Corporate Governance and Voluntary Disclosure in Kuwait

Bader M N A Alotaibi

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CORPORATE GOVERNANCE AND VOLUNTARY DISCLOSURE IN KUWAIT

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Corporate governance and voluntary disclosure in Kuwait

by

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ABSTRACT

Failure of high profile companies such as Enron, World.com had initiated a call for an investigation to analyse the reason for such radical consequence to prevent further similar financial crises. One of the common factors identified by the researchers is the poor disclosure, transparency and Corporate Governance (CG) mechanisms. Similar to the UK, the compliance towards CG codes are voluntary for the majority of the countries around the globe including Kuwait. CG codes aimed to improve the governance of a company including transparency. Thus, voluntary disclosure had been examined by numerous academics to emphasise the importance of accountability, transparency that in turn increase the confidence of investors and creditors in the financial markets of emerging economies. This thesis is based on Kuwait, as it is a resource rich country and attracts foreign investments. The Central Bank of Kuwait (CBK) issued instructions for CG mechanism especially to the financial sector in 2004. From the research in hand, there was no longitudinal study in Kuwait concerning the impact of GC mechanism to voluntary disclosure.

The sample in this thesis consists of 155 Kuwaiti listed companies from 2007 to 2010, 620 firm-year observations. A self-constructed index was developed to evaluate the level of voluntary disclosure and how it developed over time. Both univariate analysis and multivariate analysis were used. Most of the thesis results were consistent with previous studies; there was a gradual increase in the level of voluntary disclosure and its categories over the observed period. All CG mechanisms findings revealed significant associations with voluntary disclosure, except board size and role duality, have a negative significant association. Ownership structure indicates insignificant association with voluntary disclosure. Firm characteristics have a significant positive association with voluntary disclosure, except profitability,

has a significant negative association, while gearing is found an insignificant association. Furthermore, the level of voluntary disclosure in the financial sector is higher than the non-financial sector.

The contributions to knowledge in this thesis are; 1) It is the first empirical longitudinal study in Kuwait concerning voluntary disclosure, and its relationship with GC mechanism, ownership structure and firm characteristics, as far as the researcher is aware. 2) It provided evidence of the importance of CG to enhancing the level of voluntary disclosure in Kuwait business environment, especially that the level of voluntary disclosure in the financial sector is higher than the non-financial sector. 3) Employed many quantitative methods, such as OSL regression, Normal score, GLS regression, Tobit regression and Quantile regression (divided into 25%, 50% and 75%). 4) A self-constructed index, which was developed in this thesis, could be suitable for other Arab Gulf countries that are similar in the business environment and experiencing the same economic changes. 5) Provides evidence of the possibility of employing the disclosure theories derived from developed countries in emerging countries. 6) It is possible to generalise the results of the disclosure index to other companies not investigated in this thesis. Moreover, this thesis implies that the legislative and regulatory authorities, in particular, the capital markets authority Kuwaiti, need to increase efforts to enhance the role of corporate governance practices in Kuwaiti listed companies

Dedication

This thesis is dedicated to my Parents for their prayers, patience, and spiritual support over the years. It is also dedicated to my wife, my lovely children, and for my brothers and sisters for their continual love, support and encouragement during my journey to complete this thesis.

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Glossary of Abbreviations

2SLS	Two-Stage Least Squares Regression
AAF	Attributes of analysts' forecasts
ADR	American Depositary Receipts
AGM	Annual General Meeting
AIMR	Association for Investment Management and Research
ASE	Athens Stock Exchange
ASSC	Accounting Standards Steering Committee
BDM	Board Of Directors And Management category
CBK	Central Bank Of Kuwait
CCL	Kuwait Commercial Companies Law
CEO	Chief Executive Officer
CG	Corporate Governance
CIFAR	Center for International Financial Analysis & Research
CITIC	China International Trust and Investment Corporation
CLSA	Credit Lyonnais Securities Asia
CSD	Corporate Social Disclosure category
CSR	Corporate Social Responsibility category
DSE	Dhaka Stock Exchange
DSM	Doha Securities Market
EI	Employee Information category
FAF	Financial Analysts Federation
FDI	Foreign Direct Investment
GCC	Gulf Cooperation Council
GCI	General Corporate Information category
GDP	Gross Domestic Product
GLS	Generalized Linear Model
GLS	Generalized Least Squares
GMRP	Government Manpower and Restructuring Program
HKSA	Hong Kong Society of Accountants
IASs	international accounting standards
IFRSs	International Financial Reporting Standards
IMF	International Monetary Fund
ISE	Istanbul Stock Exchange
ISO	International Organization for Standardization
KCML	Kuwait Capital Markets Law
KD	Kuwaiti Dinar
KLSE	Kuala Lumpur Stock Exchange
KNPC	Kuwait National Petroleum Company
KOC	Kuwait Oil Company
KPC	Kuwait Petroleum Corporation
KPMG	Klynveld Peat Marwick Goerdeler
KSE	Kuwaiti Stock Exchange
KSM	Kuwait Stock Market
LVD	Level Of Voluntary Disclosure
MNCs	Multi-National Corporations

MOF	Ministry of Finance
NEDs	Non-Executive Directors
Non-NATO	Non-North Atlantic Treaty Organization
O	Others category
OECD	Organisation for Economic Co-operation and Development
OLS	Ordinary Least Squares
PACI	Public Authority for Civil Information
PAT	Positive Accounting Theory
PRC	Republic Of China
PRC	People's Republic of China
S&P	Standard & Poor's
SCS	Specific Corporate Strategy
SEHK	Stock Exchange of Hong Kong
SSE	Shanghai Stock Exchange
TSE	Tehran Stock Exchange
TSX	Toronto Stock Exchange
TSX, until 2001, TSE	Toronto Stock Exchange
UCLA	University of California, Los Angeles
UK	United kingdom
USA	United States of America
VIF	Variance Inflation Factor

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In the Name of Allah, the Most Merciful and the Most Magnificent

First and foremost, I testify that there is no God but Allah and that Mohammad is his Messenger. All praise belongs to Allah, the Lord of worlds, prayers and peace be upon Mohammed His servant and Messenger, All praise be to You, we have no knowledge except what You taught us.

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Last, but not least, All praise be to Allah for his blessings and guidance which enabled me to complete my thesis.

Declaration

I declare that this thesis is my own unaided work. It is being submitted in partial fulfilment of the degree of Doctor of Philosophy, at the University of Bedfordshire. It has not been submitted before for any degree or examination in any other University

Name of candidate:

BADER M N A Al OTAIBI

Signature:

Bader

Chapter 1: Introduction

This thesis investigates the effect of corporate governance (CG) mechanisms, ownership structure and firm characteristics on the level of voluntary disclosure (LVD) of financial reporting companies listed on the Kuwait stock market. This chapter highlights the background to the study, the importance of voluntary disclosure and its determinants in Kuwait, the research objectives, significance of the study, and the research method chosen. The rest of the chapter is organised as follows. Section 1.1 presents the background to the study, section 1.2 justifies why the study is necessary in Kuwait; the research aims, objectives and questions are presented in section 1.3; section 1.4 highlights the significance of the study; section 1.5 summarises the key study variables, while section 1.6 presents the research method and process. Finally, sections 1.7 and 1.8 present the organisation of the thesis and conclusion of the chapter respectively.

