +44(0)1382384195. Email: i.dawd@dundee.ac.uk

Part One: Personal Information

This part aims to provide some background information about the participants.

1. Please indicate your main occupation

Please tick (√) the appropriate box

☐ Financial manager ☐ Manager accounts department ☐ Accountant ☐ Other, please specify ……………………...

2. How long have you been in your present position?

Please tick (√) the appropriate box

☐ Less than 1 year ☐ 1 to 5 years ☐ 6 to 10 years ☐ More than 10 years

3. Last educational qualification obtained

Please tick (√) the appropriate box

☐ Less than Bachelor ☐ Bachelor ☐ Masters ☐ PhD ☐ Other (please specify) ……………………….

4. Major subject

Please tick (√) the appropriate box

☐ Accounting and/or Finance ☐ Management ☐ Marketing ☐ Other

Part Two: Target groups of users for corporate annual reports

This part of the questionnaire seeks your opinions regarding the importance of different user groups and particular components of corporate annual reports.

Please tick (√) the appropriate box.

5. How important do you think Kuwaiti companies annual reports are for the following groups?

Group of users	***Very important***	***Important***	***Neutral***	***Of little importance***	***Not important at all***
(a) Management and the board of directors	□	□	□	□	□
(b)Government institutions	□	□	□	□	□
(c) Individual investors	□	□	□	□	□
(d) Institutional investors	□	□	□	□	□
(e) Creditors	□	□	□	□	□
(f) Financial analysts	□	□	□	□	□
(g) Stock Exchange	□	□	□	□	□
(h) Employees and labour unions	□	□	□	□	□
(i) Newspapers and other media	□	□	□	□	□
(j) Researchers and academics	□	□	□	□	□

6. How do you rate the importance of the following components of Kuwaiti companies' annual report for the purposes of financial decision making?

Components	***Very important***	***Important***	***Neutral***	***Of little importance***	***Not important at all***
(a) Chairman's message	□	□	□	□	□
(b) Directors' report	□	□	□	□	□
(c) Auditors' report	□	□	□	□	□
(d) Balance sheet	□	□	□	□	□
(e) Income statement	□	□	□	□	□
(f) Statement of changes in equity	□	□	□	□	□
(g) Cash flow statement	□	□	□	□	□
(h) Notes to financial statement	□	□	□	□	□

Part Three: The parties and factors influencing disclosure practices in Kuwaiti companies' annual reports

This part aims to explore preparers' perceptions regarding the influence on disclosure practices in corporate annual reports by different parties and factors

7. In preparing your annual report, to what extent do the following parties influence the choice of information to be disclosed in your company annual report?

Parties	*Very influential*	*Influential*	*Neutral*	*Of little influence*	*Not influential at all*
(a) Board of directors	☐	☐	☐	☐	☐
(b) Company's chairman	☐	☐	☐	☐	☐
(c) Financial manager	☐	☐	☐	☐	☐
(d) Chief accountant	☐	☐	☐	☐	☐
(e) Company's accountants	☐	☐	☐	☐	☐
(f) Audit committee	☐	☐	☐	☐	☐
(g) Company's external auditor	☐	☐	☐	☐	☐
(h) Institutional investors	☐	☐	☐	☐	☐

8. In preparing your annual report, to what extent do the following factors influence the choice of information to be disclosed?

Factors	*Very influential*	*Influential*	*Neutral*	*Of little influence*	*Not influential at all*
(a) Company law	☐	☐	☐	☐	☐
(b) Stock Exchange law	☐	☐	☐	☐	☐
(c) Ministerial Industry Law	☐	☐	☐	☐	☐
(d) Proposals by academics	☐	☐	☐	☐	☐
(e) International Financial Reporting Standards	☐	☐	☐	☐	☐
(f) The need for equity and loan finance	☐	☐	☐	☐	☐
(g) Competitors in the same industry or market	☐	☐	☐	☐	☐

Part Four: Kuwaiti companies' annual reports and the Qualitative Characteristics of Accounting Information

This part aims to explore the perceptions of preparers regarding qualitative and quantitative disclosures in corporate annual reporting.

9. Please indicate your evaluation of the following attributes of financial disclosures in Kuwaiti companies' annual reports in terms of helping users make decision.

Attributes	*Excellent*	*Good*	*Neutral*	*Weak*	*Very weak*
(a) Understandability	☐	☐	☐	☐	☐
(b) Relevance	☐	☐	☐	☐	☐
(c) Reliability	☐	☐	☐	☐	☐
(d) Comparability	☐	☐	☐	☐	☐
(e) Quantity of information	☐	☐	☐	☐	☐

Part Five: Importance of information provided in corporate annual reports

This part aims to explore the opinion of preparers about the important of information provided in Kuwaiti companies' annual reports in terms of achieving the following goals.

10. Please indicate the extent to which you think that Kuwaiti companies' annual reports are important for the following purposes.

Purposes	*Very important*	*Important*	*Neutral*	*Of little importance*	*Not important at all*
(a) Providing information to investors to help them make investment decisions	☐	☐	☐	☐	☐
(b) Providing information to investors to assist them in monitoring their investments	☐	☐	☐	☐	☐
(c) To help investors make comparisons across companies	☐	☐	☐	☐	☐
(d) To help investors to evaluate company performance over time	☐	☐	☐	☐	☐
(e) To help investors to predict dividends	☐	☐	☐	☐	☐
(f) To provide information to creditors to assist them with future lending decisions	☐	☐	☐	☐	☐
(g) To help creditors to assist them in monitoring their loans	☐	☐	☐	☐	☐
(h) To provide information to creditors regarding company	☐	☐	☐	☐	☐
(i) To help managers to assist them in running their business	☐	☐	☐	☐	☐
(j) To help discharge accountability	☐	☐	☐	☐	☐

Part Six: Problems and Obstacles Associated with disclosure in Kuwaiti companies' annual reports

This part aims to explore preparers' opinions about the problems that may influence disclosure in their corporate annual reports.

11. To what extent do you think that the following problems restrict the quantity of disclosure in Kuwaiti companies' annual reports?