1.1 Background to the Study

Accounting information includes both financial and non-financial information, which is useful for decision makers, investors and other users in order to make proper decisions in their investment. Therefore, any investor seeks to invest his funds in the markets that provide disclosure and transparency. In other words, investors prefer markets that ask all listed companies to provide comprehensive disclosure in order to ensure accessibility of information to all investors at the same time. Claessens et al. (1993) and Mutawaa and Hewaidy (2010) indicated that market inefficiencies in emerging economies may frustrate foreign and local investors because of unfair access to information. In addition, market inefficiencies will weaken the confidence of investors. Since financial disclosure is an important reason to attract investors to invest in emerging markets.

Recently, there is increasing attention to disclosure and transparency by accounting organisations as result of many factors, such as globalization and changes in business environments (Healy and Palepu, 2001). Furthermore, there have been major scandals in several developed markets: such as Adelphia, Tyco International, WorldCom, Enron and Communications (USA), Nortel and Saffron (Canada), and

Parmalat and Royal Ahold (EU) (Claessens, 2006). That enhances many institutions and accounting organisations' interest in disclosure and transparency to avoid the expected negative effects of shortage of or weakness in disclosure and transparency, as any investment decision depends, without doubt, on the quality and quantity of information disclosure by companies. Information is necessary for both domestic and foreign investors and other users in order to reach suitable decisions. Mendelson (1978) indicated that any decision-making for investment involves an evaluation of the possibility allocation of future returns and the selections of stock exchange that offer investors protection of their interests.

There are many ways for companies to release information to the public, e.g. annual reports, conferences, analyst lists, investor relations, interim reports, prospectuses, press releases, the Internet, and others. The annual report is a very important official disclosure for stakeholders, but it is not enough (Hope, 2003), although that form of financial reporting is still the main source of valuable information about firms (Meyer, 2007). Disclosure can be divided into mandatory disclosure and voluntary disclosure. Mandatory disclosure is undertaken in the fulfilment of disclosure requirements of statutes in the form of laws, regulations in the form of standards, and the listing rules of the stock market; voluntary disclosure is where data is revealed in addition to mandatory disclosure (Hassan and Marston, 2010). Voluntary disclosure is considered one of methods to achieve completeness in information, provided by any company to the public.

The importance of voluntary disclosure and its determinants has gained much attention from both scholars and practitioners, recently. Many empirical studies have shown that increasing voluntary disclosure is a major cause of achieving a high level of accountability and transparency, which contributes to increasing the confidence of investors to invest in the financial markets of emerging economies (Sutton, 1997). There are numerous studies that investigate the relationship between LVD and each of CG mechanism, ownership structure and firm characteristics in developed countries (Bokpin and Isshaq, 2009), but there are few studies conducted in developing countries and transition economies like Kuwait.

As indicated by Salter (1998), the average level of corporate financial disclosure for companies in developed markets continues to be significantly higher compared to that of emerging markets; in Kuwait, as an emerging market needing to attract investors, that will not happen unless there is an increase to incentives for LVD (Al-Qenae, 2000). Ahmed and Nicholls (1994) argue that there are many advantages for increasing disclosure in the markets in emerging economies, such as reducing market risks, increasing confidence of local investors and attracting direct foreign investment. There are great hopes that increasing LVD will enhance confidence, bring benefits to the Kuwaiti economy by increasing the number of investors, either domestic or foreign to the Kuwaiti market, decrease the information asymmetry and reduce companies' cost of capital.

1.2 Why Kuwait?

Kuwait belongs to the Cooperation Council for the Arab States of the Gulf (originally, and still, known as the Gulf Cooperation Council, GCC) countries; compared to the other GCC countries, it is an open economy (Al-Shammari and Al-Sultan, 2010). As previously mentioned, investors prefer markets that ask all listed companies to provide comprehensive disclosure in order to ensure accessibility of information to all investors at the same time. Therefore, Kuwaiti companies should give due care to voluntary disclosure to enhance their market's value, in addition to increasing inward investment. Chau and Gray (2010) asserted the importance of CG and disclosure to the economy of any country which intending to attract foreign investors and reduce the cost of capital. Accordingly, in 2004, the Central Bank of Kuwait (CBK) issued instructions for CG to banks and investment companies only[1].

Emerging markets suffer from the matter of ownership structure, tending to have higher ownership concentration and control by families or the government; ownership structure affects disclosures, whether mandatory or voluntary, which affects transparency negatively; ownership especially affects financial reporting aspects. According to Jalila and Devi (2012), this is the reason for the presence of the agency problem in this case. Concentrated ownership is a characteristic of Kuwaiti

[1] In 2004 the Central Bank of Kuwait (CBK) issued a comprehensive instruction to banks and investment companies (conventional and Islamic).

companies, where there is concentration of ownership in families or the government and their agencies. Numerous studies have investigated the effect of concentrated or dispersed ownership in developed or developing countries: e.g. Booth et al. (2002) discussed the effect on monitoring mechanisms; Chau and Gray (2010) discussed the effect on voluntary disclosure; and Setia-Atmaja (2009) examined the affect of ownership concentration on the board and audit committee independence.

In disclosure prior literature, there has been extensive research investigating the relationship between LVD and firm characteristics. Belkaoui and Kahl (1978) investigated the impact of firm-specific characteristics (size of firm, liquidity, profitability, capitalisation ratio and industry type) on disclosure adequacy. Hossain et al. (1995) investigated the effect of firm-specific characteristics (e.g. firm size, gearing, type of auditors and assets-in-place) on voluntary disclosure. Raffournier (1995) examined the extent of disclosure with firm characteristics (company size, gearing, profitability and industry type). Uyar et al. (2013) examined the association between firm characteristics (firm size, listing age, profitability and gearing) and corporate voluntary disclosure.

This study examines the impact of CG mechanisms, ownership structure and firm characteristics together as factors that affect LVD in Kuwait-listed companies. Simply, the idea here for choosing these factors is based on **three reasons**; **first**, in 2004, the Central Bank of Kuwait (CBK) issued instructions for corporate governance (CG) to banks and investment companies only. It is useful to examine the impact of CG principles after three years of commitment to it, during the period of the study (2007-2010)[2], on LVD to indicate whether there is an increase in LVD overall and shed light on the differences between the financial sector and the non-financial sector. Al-Shammari and Al-Sultan (2010) investigated the relationship between the four major CG characteristics and voluntary disclosure in the annual reports of 170 Kuwaiti companies listed on the Kuwait Stock Exchange in 2007. The current study uses a longitudinal approach (2007-2010), to investigate the effect of study factors that may contribute to the change of LVD over time, as recommended by Huafang and Jianguo (2007). Buck (1990) stated that the rationale for studying

[2] Corporate Governance Code – Kuwait, April 2013 Principles & Recommended Best Practices for Public Companies http://www.kuwaitcma.org/templates/pdf/decisions/decisions_27_6_2013.pdf

any factors over time is either to investigate causal relationship from sequential ordering (time), or to show the effects of events.

Second, the predominant ownership pattern is concentration of ownership in Kuwaiti listed companies. According to previous studies, there is variance in the effect of concentrated ownership on voluntary disclosure. Hasan et al. (2013) found concentrated ownership has the power to influence LVD, while Woodcock and Whiting (2009) failed to find any proof of ownership concentration affecting LVD. Although Al-Shammari (2008) examined the effect of ownership on voluntary disclosure for Kuwaiti listed companies in 2005 from the view of the proportion of shares held by outsiders, this study only covered one year, and in addition excluded the food sector from his study sample. The current study covers all Kuwaiti sectors in the Kuwait stock market.

Third, previous studies found that firm characteristics affect LVD in many countries, whether developed or developing. Kuwait still has no CG code for all Kuwaiti companies up to the study time, but there are CG principles, issued by the Central Bank of Kuwait (CBK) to the financial sector. The majority of previous studies focused on the degree of compliance with the CG code when investigating the effect of firm characteristics on disclosure. The current study examines the effect of firm characteristics in case there are some sectors, which adhere to CG unlike other sectors. These characteristics are firm size, firm age, liquidity, gearing, and profitability.

1.3 The Research Aim, Objectives and Research Questions

This study focuses on the Kuwaiti companies listed in the Kuwait stock market as an emerging capital market. First, this study aims to measure and evaluate voluntary disclosure practices in the annual reports that were issued by Kuwaiti listed companies over four years (2007-2010), after three years of existence of the CG principles for banks and financial companies issued by the Central Bank of Kuwait in 2004. Second, this study aims to investigate the effect of CG mechanisms, ownership structure and firm characteristics on voluntary disclosure of financial reporting, and improve LVD in Kuwait based on the results of this study.

1.3.1 The specific objectives

In order to reach this overall aim, the following specific objectives are addressed.

1. Provide a full explanation of what voluntary disclosure means to Kuwaiti customers and to the firms' managers.
2. To evaluate voluntary disclosure through overall disclosure and its categories during the study period.
3. To find whether there are statistically significant relationships between LVD and its categories with the CG mechanisms, ownership structure and firm characteristics.
4. To compare the extent of LVD in both sectors (the financial sector and the non-financial sector).
5. To link the empirical results with the different theories to provide a clear meaning to results.

1.3.2 Research questions

1. What is the extent of voluntary disclosure in annual reports of Kuwaiti listed companies?
2. To what extent did voluntary disclosures of Kuwaiti listed companies and its categories change over the period 2007-2010?
3. What are the determinants of voluntary disclosure in the annual reports of Kuwaiti listed companies?
4. Is there any difference between the financial sector and non-financial sector?

1.4 Significance of the Study

This study is significant for the following reasons. First, the Kuwaiti context is suitable for study, because there is minimal legislation and law for disclosure requirements for listed companies in Kuwait. The main resource is Commercial Company Law No. 6 of 1960, issued to organise the accounting profession and amended by Law No. 3 of 1965, which requires listed companies to provide end of year financial reports that include comparative financial statement, the profit and loss statement and the cash flow statement. Law No. 32 of 1970 organises the private

trading of securities of Listed companies, and the other resource is the practice of the auditing profession covered by Law No. 5 of 1981 (Shuaib, 1998)[3].

Second, the study adds value to the knowledge in the disclosure literature and the CG literature by evaluating voluntary disclosure through overall disclosure and its categories. The study further investigates significant differences among LVD and CG characteristics, ownership structure and firm characteristics in Kuwait as an emerging capital market. In addition, Kuwaiti companies are exempt from taxes (see section 4.8). To the researcher's knowledge, there is no previous empirical longitudinal study in Kuwait concerning LVD and its relationship with the factors mentioned.

Third, the precept underlying this study: it was conducted in Kuwait's business context, which is different from other environments due to a lack of CG codes for all companies listed in Kuwait. It investigates whether ownership structure affects LVD practices in corporate annual reports of Kuwaiti listed companies following the approach of (La Porta et al., 1999).

Fourth, the current study is considered a longitudinal study (2007-2010), since the most previous studies investigated LVD only covering a single year period. The longitudinal nature enriches the voluntary disclosure literature by investigating the implications and impact of the changing disclosure environment on LVD in the context of a rapidly developing Kuwaiti stock market. Longitudinal studies allow the researcher to examine trends for factors by looking for their contribution to the change of voluntary disclosure over time (Huafang and Jianguo, 2007).

Fifth, in this study, voluntary disclosure is analysed based on narrow groups of items rather than wider groups. It examines overall voluntary disclosure and the different categories of voluntary disclosure. These categories are general corporate information (GCI), board of directors and management (BDM), specific corporate strategy (SCS), employee information (EI), corporate social disclosure (CSD) and others (O) in order to provide a full explanation of trends of the voluntary disclosure

[3] In 2010, Law No. 7 was issued for the establishment of the Capital Markets Authority and regulation of the activity of securities.

categories (Meek et al., 1995; Ferguson et al., 2002; Leventis and Weetman, 2004; Al-Shammari, 2008; Murcia and Santos, 2012).

Sixth, this study used more advanced statistical analysis techniques compared to prior disclosure studies, which used correlation (parametric and non-parametric) and Ordinary Least Squares (OLS) regression to investigate the relationships. In this study, a number of statistical techniques are used, namely, the Generalised Linear Model, the Tobit model and quantile regression. Generalised Linear Model (GLS) estimation is employed to correct the serial or auto-correlation in panel regression. Bassett et al. (2007) employed Tobit regression investigate the association between employee stock option disclosure and corporate governance. The Tobit model[4] assumes that there is a latent variable (unobservable) and this variable linearly depends on an independent variable via a parameter (beta), and this beta determines the relationship between the independent variable and the latent variable. Tobin (1958), therefore, is used in this study. The quantile regression is used to estimate the relationship of explanatory variables at different points. Koenker and Hallock (2001) stated that this test is useful to use in this type of study. In addition, this study uses multi-theories such as agency theory, stewardship theory, signalling theory, legitimacy theory, stakeholder theory and political cost theory in order to offer a full explanation of the study results.