Problems	***Very important***	***important***	***Neutral***	***Of little important***	***Not important at all***
(a) Lack of professional or qualified accountants	□	□	□	□	□
(b) Weaknesses in accounting practices	□	□	□	□	□
(c) Lack of knowledge of external users' needs	□	□	□	□	□
(d) Lack of an enforcement mechanism of accounting rules by Kuwaiti authorities	□	□	□	□	□
(f) Fear of misuse of extra published information by competitors	□	□	□	□	□
(g) The cost of information preparation and publication	□	□	□	□	□
(h) Lack of demand for information	□	□	□	□	□

12. Please indicate how important you think the following problems are for the users of Kuwaiti companies' annual reports?

Problems	***Very important***	***important***	***Neutral***	***Of little important***	***Not important at all***
(a) Difficulty in obtaining annual reports	□	□	□	□	□
(b) Delay in publishing annual reports	□	□	□	□	□
(c) Difficulty in understanding the information	□	□	□	□	□
(d) Lack of relevance of the information	□	□	□	□	□
(e) Lack of reliability of the information	□	□	□	□	□
(f) Difficulty of comparability of the information	□	□	□	□	□
(g) Poor compliance with International Financial Reporting Standards	□	□	□	□	□

13. Given below are factors that might improve the usefulness of Kuwaiti companies' annual reports for decision making purposes. Please indicate your opinion on each factor.

Factors	***Strongly Agree***	***Agree***	***Neutral***	***Disagree***	***Strongly Disagree***
(a) The annual reports of a company should include some financial ratios (e. g. Profitability, gearing ratios and earning per share ...) to help measure the company's performance	☐	☐	☐	☐	☐
(b) The annual report of a company should include information about its shares (e. g. book value, market value, and volume of shares traded during the year)	☐	☐	☐	☐	☐
(c) Length-time period for publication of financial statements make such information is unimportant	☐	☐	☐	☐	☐
(d) There needs to be stronger regulation to prevent an insider from benefiting from financial information before other investors in the market	☐	☐	☐	☐	☐
(e) The time lag between the authorisation of annual financial statements and their publication is too long and may result in information leakage	☐	☐	☐	☐	☐

14. If you have any comments or concerns regarding financial disclosure practice in the annual reports of Kuwaiti companies, please use the space below to provide them.

…………………………………………………………………………………………

…………………………………………………………………………………………

…………………………………………………………………………………………

…………………………………………………………………………………………

…………………………………………………………………………………………

Thank you for Helping

Appendix 5.7: Questionnaire survey for Preparers (Arabic Version)

عزيزي المشترك في الاستبيان

بعد التحية

نأمل منكم التكرم بتخصيص جزءً من وقتكم لملء هذا الاستبيان الذي هو عبارة عن جزء من البحث الاكاديمي الذي أقوم به حالياً للحصول على درجة الدكتوراة فى المحاسبة من كلية إدارة الأعمال، جامعة دندي، اسكتلندا، المملكة المتحدة تحت أشراف كل من الدكتورة (تيريزا دان) والدكتور (بروس بورتن).

البحث بعنوان (الإفصاح المالي في الشركات الكويتية)، وفي هذا الصدد يتطلع الباحث للحصول على وجهة نظركم حول الافصاح المالي في التقارير السنوية للشركات الكويتية.

هذا البحث يهدف للتوصل لنتائج وتوصيات مهمة لكل من معدي ومنظمي ومستخدمي تلك التقارير، وهذا لن يكون ممكناً بدون مشاركتكم.

وأود أن أوكد لكم بأن ردودكم سوف تعامل بالسرية الكاملة وتستخدم فقط لأهداف البحث العلمى. فى حالة الرغبة فى الحصول على نسخة من النتائج النهائية للبحث يرجى كتابة العنوان الذي يمكننا مراسلتكم عليه فى نهاية الاستبيان.

ولكم جزيل الشكر والاحترام

أن كان لديكم أى أستفسار الرجاء عدم التردداد فى الاتصال بى:

عيسى داود

طالب داكتورة بقسم المحاسبة بكلية إدارة الأعمال، جامعة دندي، اسكتلندا، المملكة

إيميل: (i.dawd@dundee.ac.uk)

إستمارة إستبيان

حول الافصاح المالى في التقارير السنوية للشركات الكويتية

عيسى داود

طالب دكتوراة,تحت إشراف د. تيريزا دان و د. بروس بورتن, كلية إدارة الأعمال، جامعة داندي، اسكتلندا، المملكة المتحدة

هذه الدراسة تسعى لمعرفة وجهات نظركم حول الافصاح عن البيانات المالية في التقارير السنوية للشركات الكويتية. وهى
دراسة بحثية تجرى في جامعة دندي في اسكتلندا
نتائجها سوف تساعد في تطوير التقارير المالية للشركات في المستقبل مع العلم أن
إجابتك سوف تعامل بسرية تامة وتستخدم
فقط لأغراض البحث

الجزء الأول:معلومات عامة

1. يرجئ الإشارة إلى وضيفتكم الرئيسية الحالية فى الشركة

مدير الأ دارة المالية ☐ مدير قسم الحسابات ☐ محاسب ☐ أخرى ☐ ، يرجئ التحديد....................

2.سنوات الخبرة فى وظيفتك الحالية

أقل من سنة ☐ من سنة إلى خمسة سنوات ☐ من ستة إلى عشرة سنوات ☐ أكثر من عشرة سنوات ☐

3.أخر المؤهلات العلمية التي تم الحصول عليها

أقل من البكالوريوس ☐ بكالوريوس ☐ ماجستير ☐ دكتوراه ☐ مؤهلات أخرى ☐ ....

4. التخصص

المحاسبة و / أو المالية ☐ الإدارة ☐ التسويق ☐

الجزء الثاني: الفئات المستهدفة من مستخدمي التقارير السنوية للشركات

هذا الجزء يعنى بمعرفة آرائكم بشأن أهمية فئات المستخدمين ومكونات التقارير السنوية للشركات.