Finally, this study is important in enhancing knowledge and understanding of corporate disclosure in annual reporting in Kuwait. It explores and determines the factors, which affect voluntary disclosure in Kuwait listed companies, in order to improve the legislation and rules of disclosure in Kuwait's business environment. Although the Kuwait market hosts the oldest stock exchange in the GCC region, there is weak legislation and rules that organise accounting and auditing profession in Kuwait.

[4] The Tobit model is a statistical model suggested by James Tobin (1958).

1.5 Key Study Variables

According to previous disclosure studies, there are several factors, which affect the extent of voluntary disclosure. It is important to investigate these factors in the Kuwaiti environment; thus, the following section discusses the importance of voluntary disclosure and factors that are expected to have an impact on voluntary disclosure policies and practices in Kuwait.

1.5.1 Importance of voluntary disclosure

Gibbins et al. (1990) defined financial disclosure as "*any deliberate release of financial information, whether numerical or qualitative, required or voluntary, or via formal or informal channels*" (p.122), such as annual reports, conferences, analyst lists, investor relations, interim reports, prospectuses, press releases, or the Internet (Hope, 2003). According to Cooke (1989), the aim of corporate financial reporting is to provide economic information to stakeholders so they can make investment decisions, through laws and regulations for investment to reduce restrictions on investors' knowledge such as mandatory corporate disclosure. Hence, the annual report is a very important official disclosure for stakeholders and a main source of valuable information (Hope, 2003; Meyer, 2007). Most information included in the annual report is mandatory, required by accounting standards and regulations. Therefore, the users of financial reports seek more information about the corporate financial position, and hence, voluntary disclosure is considered one of the important disclosure channels that provides more information. Hence, this study evaluates categories of voluntary disclosure in annual reports in listed companies in Kuwait between 2007 and 2010.

1.5.2 Corporate governance

Sir Adrian Cadbury of the Committee on the Financial Aspects of CG in the UK, defines the CG thus: "*the system by which companies are directed and controlled*" (Cadbury Committee Report, 1992). Over the years, CG has grown in size gradually, because of corporate scandals, legislation failures, weaknesses in rules to organise financial markets, or systematic crises. Ho and Wong (2001) indicated that the Asian financial crisis was the result of a lack of effective CG and transparency that led to a

loss in investor confidence. According to Jensen and Meckling (1976), the reason for higher asymmetric information is due to lower transparency. Balachandran and Bliss (2004) reported that the need for CG in the Asian region is to protect investors and avoid corporate failures. CG is considered as the mechanism to reduce the level of gap between the separation of principal and agent; in other words, CG helps in reducing the cost of the agency (Akhtaruddin et al., 2009; Andreou et al., 2014).

CG has been found in prior studies to have an impact on LVD (Gul and Leung, 2004; Kent and Stewart, 2008; Mohamad and Sulong, 2010; Rouf, 2011). In addition, many scholars reported poor CG was cited as a main reason of corporate collapses (Leung and Horwitz, 2004; Gul and Leung, 2004; Alsaeed, 2006). This study extends the previous studies, by investigating the impact of CG mechanisms on LVD in the financial business environment in Kuwait. CG mechanisms that are used in this study to examine its effect on voluntary disclosure include non-executive directors (NEDs), board size, role duality, audit committee and audit firms.

1.5.3 Ownership structure

There is separation between the ownership and the management in modern corporations; hence, there is increased investor monitoring of the decisions and performance of management in order to protect their significant interests. The usefulness of corporate information to any investor, and existence of contractual relationships between ownership (principal) and agent (management), can be understood through agency theory context (Watts, 1977; Watts and Zimmerman, 1978). Arnold and Lange (2004) referred to the existence of information asymmetry when the agent has superior access to the information compared to the principal. Gray et al. (1996) inducted that every company must provide information to anyone who has a direct or indirect interest in it, according to the normative perspective of the accountability model, because it is responsibility of the company to disclose information.

Prior studies found conflicting results for the impact of ownership structure on level of disclosure, such as (Arcay and Vázquez, 2005; Barako, 2007; Wang et al., 2008; Laidroo, 2009; Bokpin and Isshaq, 2009; Hashim and Devi, 2008; Eng and Mak,

2003). Dhaliwal et al. (1982) reported that firms with ownership concentration are more likely to be monitored than firms with diffuse ownership. Raffournier (1995) found a positive association between ownership diffusion and disclosure. However, some studies found a negative relationship between disclosure and ownership concentration, such as (Chau and Gray, 2002; Patelli and Prencipe, 2007; Barako, 2007). In addition some studies such as (Eng and Mak, 2003; Haniffa and Cooke, 2005) found a significant relationship between ownership and voluntary disclosure. In this study, ownership structure is defined in two forms ownership concentration and ownership diffuse. The approach of La Porta et al. (1999) is adopted in this study to determine ownership structure: if an investor owns (directly or indirectly) more than 20% of the company's shares, this means the company has concentrated ownership. Hence, this study investigates the effect of ownership structure on voluntary disclosure in Kuwait listed companies.

1.5.4 Firm characteristics

Previous disclosure studies in both developed and emerging / developing countries provided evidence that firm characteristics influence LVD either positively or negatively, while another group of studies did not find any effect of firm characteristics on LVD (Belkaoui and Kahl, 1978; Wallace and Naser, 1995; Barako, 2007; Wang et al., 2008; Rouf, 2011). Scholars found firm characteristics play an important role in corporate politics about disclosure (Fama and Jensen, 1983; Camfferman and Cooke, 2002; Donnely and Mulcahy, 2008). According to empirical investigations from developed countries like the US, the UK and some European countries, the effect of firm characteristics – such as firm size, firm age, and industry type – on LVD are different between countries, because each factor has a different effect dependent on the location investigated.

Researchers have discussed the relationship between firm characteristics and LVD in annual reports through a variety of factors such as, firm size, firm age, liquidity, gearing (Camfferman and Cooke, 2002; Alsaeed, 2006; Tsamenyi et al., 2007; Wang et al., 2008; Bokpin and Isshaq, 2009; Laidroo, 2009; Rouf, 2011). For example, firm size has positive significance for level of disclosure in the annual report (Camfferman and Cooke, 2002; Hossain and Hammami, 2009; Tsamenyi et al.,

2007; Alsaeed, 2006). While Aljifiri and Hussainey (2007) found negative insignificant relationship between firm size and level of disclosure. However, Aljifri (2008) found a negative association. Another example, gearing, was found to have no significant relationship with level of disclosure (Tsamenyi et al., 2007; Wang et al., 2008), but Bokpin and Isshaq (2009) found a positive association. Hence, this study investigates the effect of firm characteristics on voluntary disclosure in Kuwait listed companies.