5.لأي مدى تعتقد أن التقارير السنوية للشركات الكويتية مهمة للفئات التالية؟

فئات المستخدمين	مهم جدا	مهم	عادى	قليل الأهمية	ليس مهما على الاطلاق
(أ) الإدارة وأعضاء مجلس الإدارة	☐	☐	☐	☐	☐
(ب) المؤسسات الحكومية	☐	☐	☐	☐	☐
(ت) المستثمرين الأفراد	☐	☐	☐	☐	☐
(ث) المؤسسات الاستثمارية	☐	☐	☐	☐	☐
(ج) الدائنون	☐	☐	☐	☐	☐
(ح) المحليلين الماليين	☐	☐	☐	☐	☐
(خ) سوق الأوراق المالية	☐	☐	☐	☐	☐
(د) الموظفين والنقابات العمالية	☐	☐	☐	☐	☐
(ذ) الصحف ووسائل الإعلام الأخرى	☐	☐	☐	☐	☐
(ر) الباحثون والاكاديميون	☐	☐	☐	☐	☐

6. كيف تقيم أهمية كل جزء من أجزاء التقرير السنوي للشركة لعملية إتخاذ القرارات المالية؟

الأجزاء	مهم جدا	مهم	عادى	قليل الأهمية	ليس مهما على الاطلاق
(أ) كلمة رئيس مجلس الإدارة	☐	☐	☐	☐	☐
(ب) تقرير مجلس الإدارة	☐	☐	☐	☐	☐
(ت) تقرير مراقبى الحسابات	☐	☐	☐	☐	☐
(ث) الميزانية	☐	☐	☐	☐	☐
(ج) بيان الدخل	☐	☐	☐	☐	☐
(ح) بيان التغيرات في حقوق الملكية	☐	☐	☐	☐	☐
(خ) بيان التدفقات النقدية	☐	☐	☐	☐	☐
(د) الايضاحات حول البيانات المالية	☐	☐	☐	☐	☐

الجزء الثالث: الأطراف والعوامل المؤثرة في ممارسات الإفصاح في التقارير السنوية للشركات الكويتية

هذا الجزء يهدف إلى معرفة آرائكم حول الأطراف والعوامل المختلفة المؤثرة على ممارسات الإفصاح في التقارير السنوية للشركات

7. أثنا إعداد التقرير السنوي للشركة، إلى أي مدى تعتقد أن الأطراف التالية تؤثر فيما يتعلق بممارسة الإفصاح واختيار السياسات المحاسبية ؟

الأطراف	مؤثر جدا	مؤثر	عادى	مؤثر قلايلاً	غير مؤثر على الاطلاق
(أ) مجلس الإدارة	☐	☐	☐	☐	☐
(ب) رئيس مجلس إدارة الشركة	☐	☐	☐	☐	☐
(ت) المدير المالي	☐	☐	☐	☐	☐
(ث) رئيس قسم المحاسبة	☐	☐	☐	☐	☐
(ج) المحاسبين فى الشركة	☐	☐	☐	☐	☐
(ح) المراجع الداخلى للشركة	☐	☐	☐	☐	☐
(خ) المراجع الخارجي	☐	☐	☐	☐	☐
(د) المؤسسات الأستثمارية	☐	☐	☐	☐	☐

8. أثنا إعداد التقرير السنوي للشركة، إلى أي مدى تعتقد أن العوامل التالية تؤثر على ممارسة الإافصاح فى التقرير السنوي للشركة ؟

العوامل	مؤثر جدا	مؤثر	عادي	مؤثر قلايلاً	غير مؤثر على الاطلاق
(أ) قانون الشركات	☐	☐	☐	☐	☐
(ب) قانون سوق الأوراق المالية	☐	☐	☐	☐	☐
(ت) قانون وزارة الصناعة	☐	☐	☐	☐	☐
(ث) مقترحات من قبل الأكاديميين	☐	☐	☐	☐	☐
(ج) المعايير الدولية للتقارير المالية	☐	☐	☐	☐	☐
(ح) الحاجة إلى التمويل والقروض	☐	☐	☐	☐	☐
(خ) المنافسة فى السوق	☐	☐	☐	☐	☐

الجزء الرابع: التقارير السنوية للشركات والخصائص النوعية للمعلومات المحاسبية

هذا الجزء يهدف إلى معرفة أرائكم فيما يتعلق بكمية ونوعية المعلومات المفصح عنها في التقارير السنوية للشركات.

9. يرجئ تحديد مدى تقييمك للمواصفات التالية المتعلقة بالإفصاح المالى فى التقارير المالية للشركات الكويتية

المواصفات	ممتاز	جيد	عادي	ضعيف	ضعيف جدا
(أ) قابلية المعلومات للفهم	☐	☐	☐	☐	☐
(ب) علاقة المعلومات بمسالة إتخاذ القرار	☐	☐	☐	☐	☐
(ت) موثوقية المعلومات المفصح عنها	☐	☐	☐	☐	☐
(ث) قابلية المعلومات للمقارنة	☐	☐	☐	☐	☐
(ج) كمية المعلومات المفصح عنها	☐	☐	☐	☐	☐

الجزء الخامس: أهمية المعلومات الواردة في التقارير السنوية للشركات

هذا الجزء يهدف إلى معرفة رأيكم حول أهمية المعلومات المقدمة في التقارير السنوية للشركات الكويتية من حيث تحقيق الأهداف التالية.

10. يرجئ الإشارة إلى أي مدى تعتقد أن التقارير السنوية للشركات الكويتية مهمة لتحقيق الأهداف التالية

الاهداف	مهم جدا	مهم	عادي	قليل الأهمية	ليس مهما على الاطلاق
(أ) تقديم المعلومات للمستثمرين لمساعدتهم على إتخاذ القرارات الاستثمارية	☐	☐	☐	☐	☐
(ب) تقديم المعلومات للمستثمرين لمساعدتهم في مراقبة استثماراتهم	☐	☐	☐	☐	☐
(ت) مساعدة المستثمرين في المقارنة بين أداء الشركات	☐	☐	☐	☐	☐
(ث) مساعدة المستثمرين فى تقييم أداء الشركة على مر الزمن	☐	☐	☐	☐	☐
(ج) مساعدة المستثمرين على التنبؤ بالأرباح والعائد على السهم	☐	☐	☐	☐	☐
(ح) تقديم المعلومات للدائنين لمساعدتهم في إتخاذ قرارات الإقراض في المستقبل	☐	☐	☐	☐	☐
(خ) مساعدة الدائنين في رصد قروضهم	☐	☐	☐	☐	☐
(د) تقديم معلومات للدائنين تساعدهم في تقييم القدرة المالية للشركة	☐	☐	☐	☐	☐
(ذ) مساعدة المديرين في إدارة أعمالهم	☐	☐	☐	☐	☐
(ر) تحقيق المساءلة	☐	☐	☐	☐	☐

الجزء السادس: المشاكل والعقبات المرتبطة بالإفصاح في التقارير السنوية للشركات

11. إلى أي مدى تعتقد أن المشاكل التالية تحد من كمية الإفصاح في التقارير السنوية للشركات الكويتية ؟

المشاكل	مهم جدا	مهم	عادي	قليل الأهمية	ليس مهما على الاطلاق
(أ) الافتقار للمحاسبين المؤهلين والمهنيين	☐	☐	☐	☐	☐
(ب) ضعف في الممارسات المحاسبية	☐	☐	☐	☐	☐
(ت) قلة المعرفة بإ حتياجات المستخدمين الخارجيين	☐	☐	☐	☐	☐
(ث) ضعف آلية تطبيق قواعد المحاسبة من قبل الجهات الكويتية المختصة	☐	☐	☐	☐	☐
(ج) الخوف من سوء استخدام المعلومات الاضافية المنشورة من قبل المنافسين	☐	☐	☐	☐	☐
(ح) نفقات إعداد المعلومات ونشرها	☐	☐	☐	☐	☐
(خ) قلة وجود طلب على المعلومات المنشورة	☐	☐	☐	☐	☐

12. يرجئ الإشارة إلى مدى أهمية المشاكل التالية فى الحد من الأستخدام الأمثل للتقارير السنوية للشركات الكويتية؟

المشاكل	مهم جدا	مهم	عادي	قليل الأهمية	ليس مهما على الاطلاق
(أ) صعوبة الحصول على التقارير السنوية	☐	☐	☐	☐	☐
(ب) التأخير في نشر التقارير السنوية	☐	☐	☐	☐	☐
(ت) صعوبة فهم المعلومات الواردة فى التقارير السنوية	☐	☐	☐	☐	☐
(ث) عدم وجود صلة بين المعلومات الواردة فى التقارير السنوية والمسألة التى يتخد فى صددها القرار	☐	☐	☐	☐	☐
(ج) افتقار المعلومات الواردة فى التقارير السنوية للموثوقية	☐	☐	☐	☐	☐
(ح) ضعف قابلية المعلومات الواردة فى التقارير السنوية للمقارنة	☐	☐	☐	☐	☐
(خ) ضعف مستوى امتثال الشركات لمعايير المحاسبة الدولية	☐	☐	☐	☐	☐

13. يرجئ إعطاء رأيك في كل من البيانات الواردة أدناه بخصوص التقارير السنوية للشركات الكويتية.

العوامل	أوافق بشدة	أوافق	محايد	لا أوافق	لا أوافق بشدة
(أ) التقارير السنوية للشركة ينبغي أن تشتمل على بعض النسب المالية (مثل الربحية، نسب المديونية، والعائد عن السهم الواحد ...) للمساعدة على قياس أداء الشركة	☐	☐	☐	☐	☐
(ب) ينبغي أن يتضمن التقرير السنوي للشركة معلومات حول أسهمها (مثل القيمة الدفترية، والقيمة السوقية، والأ سهم التى تم تداولها خلال السنة)	☐	☐	☐	☐	☐
(ت) طول الفترة التى تستغرق لنشر البيانات المالية تجعل تلك البيانات غير ذات أهمية	☐	☐	☐	☐	☐
(ث) يجب أن يكون هناك تنظيم لمنع أي أطراف من داخل الشركة من الاستفادة من المعلومات المالية قبل بقية المستثمرين في السوق	☐	☐	☐	☐	☐
(ج) طول الفترة الزمنية بين جاهزية البيانات المالية السنوية للنشر ، ونشرها مما يمكن أن يؤدي لتسرب المعلومات	☐	☐	☐	☐	☐

14. الرجاء استخدام الحيز ادناه لابداء اى تعليقات بشأن ممارسة الإفصاح المالي في التقارير السنوية للشركات الكويتية.

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واخيرا أواد أن اتقدم لكم بشكرى وتقديرى لمساعدتكم وتعاونكم فى ملء هدا الاستبيان.

Appendix 5.8: Questionnaire Survey for Users (English Version)

Users' Perceptions about Financial Disclosure in Annual Reports of Kuwaiti non-Financial Listed Companies

Issa Dawd

PhD Student, I am currently doing research about corporate financial disclosure in Kuwaiti non-financial listed firms: practice and perceptions, working under supervision of Dr. Theresa Dunne and Professor. Bruce Burton at School of Business, University of Dundee, U.K

This survey is an essential part of research project seeks to find your views about financial disclosure practices in annual reports of Kuwaiti non-financial listed companies. Your responses are important in enable me to explore these issues and the outcomes may guide future developments in companies' financial reporting

Your answer will be treated with total confidentiality and used only for research purposes

School of Business, University of Dundee, Dundee, DD1 4HN, UK
Tel: +44(0)1382384195. Email: i.dawd@dundee.ac.uk

Part One: Personal Information

This part aims to provide some background information about the participants.

1. In what decision making capacity do you most often use Kuwaiti companies' annual reports?

Please tick (√) the appropriate box

☐ Individual investor ☐ Institutional investor ☐ Financial analyst

2. How long have you been active in the above role?

Please tick (√) the appropriate box

☐ Less than 1 year ☐ 1 to 5 years ☐ 6 to 10 years ☐ More than 10 years

3. Last educational qualification obtained

Please tick (√) the appropriate box

☐ Less than Bachelor ☐ Bachelor ☐ Masters ☐ PhD Other (please specify) ………………………..