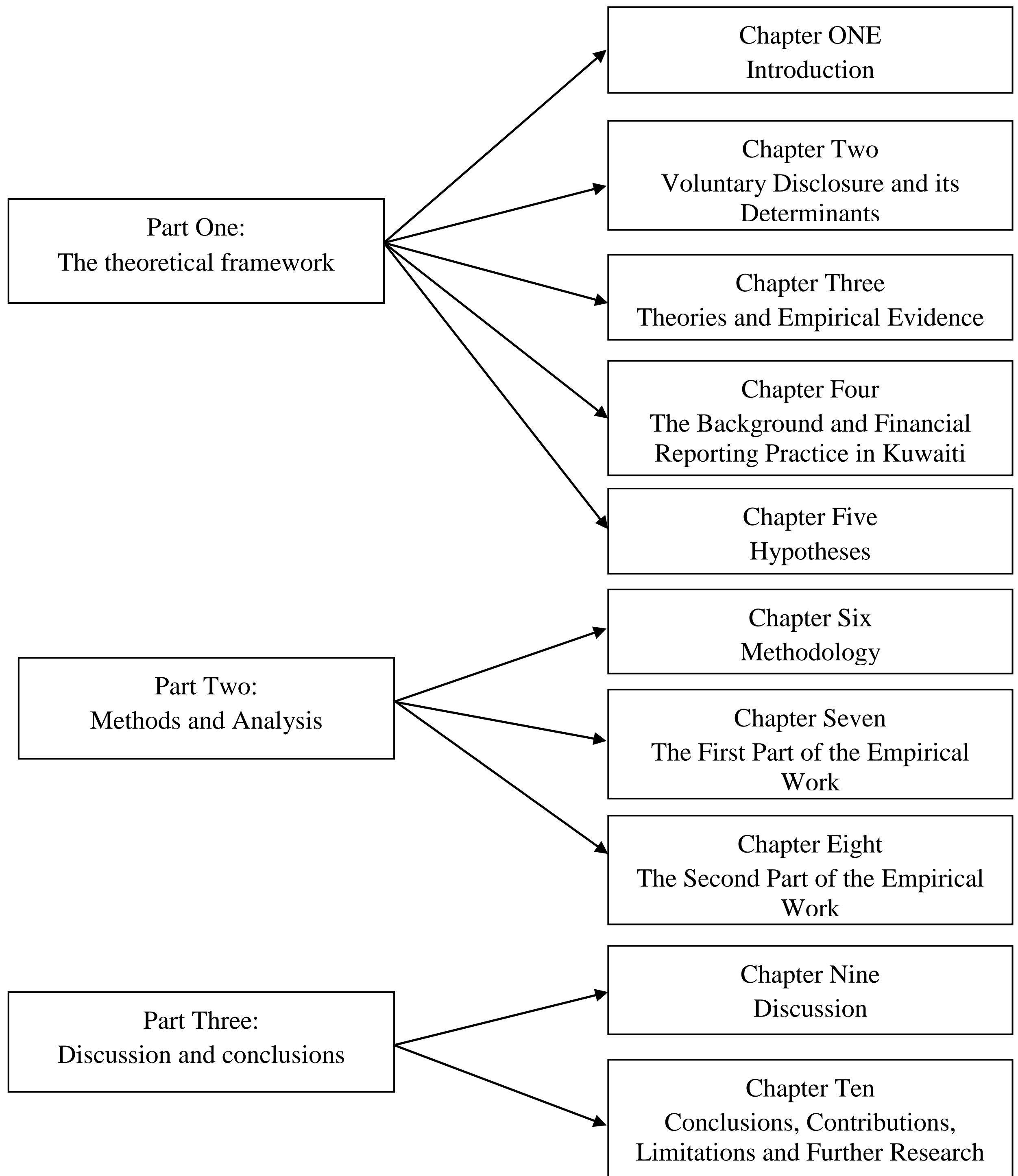
1.6 Research Approach and Process

To examine the associations among LVD, CG mechanisms, ownership structure and firm characteristics in Kuwaiti listed companies, this study adopted methods from previous research. This study adopts a quantitative approach, which is based on the positive paradigm in order to analyse the association between LVD and corporate governance, ownership structure and firm characteristics. Data is collected from both primary and the secondary sources, such as annual reports, textbooks, articles, journals, Kuwaiti legislation, publications and the website of the Kuwait Stock Exchange, and magazines and newspapers relevant to the Kuwaiti business environment.

The research process in this study involved various steps. The first step is a literature review to discover results from previous research on the general problem, identify relevant explanatory variables, as well as theories relevant to assisting in selecting the appropriate research methodology and research design in order to answer the research questions in this study. In the second step, the voluntary disclosure checklist was constructed and an appropriate scoring approach chosen with applicability to the annual reports of Kuwaiti listed companies to answer the first two questions by applying a descriptive analysis. In the third step, hypotheses were developed from relevant theories and previous studies, and these were tested using both univariate and multivariate analyses.

1.7 Organisation of the Thesis

This study is divided into three main parts and ten chapters, as shown in figure 1.1.



1.1 Organisation of the thesis

Chapter 1 is a brief presentation of the thesis. It introduces the general aim of this study and transforms it into objectives and research questions. Empirical questions are generated by this procedure; the significance for this thesis is also presented. A summary of the methodology and research design are provided; also, contributions and are discussed briefly. Finally, the structure of the thesis is reported.

Chapter 2 presents the historical background to corporate financial reporting and the definition of corporate governance (CG), and spotlights the factors that affect voluntary disclosure, CG mechanisms, ownership structures and firm characteristics.

Chapter 3 is divided into two parts: in the first part, a theoretical review is presented of common theories used in explanation of voluntary disclosure practices in many countries; and in the second part, empirical disclosure studies are discussed, both on total voluntary disclosure and on voluntary disclosure categories.

Chapter 4 presents an overview of background and financial reporting practice in the Kuwaiti environment as the context of the study, the Kuwaiti capital market and listing requirements on the Kuwaiti Stock Exchange (KSE), and corporate financial reporting and regulation in Kuwait.

Chapter 5 presents the research hypotheses of the present study, which are developed, based on the empirical disclosure studies discussed in chapter 4.

Chapter 6 presents the research process and philosophy, research paradigm, research approach and methodological choices. The research design is presented, which includes data collection, reasons for choosing annual reports, how to measure level of disclosure, construction of the disclosure index, the scoring method, and assessing the reliability and validity of disclosure. The model and formulation of independent variables hypotheses are presented. Finally, an explanation of the statistical tests used in the study is presented.

Chapter 7 presents part one of the empirical work for the present study. To examine LVD in Kuwaiti listed corporations and their development over time, to provide answers for the first two research questions, a detailed analysis was developed of the

results of the voluntary disclosure index through the self-constructed index. This starts with the total LVD, passing through its categories and then to information items (hierarchical analysis).

Chapter 8 presents part two of the empirical work for the present study, to identify the determinants of LVD practices in the annual reports of Kuwaiti listed companies to provide answers for the third question. This starts with description of continuous independent variables, and then quantitatively investigates the relationship between LVD as the dependent variable and the independent variables, i.e. CG mechanisms, ownership structure and firm characteristics over the four years, from 2007 to 2010.