4. Major subject

Please tick (√) the appropriate box

☐ Accounting and/or Finance ☐ Business ☐ Management ☐ Marketing ☐ Economy

Part Two: Importance of information provided in corporate annual reports

This part aims to find out the opinions of users in terms of the importance of information provided in Kuwaiti companies' annual reports in terms of alternative goals.

5. Please indicate the extent to which you agree or disagree with each of the following statements describing the usefulness of annual reports of Kuwaiti companies:

Statements	***Very Important***	***Important***	***Neutral***	***Not Important***	***Not Important at all***
(a) Providing information to investors to help them make investment decisions	☐	☐	☐	☐	☐
(b) Providing information to investors to assist them in monitoring their investments	☐	☐	☐	☐	☐
(c) To help investors make comparisons across companies	☐	☐	☐	☐	☐
(d) To help investors to evaluate company performance over time	☐	☐	☐	☐	☐
(e) To help investors to predict dividends	☐	☐	☐	☐	☐
(f) To provide information to creditors to assist them with future lending decisions	☐	☐	☐	☐	☐
(g) To help creditors to assist them in monitoring their loans	☐	☐	☐	☐	☐
(h) To provide information to creditors regarding company	☐	☐	☐	☐	☐
(i) To help managers to assist them in running their business	☐	☐	☐	☐	☐
(j) To help discharge accountability	☐	☐	☐	☐	☐

Part Three: Source of financial information

This part aims to investigate users' perceptions regarding the importance of different sources of corporate information and the importance of each component of corporate annual reports.

6. How important are the following sources of information to you when making investment or loan decisions and/or recommendations regarding companies?

Source of information	***Very important***	***Important***	***Neutral***	***Of little importance***	***Not Important at all***
(a) Annual reports (online and/or hard copy)	☐	☐	☐	☐	☐
(b) Direct contact with company's management	☐	☐	☐	☐	☐
(c) Government publications	☐	☐	☐	☐	☐
(d) Newspaper and magazine	☐	☐	☐	☐	☐
(e) Advisory services (e.g. accountant, broker, etc.)	☐	☐	☐	☐	☐
(f) Advice of friends	☐	☐	☐	☐	☐
(g) Trading units in commercial banks	☐	☐	☐	☐	☐
(h) Personal knowledge about the company	☐	☐	☐	☐	☐
(i) Market rumours	☐	☐	☐	☐	☐

7. How important is each of the following components of annual reports when making decisions about Kuwaiti companies?

Components	***Very important***	***Important***	***Neutral***	***Of little importance***	***Not important at all***
(a) Chairman's message	☐	☐	☐	☐	☐
(b) Directors' report	☐	☐	☐	☐	☐
(c) Auditors' report	☐	☐	☐	☐	☐
(d) Balance sheet	☐	☐	☐	☐	☐
(e) Income statement	☐	☐	☐	☐	☐
(f) Statement of changes in equity	☐	☐	☐	☐	☐
(g) Cash flow statement	☐	☐	☐	☐	☐
(h)Notes to the financial statement	☐	☐	☐	☐	☐

Part Four: Corporate annual reports and the Qualitative Characteristics of Accounting Information

This part aims to explore the perceptions of users regarding qualitative and quantitative of disclosure information in corporate annual reporting.

8. How important are the following attributes to you when making decisions about Kuwaiti companies?

Characteristic	*Very important*	*Important*	*Neutral*	*Of little importance*	*Not important at all*
(a) Understandability	☐	☐	☐	☐	☐
(b) Relevance	☐	☐	☐	☐	☐
(c) Reliability	☐	☐	☐	☐	☐
(d) Comparability	☐	☐	☐	☐	☐
(e) Quantity of information	☐	☐	☐	☐	☐

9. Please indicate the level of understandability of the financial information provided in each of the following components of Kuwaiti corporate annual reports

Components	*Very well understood*	*Understood*	*Neutral*	*Difficult to understand*	*Very difficult to understand*
(a) Chairman’s message	☐	☐	☐	☐	☐
(b) Directors’ report	☐	☐	☐	☐	☐
(c) Auditors’ report	☐	☐	☐	☐	☐
(d) Balance sheet	☐	☐	☐	☐	☐
(e) Income statement	☐	☐	☐	☐	☐
(f) Statement of changes in equity	☐	☐	☐	☐	☐
(g) Cash flow statement	☐	☐	☐	☐	☐
(h) Notes to the financial statements	☐	☐	☐	☐	☐

10. Please indicate the level of relevance of the financial information provided in each of the following sections of Kuwaiti corporate annual reports

Components	***Very much relevant***	***Relevant***	***Neutral***	***Of little relevance***	***Not relevant at all***
(a) Chairman’s message	□	□	□	□	□
(b) Directors’ report	□	□	□	□	□
(c) Auditors’ report	□	□	□	□	□
(d) Balance sheet	□	□	□	□	□
(e) Income statement	□	□	□	□	□
(f) Statement of changes in equity	□	□	□	□	□
(g) Cash flow statement	□	□	□	□	□
(h) Notes to the financial statements	□	□	□	□	□

11. Please indicate the level of reliability of the financial information provided in each of the following components of Kuwaiti corporate annual reports

Components	***Very much reliable***	***Reliable***	***Neutral***	***Of little reliability***	***Not reliable at all***
(a) Chairman’s message	□	□	□	□	□
(b) Directors’ report	□	□	□	□	□
(c) Auditors’ report	□	□	□	□	□
(d) Balance sheet	□	□	□	□	□
(e) Income statement	□	□	□	□	□
(f) Statement of changes in equity	□	□	□	□	□
(g) Cash flow statement	□	□	□	□	□
(h) Notes to the financial statements	□	□	□	□	□

12. Please indicate the level of comparability of the financial information provided in each of the following components of Kuwaiti corporate annual reports

Components	*Very easily comparable*	*Comparable*	*Neutral*	*Difficult to compare*	*Very difficult to compare*
(a) Chairman's message	☐	☐	☐	☐	☐
(b) Directors' report	☐	☐	☐	☐	☐
(c) Auditors' report	☐	☐	☐	☐	☐
(d) Balance sheet	☐	☐	☐	☐	☐
(e) Income statement	☐	☐	☐	☐	☐
(f) Statement of changes in equity	☐	☐	☐	☐	☐
(g) Cash flow statement	☐	☐	☐	☐	☐
(h) Notes to the financial statements	☐	☐	☐	☐	☐