Chapter 9 presents the results of the two parts of the empirical study presented in chapters 7 and 8, in order to analyse the information, to identify the determinants of LVD and discuss the tests for hypotheses of the present study.

Chapter 10 presents the conclusions of this study. The chapter highlights a summary of the findings of the study, as well as the contribution to knowledge of this study. The limitations of the study and, where possible, how to overcome these limitations are addressed. In addition, suggestions are provided for further research.

1.8 Conclusion

An overview of the subject matter of this study was provided in this chapter; namely, voluntary disclosure and the factors which may affect the extent of disclosure, specifying the research objectives, the significance of the study, the research questions, a summary of the research methodology and methods, and the organisation of the thesis.

Chapter 2: Voluntary Disclosure and its Determinants

This chapter reviews the key concepts related to voluntary disclosure and the determinants that affect it to determine the theoretical foundations and framework for this study, develop testable hypotheses, and choose an appropriate methodology. This chapter is organised as follows: a historical introduction to corporate disclosure, types of corporate disclosures and evaluation of voluntary disclosure is given in section 2.1. CG definitions and the relationship between LVD and each of CG mechanisms, ownership structure and firm characteristics are discussed in section 2.2. The conclusion is presented in section 2.3.

2.1 Corporate Disclosure

During the period 1870 to 1900, a number of American companies needed capital from Europe (Mumford and Peasnell, 1993). Thus, corporate financial reporting was derived from the companies' need to acquire capital from external sources. Furthermore, it became a significant aspect in the twentieth century, with augmentation of the partition between management and ownership control within firms, thus raising the focus on governance relations within firms. In earlier times, the differentiation of financial reporting practices across two countries fell into two groups. One group was concerned mainly with the safeguarding of shareholders (e.g. in the UK and the USA); while the second group was concerned with defending the interests of creditors as well as establishing the efficacy of taxation (e.g. in France and Germany). The publication by the Accounting Standards Steering Committee (ASSC) in the UK in 1975 of the "Corporate Report" was termed as the best endeavour to develop "Corporate Financial Reporting". In addition to that, in 1980, the Canadian Institute of Chartered Accountants published another document regarding corporate financial reporting called "Corporate Reporting: Its Future Evolution" (Ibrahim, 2006). Financial statements consist of balance sheet, income statement and statement of cash flow that depict the financial conditions of the company. Different sorts of user use those statements such as creditors, management, investors and government regulatory body (Wolk et al., 1992). The shareholders do not have access to accounting information in the accounting department; hence, they

depend on published financial statements. At first, the accounting department gathers all the information regarding financial activities of a firm. Then it classifies that financial information and presents the information to the interested parties.

2.1.1 Types of corporate disclosure

More recently, financial reporting has evolved to corporate disclosure. In the accounting literature, disclosure is perceived as the final phase of the accounting process, which means notifying the public via financial statements of the firm (Choi et al., 1999). Corporate disclosure possesses a number of advantages, such as those indicated by Healy and Palepu (2001) who considered corporate disclosure as a significant indicator of a competent capital market, reducing information asymmetry, reducing the cost of capital and mitigating agency cost (Diamond and Verrecchia, 1991; Lev, 1992; Leuz and Wysocki, 2008). Despite the benefits, there are two sorts of costs of corporate disclosure: direct and indirect. Direct cost occurs at the dissemination phase of information to the public, whereas indirect cost occurs when parties other than investors, such as regulators, competitors, tax authorities etc, use listed companies' information. In this regard, Verrecchia (1983) stated that companies would be discouraged from circulating information whenever other parties, other than investors, take advantages. Thus, corporate financial reporting possesses three salient purposes: assisting the country's taxation procedure, publishing information for investors, and protection of creditors. Wolk et al.'s (1992) study reveals that the purpose of disclosure of financial information is to assist investors to make profitable investment decisions.

Companies can disseminate their information to users through a number of ways. However, literature regarding disclosure refers to two sorts of disclosure, voluntary disclosure and mandatory disclosure. Ghazali (2008) argued that mandatory disclosure consists of reporting as required by the regulations of a government such as accounting standards, companies act, listing requirements of stock exchanges; whereas voluntary disclosure varies in the form of disclosure. According to Hassan et al. (2009), the mandatory financial disclosures are the income statement, balance sheet, statement of changes in equity, cash flow statement, board of directors' report, notes to the accounts and external auditor's report. Mandatory disclosure means

providing financial information to the users to meet disclosure requirements stipulated in different forms, such as laws, standards and rules of stock exchanges. Mandatory disclosure is needed to fulfil the requirements of a government's regulations and legislations as well as the listing rules of stock exchanges (Hassan and Marston, 2010).

On the other hand, voluntary disclosure means disseminating financial information in excess of mandatory disclosure (Hassan and Marston, 2010). That is why voluntary disclosure is termed as willingly disclosures of financial information as a part of company management, which may assist the users of annual reports to take prudential decisions regarding investment (Meek et al., 1995). The forms of voluntary disclosure are conference calls, annual reports, and discussions with financial analysts, presentations, newspapers, booklets, press releases and different sorts of letter to shareholders. Given the unavailability of a definition of voluntary disclosure, Debreceny and Rahman (2005) observed that it seems difficult to provide a specific and generally accepted definition of voluntary disclosure. If disclosure of financial information remains within the identified minimum limits of the management of a firm then it is called mandatory disclosure. On the other hand, if disclosures surpass the limits then it is called voluntary disclosure (Lang and Lundholm, 1996). From the viewpoint of Lang and Lundholm (1996), voluntary disclosures assist the financial analysts by depicting the better scenario of companies' performance, which enable them to provide reliable forecasts. Voluntary disclosure is perceived as a buzzword nowadays, which attracts the interest of accounting literature (Inyang, 2009). It investigates the aspects that influence voluntary disclosure of information with a view to notifying decision makers and users regarding financial information. Different researchers have identified a number of aspects regarding voluntary disclosure. For example, Meek et al. (1995) identified aspects that affect voluntary disclosure in German, English and French firms. Williams (1999) investigated the environmental and societal aspects of voluntary disclosure that affect it within the Asian pacific countries (Australia, Singapore, Hong Kong, the Philippines, Thailand, Indonesia and Malaysia). Ho and Wong (2001) assessed the degree of voluntary disclosure of firms that are registered with the institutional management of the Stock Exchange of Hong Kong Limited (SEHK). The influencing factors of registered firms of Toronto Stock Exchange (TSX, until

2001, TSE), Canada, have been examined by Bujaki and McConomy (2002). Chau and Gray (2002) investigated the affiliation between voluntary disclosure and ownership structure of Hong Kong and Singaporean firms; Eng and Mak's (2003) findings were similar to these. The above studies investigate the features of firms that deliberately disseminate information and the influencing aspects of voluntary disclosure. A review of the literature reveals that the majority of the studies are completed in developed, western countries, whereas less concentration is given to countries in Asia and the Middle East (Ding et al., 2004).