13. Please indicate the quantity of information in terms of the level of details of the financial information provided in each of the following components of Kuwaiti companies' annual reports

Components	*Very detailed*	*Detailed*	*Neutral*	*Of little detail*	*Not detailed at all*
(a) Chairman's message	☐	☐	☐	☐	☐
(b) Directors' report	☐	☐	☐	☐	☐
(c) Auditors' report	☐	☐	☐	☐	☐
(d) Balance sheet	☐	☐	☐	☐	☐
(e) Income statement	☐	☐	☐	☐	☐
(f) Statement of changes in equity	☐	☐	☐	☐	☐
(g) Cash flow statement	☐	☐	☐	☐	☐
(h)Notes to financial statement	☐	☐	☐	☐	☐

Part Five: Problems and Obstacles Associated with corporate annual reports

This part aims to explore users' opinions about the problems that restrict their use of corporate annual reports.

14. Please indicate the extent to which you think that the following problems are important in reducing the use of corporate annual reports

Problems	***Very important***	***important***	***Neutral***	***Of little importance***	***Not important all***
(a) Difficulty in obtaining annual reports	□	□	□	□	□
(b) Delay in publishing annual reports	□	□	□	□	□
(c) Difficulty in understanding the information	□	□	□	□	□
(d) Lack of relevance of the information	□	□	□	□	□
(e) Lack of reliability of the information	□	□	□	□	□
(f) Difficulty of comparability of the information	□	□	□	□	□
(g) Poor compliance with International Financial Reporting Standards	□	□	□	□	□

15. How do you evaluate the level of compliance of Kuwaiti companies with IFRS disclosure requirements?

□ Very high □ High □ Neutral □ Low □ Very low

16. Please indicate to what extent you agree or disagree with each of the following statements:

Statements	*Strongly Agree*	*Agree*	*Neutral*	*Disagree*	*Strongly Disagree*
(a) The annual reports of a company should include some financial ratios (e. g. Profitability, gearing ratios and earning per share ...) to help measure the company's performance	☐	☐	☐	☐	☐
(b) The annual report of a company should include information about its shares (e. g. book value, market value, and volume of shares traded during the year)	☐	☐	☐	☐	☐
(c) The length of time taken to publish the annual report makes the financial information out of date	☐	☐	☐	☐	☐
(d) There needs to be stronger regulation to prevent an insider from benefiting from financial information before other investors in the market	☐	☐	☐	☐	☐
(e) The time lag between the authorisation of annual financial statements and their publication is too long and may result in information leakage	☐	☐	☐	☐	☐

17. If you have any comments or concerns regarding financial disclosure practice in annual reports of Kuwaiti companies, please use the space below to provide them.

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Thank you for Helping

Appendix 5.9: Questionnaire survey for Users (Arabic Version)

عزيزي المشترك في الاستبيان

بعد التحية

نأمل منكم التكرم بتخصيص جزءً من وقتكم لملء هذا الاستبيان الذي هو عبارة عن جزء من البحث الاكاديمي الذي أقوم به حالياً للحصول على درجة الدكتوراة فى المحاسبة من كلية إدارة الأعمال، جامعة دندي، اسكتلندا، المملكة المتحدة تحت أشراف كل من الدكتورة (تيريزا دان) والدكتور (بروس بورتن).

البحث بعنوان (الإفصاح المالي في الشركات الكويتية)، وفي هذا الصدد يتطلع الباحث للحصول على وجهة نظركم حول الافصاح المالي في التقارير السنوية للشركات الكويتية.

هذا البحث يهدف للتوصل لنتائج وتوصيات مهمة لكل من معدي ومنظمي ومستخدمي تلك التقارير، وهذا لن يكون ممكناً بدون مشاركتكم.

وأود أن أوكد لكم بأن ردودكم سوف تعامل بالسرية الكاملة وتستخدم فقط لأهداف البحث العلمى. فى حالة الرغبة فى الحصول على نسخة من النتائج النهائية للبحث يرجى كتابة العنوان الذي يمكننا مراسلتكم عليه فى نهاية الاستبيان.

ولكم جزيل الشكر والاحترام

أن كان لديكم أى أستفسار الرجاء عدم التردداد فى الاتصال بى:

عيسى داود

طالب داكتورة بقسم المحاسبة بكلية إدارة الأعمال، جامعة دندي، اسكتلندا، المملكة

إيميل: (i.dawd@dundee.ac.uk)

إستمارة إستبيان

حول الافصاح المالى في التقارير السنوية للشركات الكويتية

الجزء الأول:معلومات عامة

1. يرجئ الإشارة إلى اي دور من الأدوار التالية تقوم به عند اتخاد قرار بشأن شركة ما

مستثمر فردي ☐ مستثمر مؤسسي ☐ محلل مالي ☐

2. سنوات الخبرة في ممارسة الدور المذكور أعلاه

أقل من سنة ☐ من سنة إلى خمسة سنوات ☐ من ستة إلى عشرة سنوات ☐ أكثر من عشرة سنوات ☐

3. أخر المؤهلات العلمية التي تم الحصول عليها

أقل من البكالوريوس ☐ بكالوريوس ☐ ماجستير ☐ دكتوراه ☐ مؤهلات أخرى ☐ حدد............

4. التخصص

المحاسبة و / أو المالية ☐ الإدارة ☐ التسويق ☐ أقتصاد ☐

الجزء الثانى : أهمية المعلومات الواردة في التقارير السنوية للشركات

هذا الجزء يهدف إلى معرفة رأيكم حول أهمية المعلومات المقدمة في التقارير السنوية للشركات الكويتية من حيث تحقيق الأهداف التالية.