2.1.2 Evaluation of voluntary disclosure

According to Choi and Meek (2008), disclosure is the mechanism by which accounting information is communicated to the user who needs it; Researchers have tried to answer the question by evaluating disclosure. They have also tried to find out if there is any linkage between measured disclosure and explanatory variables. The studies on voluntary disclosure have tried to depict disclosures, which were published through annual reports, though it should be mentioned that other disclosures have been studied too, such as press releases. Disclosure can be measured through studying reports, which will provide a list of potential voluntary disclosures. The annual report can be ranked based on potential voluntary disclosure. Voluntary disclosure can be elaborated as disclosure in addition to mandatory disclosure. Company law or an accounting standard does not support voluntary disclosure. These disclosures include new information, not available in some other source. Though some scholars have attached value to this information, it is worth nothing. After consulting with financial and academic analysts, different weights have been given to different disclosures based on their relative importance. The accuracy of issuing weights is subject to the user (Marston and Shrives, 1991). Thus, giving weights to any disclosure will be subjective in nature. It should be noted that companies, which disclose important information, would disclose a very limited amount of irrelevant information. Thus, it can be concluded that there is very limited scope for weighting. However, it matters little to assign a weight or not. The major consideration of the report has been given on discussing different level of disclosure. It is not mandatory to evaluate the appropriateness of each disclosure. To explain various levels of disclosures, accounting theories have been implemented such as

agency and signalling theories. From this theoretical background, hypotheses have been developed and tested to find out whether there is any relationship or not. In the research paper, the researchers did not mention what sort of information the company should disclose, but they said why the company discloses information by implementing an appropriate accounting theory. It is found that these studies have implemented a positivist methodology. This thesis follows the same methodology. It is appropriate to justify accounting theories, which are supported by the literature of voluntary disclosure. The accounting theories must be evaluated based on their appropriateness in explaining related disclosure (ibid.).

2.2 Corporate Governance

Different interested parties, for instance, scholars, academics, professional bodies and regulators over the years, have defined the concept of CG in many paradigms. The literature reviewed does not agree on one definition of corporate governance. Authors explain the concept of CG through their own knowledge and understanding of it. Hence, Keasey et al. (2005) indicate that the definitions of CG carry different explanations and these definitions have a special analysis for each definition, which involves various disciplines and representations. Sullivan (2000) Noting the different points of view about the concept of corporate governance, it can be classified into two perspectives.

The first is shareholder perspective (narrower definition) which focuses on the result of the separation between agent and principal, and concentrates on increasing the wealth for shareholders; some scholars have named it the traditional school of CG (Bhasa, 2004). Solomon and Solomon (2004) point out that this narrow definition of CG is based on the relationship between shareholders and company. Through this perspective the role of CG "*should be to improve the achievement of shareholders' objectives, not to interfere with corporate operations" (p.2)*, this perspective is compatible with agency theory because according to this theory the shareholders seek to increase and maximise their wealth. Through the first perspective, La Porta et al. (1999) argued that CG becomes an issue when a conflict arises between large shareholders and small shareholders. Shleifer and Vishny (1997) defined CG as:

"The ways in which suppliers of finance to corporations assure themselves of getting a return on their investment" (p.2)

Also Egana (1997) reported CG sought to increase confidence in the accounting profession and reliability by reviewing the politics and programmes of companies and reducing the dominance of the board of directors. Parkinson (1994) defines CG by emphasises shareholders, he stated:

"The process of supervision and control intended to ensure that the company's management acts in accordance with the interests of shareholders" (p.159)

In addition, Gregory (2001) defines corporate governance by Millstein as:

"Corporate governance refers to that blend of law, regulation and appropriate voluntary private sector practices which enable the corporation to attract financial and human capital, perform efficiently, and thereby perpetuate itself by generating long-term economic value for its shareholders, while respecting the interests of stakeholders and society as a whole".

These definitions only focused on CG as a way of monitoring shareholders' interests without giving attention to other parties, which amounts to a shortcoming in the concept. Aguilera (1998) found the concept of CG had emerged because of weaknesses in accounting information and a lack of confidence among users. Cohen et al. (2004) emphasised the other parties in his definition of CG as mechanisms, which contain many parties, management, and external and internal auditors and audit committees.

The second is stakeholder perspective (broader definition) that focuses on the concept of corporate accountability to stakeholders. According to the second perspective, Solomon (2007) defined CG as:

"the system of checks and balances, both internal and external to companies, which ensure that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity" (p.14).

This perspective is in agreement with stakeholder theory that concentrates on the accountability, which gives stakeholders, such as creditors, employees, clients, tax departments and suppliers, the right to hold the company accountable. The most famous and narrow definition of CG in the business environment around world is the definition of CG by Sir Adrian Cadbury, mentioned in his report on CG (The Cadbury Report, 1992), who defined CG as:

> *"the system by which companies are directed and controlled"* (section.2.5).

In addition to the second perspective, the OECD (2004) also defined CG from the stakeholder perspective (broader definition) by stating that:

> *"Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders and should facilitate effective monitoring." (p.11)*

In addition, some studies focused on CG from the viewpoint of accountability, because it is a very important issue from all perspectives. Rogers (2008) defines CG as being:

> *"about building credibility, ensuring transparency and accountability as well as maintaining an effective channel of information disclosure that would foster good corporate performance. It is also about how to build trust and sustain confidence among the various interest groups that make up an organisation" (p.4)*

2.2.1 Corporate governance and corporate disclosure

During in the last few years, many scholars, practitioners, professional bodies, shareholders and other stakeholders have shown considerable attention in corporate governance (Francis and Schipper, 1999; Chen and Jaggi, 2000; Eng and Mak, 2003). That is due to a number of international collapses and corporate scandals around the world, such as Adelphia, Tyco International, Health South, WorldCom, Enron and Communications (USA), Nortel, Saffron (Canada) and Parmalat, Anglo Irish Bank and Royal Ahold (EU) and Polly Peck, MiniScribe and Barlow Clowes (UK). In Asia, scandals have also been reported in various companies, such as Hongguang, Yorkpoint, Chaoda, Daqing Lianyi and CITIC (China), Satyam Computer Services (India) and Olympus Corporation (Japan) (Ming et al., 2009; Browning and Jonathan, 2002; Rouf and Harun, 2011). Hence, the awareness of CG has been increased in order to protect the interests of parties (shareholders and stakeholders) alike, which has led to strong regulations and more transparency and credibility. According to Beekes and Brown (2005), reported that firms have higher corporate governance will disclose more and more information.