5 . يرجئ الإشارة إلى أي مدى تعتقد أن التقارير السنوية للشركات الكويتية مهمة لتحقيق الأهداف التالية

الاهداف	مهم جدا	مهم	عادي	قليل الأهمية	غير مهم على الاطلاق
(أ) تقديم المعلومات للمستثمرين لمساعدتهم على إتخاذ القرارات الاستثمارية	□	□	□	□	□
(ب) تقديم المعلومات للمستثمرين لمساعدتهم في مراقبة استثماراتهم	□	□	□	□	□
(ت) مساعدة المستثمرين في المقارنة بين أداء الشركات	□	□	□	□	□
(ث) مساعدة المستثمرين فى تقييم أداء الشركة على مر الزمن	□	□	□	□	□
(ج) مساعدة المستثمرين على التنبؤ بالأرباح والعائد على السهم	□	□	□	□	□
(ح) تقديم المعلومات للدائنين لمساعدتهم في إتخاذ قرارات الإقراض في المستقبل	□	□	□	□	□
(ز) مساعدة الدائنين في رصد قروضهم	□	□	□	□	□
(خ) تقديم معلومات للدائنين تساعدهم في تقييم القدرة المالية للشركة	□	□	□	□	□
(د) مساعدة المديرين في إدارة أعمالهم	□	□	□	□	□
(ذ) تحقيق المساءلة	□	□	□	□	□

الجزء الثالث : مصادر المعلومات المالية

هذا الجزء يهدف إلى التعرف على تصورات المستخدمين حول أهمية المصادر المختلفة للمعلومات عن الشركات وأهمية كل جزء من أجزاء التقارير السنوية للشركات.

6 . ما مدى أهمية مصادر المعلومات التالية لك عند إتخاذ قرارات الاستثمار أو الاقراض و / أوإعطاء توصيات بشأن الشركات؟

مصادر المعلومات	مهم جدا	مهم	عادى	قليل الأهمية	غير مهم على الاطلاق
(أ) التقارير السنوية	□	□	□	□	□
(ب) الاتصال المباشر مع إدارة الشركة	□	□	□	□	□
(ت) المطبوعات الحكومية	□	□	□	□	□
(ث) الصحف والمجلات	□	□	□	□	□
(ج) نصائح المختصين او الخدمات الاستشارية (على سبيل المثال محاسب، وسيط، الخ.)	□	□	□	□	□
(ح) نصائح الأصدقاء والأقارب	□	□	□	□	□
(خ) وحدات التداول فى البنوك التجارية	□	□	□	□	□
(د) المعرفة الشخصية عن الشركة	□	□	□	□	□
(ذ) شائعات السوق	□	□	□	□	□

7. من وجهة نظرك، ما مدى أهمية المعلومات المالية الواردة فى كل جزء من أجزاء التقرير السنوي للشركات الكويتية عند إتخاذ قرار مالى حول الشركة؟

الأجزاء	مهم جدا	مهم	عادى	قليل الأهمية	غير مهم على الاطلاق
(أ) كلمة رئيس مجلس الإدارة	□	□	□	□	□
(ب) تقرير مجلس الإدارة	□	□	□	□	□
(ت) تقرير مراقبي الحسابات	□	□	□	□	□
(ث) بيان المركز المالى	□	□	□	□	□
(ج) بيان الدخل	□	□	□	□	□
(ح) بيان التغيرات في حقوق الملكية	□	□	□	□	□
(خ) بيان التدفقات النقدية	□	□	□	□	□
(د) الأيضاحات حول البيانات المالية	□	□	□	□	□

الجزء الرابع : التقارير السنوية للشركات والخصائص النوعية للمعلومات المحاسبية

هذا الجزء يهدف إلى معرفة أرائكم فيما يتعلق بالخصائص الكمية والنوعية للمعلومات المفصح عنها في التقارير السنوية للشركات.

8 . ما مدى أهمية المعايير التالية فيما يتعلق بالمعلومات المالية فى التقارير السنوية عند إتخاذك قرار حول الشركات الكويتية؟

المعايير	مهم جدا	مهم	عادي	قليل الأهمية	غيرمهم على الأطلاق
(أ) قابلية المعلومات للفهم	□	□	□	□	□
(ب) علاقة المعلومات بمسألة إتخاذ القرار	□	□	□	□	□
(ت) موثوقية المعلومات المفصح عنها	□	□	□	□	□
(ث) قابلية المعلومات للمقارنة	□	□	□	□	□
(ج) كمية المعلومات المفصح عنها	□	□	□	□	□

9 . يرجئ الإشارة إلى مدى قابلية المعلومات المالية المقدمة في كل جزء من أجزاء التقرير السنوي للشركات الكويتية للفهم.

الأجزاء	سهل جدا فهمها	مفهومة	عادي	تفهم بصعوبة	صعب جدا فهمها
(أ) كلمة رئيس مجلس الإدارة	□	□	□	□	□
(ب) تقرير مجلس الإدارة	□	□	□	□	□
(ت) تقرير مراقبى الحسابات	□	□	□	□	□
(ث) بيان المركز المالى	□	□	□	□	□
(ج) بيان الدخل	□	□	□	□	□
(ح) بيان التغيرات في حقوق الملكية	□	□	□	□	□
(خ) بيان التدفقات النقدية	□	□	□	□	□
(د) الايضاحات حول البيانات المالية	□	□	□	□	□

10 . يرجئ الإشارة إلى مدى علاقة المعلومات المالية المقدمة في كل جزء من أجزاء التقرير السنوي للشركات الكويتية بالمسألة التى بصددها يتخذ القرار..

الأجزاء	لها علاقة قوية	لها علاقة	عادي	لها علاقة بسيطة	ليس لها علاقة على الأطلاق
(أ) كلمة رئيس مجلس الإدارة	☐	☐	☐	☐	☐
(ب) تقرير مجلس الإدارة	☐	☐	☐	☐	☐
(ت) تقرير مراقبى الحسابات	☐	☐	☐	☐	☐
(ث) الميزانية	☐	☐	☐	☐	☐
(ج) بيان الدخل	☐	☐	☐	☐	☐
(ح) بيان التغيرات في حقوق الملكية	☐	☐	☐	☐	☐
(خ) بيان التدفقات النقدية	☐	☐	☐	☐	☐
(د) الايضاحات حول البيانات المالية	☐	☐	☐	☐	☐

11. يرجئ الإشارة إلى مدى مصداقية المعلومات المالية المقدمة في كل جزء من أجزاء التقرير السنوي للشركات الكويتية.

الأجزاء	موثوق بها جدا	موثوق بها	عادي	موثوق بها قليلاَ	غير موثوق بها على الأطلاق
(أ) كلمة رئيس مجلس الإدارة	☐	☐	☐	☐	☐
(ب) تقرير مجلس الإدارة	☐	☐	☐	☐	☐
(ت) تقرير مراقبى الحسابات	☐	☐	☐	☐	☐
(ج) الميزانية	☐	☐	☐	☐	☐
(ح) بيان الدخل	☐	☐	☐	☐	☐
(خ) بيان التغيرات في حقوق الملكية	☐	☐	☐	☐	☐
(د) بيان التدفقات النقدية	☐	☐	☐	☐	☐
(ذ) الايضاحات حول البيانات المالية	☐	☐	☐	☐	☐

12. يرجئ الإشارة إلى مدى قابلية المعلومات المالية المقدمة في كل جزء من أجزء التقرير السنوي للشركات الكويتية للمقارنة.

الأجزاء	سهل جدا مقارنتها	يمكن مقارنتها	عادى	صعب مقارنتها	صعب جدا مقارنتها
(أ) كلمة رئيس مجلس الإدارة	□	□	□	□	□
(ب) تقرير مجلس الإدارة	□	□	□	□	□
(ت) تقرير مراقبى الحسابات	□	□	□	□	□
(ث) الميزانية	□	□	□	□	□
(ج) بيان الدخل	□	□	□	□	□
(ح) بيان التغيرات في حقوق الملكية	□	□	□	□	□
(خ) بيان التدفقات النقدية	□	□	□	□	□
(د) الايضاحات حول البيانات المالية	□	□	□	□	□

13. يرجئ الإشارة إلى مدى تفصيل المعلومات المالية المقدمة في كل جزء من أجزاء التقرير السنوي للشركات الكويتية.

الأجزاء	مفصلة جدا	مفصلة	عادى	القليل من التفصيل	غير مفصلة على الأطلاق
(أ) كلمة رئيس مجلس الإدارة	□	□	□	□	□
(ب) تقرير مجلس الإدارة	□	□	□	□	□
(ت) تقرير مراقبى الحسابات	□	□	□	□	□
(ث) الميزانية	□	□	□	□	□
(ج) بيان الدخل	□	□	□	□	□
(ح) بيان التغيرات في حقوق الملكية	□	□	□	□	□
(خ) بيان التدفقات النقدية	□	□	□	□	□
(د) الايضاحات حول البيانات المالية	□	□	□	□	□

الجزء الخامس: المشاكل والعقبات المرتبطة بالإفصاح في التقارير السنوية للشركات

14. يرجئ الإشارة إلى مدى أهمية المشاكل التالية فى الحد من الأستخدام الأمثل للتقارير السنوية للشركات الكويتية؟

المشاكل	مهم جدا	مهم	عادي	قليل الأهمية	غير مهم على الاطلاق
(أ) صعوبة الحصول على التقارير السنوية	□	□	□	□	□
(ب) التأخير في نشر التقارير السنوية	□	□	□	□	□
(ت) صعوبة فهم المعلومات الواردة فى التقارير السنوية	□	□	□	□	□
(ث) عدم وجود صلة بين المعلومات الواردة فى التقارير السنوية والمسألة التى يتخذ فى صددها القرار	□	□	□	□	□
(ج) افتقار المعلومات الواردة فى التقارير السنوية للموثوقية	□	□	□	□	□
(ح) ضعف قابلية المعلومات الواردة فى التقارير السنوية للمقارنة	□	□	□	□	□
(خ) ضعف مستوى التزام الشركات لمعايير المحاسبة الدولية	□	□	□	□	□

15. كيف تقيم مستوى إلتزام الشركات الكويتية بمتطلبات الإفصاح حسب معايير المحاسبة الدولية؟

عالي جدا □ **عالي** □ **عادي** □ **ضعيف** □ **ضعيف جدا** □

16. يرجئ إعطاء رأيك في كل من البيانات الواردة أدناه بخصوص التقارير السنوية للشركات الكويتية.

البيانات	أوافق بشدة	أوافق	محايد	لا أوافق	لا أوافق بشدة
(أ) التقارير السنوية للشركة ينبغي أن تشتمل على بعض النسب المالية (مثل الربحية، نسب المديونية، والعائد عن السهم الواحد ...) للمساعدة على قياس أداء الشركة	□	□	□	□	□
(ب) التقارير السنوية للشركة ينبغي أن تشتمل على معلومات حول أسهمها (مثل القيمة الدفترية، والقيمة السوقية، والأ سهم التى تم تداولها خلال السنة)	□	□	□	□	□
(ت) طول الفترة التى تستغرق لنشر البيانات المالية تجعل تلك البيانات غير ذات أهمية	□	□	□	□	□
(ث) يجب أن يكون هناك تنظيم لمنع أي أطراف من داخل الشركة من الاستفادة من المعلومات المالية قبل بقية المستثمرين في السوق	□	□	□	□	□
(ج) طول الفترة الزمنية بين جاهزية البيانات المالية السنوية للنشر، ونشرها مما يمكن أن يؤدي لتسرب المعلومات	□	□	□	□	□

17. الرجاء استخدام الحيز ادناه لابداء اى تعليقات بشأن ممارسة الإفصاح المالي في التقارير السنوية للشركات الكويتية

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واخيرا أود أن اتقدم لكم بشكرى وتقديرى لمساعدتكم وتعاونكم فى ملء هذا الاستبيان.

Appendix 6.1: Pearson Correlation between aggregate disclosure and mandatory and voluntary disclosure (n = 51)

	Mandatory	Voluntary	Aggregate
Mandatory	1		
Voluntary	.315* (0.024)	1	
Aggregate	.936** (0.000)	.626** (0.000)	1

Note: The figures shown are Pearson correlation coefficients. The figures in brackets are p values. A **/* indicates significance at the 1%/5% levels.