The CG concept is an important issue in capital markets due to the separation of principal and agent, which dominates characteristics of modern corporations. The result of this separation between ownership and control, particularly in large companies, has led to the need for monitoring and accountability, in order to ensure those companies' management and behaviour of directors is in accordance with the interests of the owners and stakeholders. Researchers and academics have investigated the role of CG in several areas, such as investor protection (La Porta et al., 1998); firm performance (Kiel and Nicholson, 2003; Aljifri and Moustafa, 2007) and dividend and debt policy (Alwi, 2009). Ghazali and Weetman (2006) said that level of disclosure, corporate governance, accountability and transparency are basic pillars of market confidence. CG seeks to encourage efficient and effective sustainable companies for the prosperity and welfare of any society. Imhoff (2003) concludes that CG has a strong effect on investor protection. By analysis the shareholder and creditor protection laws across several countries, La Porta et al. (1998) found empirical evidence on the relationship between strong investor protections and effective CG .Broadly speaking, the concept of CG may be having an

important effect on LVD practice of a state. (Chau and Gray, 2002; Arcay and Vázquez, 2005). Wright (1996) pointed out the existence of empirical evidence on the relationship between specific institutional features of CG and the credibility of financial statements. Others have a different point of view on the relationship between CG and corporate disclosure. For instance, (Fox, 1999; Ahmed and Courtis, 1999; Baker and Wallage, 2000) argue that to have a good system of CG requires efficiency and an adequate financial reporting system. Although more literature has been focused on CG in developed countries and less has been undertaken in developing countries, the issue of CG is suitable for all countries, developing or not (Mueller, 2006).

2.2.2 Corporate governance mechanisms

The level of disclosure in the annual report may be affected by CG mechanisms. Many researchers have investigated the influence of CG mechanisms on disclosure by a variety of variables, such as the non-executive directors, board audit committee, board size, role duality and family members on the board (Leung and Horwitz, 2004; Barako, 2007; Kent and Stewart, 2008; Donnely and Mulcahy, 2008; Samaha, 2010; Rouf, 2011).

2.2.2.1 Non-executive directors

Klein (1998) pointed out the composition of the board has a direct impact on a company's activities and its performance. In the business world, the board for any company consists of two kinds of directors. The first type includes executive directors (insiders) that are full-time employees of the firm. They have clearly defined roles and have responsibilities for the daily operations in the firm, like finance and marketing. They are either from the management or the firm's own family. The second kind of director is non-executive directors (outsiders). They do not form part of the executive management team. They are not an employee of the company or affiliated with it in any other way (Weir and Laing, 2001). The main responsibility of the board of directors is to protect the interests of shareholders and stakeholders. In addition, they ensure they obtain a decent return on their investment and optimise their benefits. Whilst some of the board of directors instead tries to maximise the interests of shareholders and stakeholders, they may also manipulate

financial accounts and financial records to maximise their bonus entitlements through inflating stock prices, enhancing their remuneration, and use different approaches every year in order to cause a valuation of the assets other than their true value. The OECD Principles of CG (2004) state that:

> *"Independent board members can contribute significantly to the decision making of the board. They can bring an objective view to the evaluation of the performance of the board and management. In addition, they can play an important role in areas where the interests of management, the company and its shareholders may diverge such as executive remuneration, succession planning, changes of corporate control, take-over defences, large acquisitions and the audit function" (p.64)*

In this regard, many prior studies indicate the major role of independent non-executive directors, which may assist to observe and monitor the top management. Additionally, they can ensure that the stakeholders' interests are taken into consideration when making decisions; however, sometimes non-executive directors do not succeed in their duties. The issue of the failure of non-executive directors in their duties has addressed by several authors such as (Lawrence and Stapledon, 1999; Crowther and Jatana, 2005). They mentioned reasons of that failure such as the inability of non-executive directors to prevent some irregularities because they are a minority on the board; a lack of skills for solving board issues; personal relationships; and multiple positions held.

A number of empirical studies have been conducted to survey the effect of non-executive directors on voluntary disclosure in different developed and developing countries. Agency theory is considered the most used theory to explain this relationship between these two variables, such as in (Watts and Zimmerman, 1986) For example, Fama and Jensen (1983) pointed out that outside directors on the board of directors are motivated to do their duties in observation and monitoring of a firm's management. In addition, outside directors do not have any connection with top management against stakeholders' interests. Jensen and Meckling (1976) argued that the proportion of non-executive directors may not only increase the effectiveness of

the board; but it may also mitigate the agency conflicts by controlling and monitoring opportunistic management.

2.2.2.2 Board size

Although the importance of board size has received considerable attention in previous literature, scholars differ among themselves regarding the effect of board size on corporate disclosure. Some of them conclude that board size has a material impact on other dependent variables, with either positive or negative effect (Rouf, 2011). In contrast, some scholars found the size of the board did not have an effect on the relationship with other dependent variables (Cheng and Courtenay, 2006). In the prior literature, there are different viewpoints about board size; some scholars agreed with large size and others agreed with small size. For the first view, a number of studies support the notion that large boards can decrease monitoring ability. Bédard et al. (2004) and (Xie et al., 2003) found in their studies that in firms that have large board size, it plays an important role in monitoring and observation of activities and operation of the top-management in the firm by diminishing the level of earning manipulation. Empirically, Yerrnack (1996) and Eisenberg et al. (1998) found that firm valuation is negatively associated with board size. The board of directors with smaller size is better than larger size, because the large board may suffer with communication and coordination problems. Lipton and Lorsch (1992) and Jensen (1993) reported that the task of monitoring and observation for any board have diminished when the board is too large, that mean the smaller board suffers less than the large board, since they do not face poorer communication (Hermalin and Weisbach, 1988). This is consistent with the conclusion reached by Yerrnack (1996), who reported large board size is less efficient in decision-making than small size because there is less agency conflict among the board directors. Kovner (1985) mention that oversized boards are ineffective in decision-making. In addition, Yermack (1996), who found higher market valuation of companies with a small board of directors, investigated the effect of board size on the market.

For the second view, many scholars concluded in their studies that a large board of directors have many advantages. Faccio and Lasfer (1999) found that firms that have board sizes above the sample average of his study have better performance. The

small board might not be effective in monitoring and observation the behaviour of managers in top management (Zahra and Pearce, 1989). Klein (2002) concluded the firm will be better with a large number of directors, which means the quality of work will be at its best in a firm with a large board size, and vice versa.

2.2.2.3 Role duality

Role duality as discussed as one of the CG mechanisms has remained controversial in the literature. It distinguishes between whether the chair of the board of directors and the chief executive officer positions should be occupied by one person (unitary) or by different persons (dual). OECD Principles of CG (2004), which suggest separation between chairman and CEO on the board, reported that:

> *"Separation of the two posts may be regarded as good practice, as it can help to achieve an appropriate balance of power, increase accountability and improve the board's capacity for decision making independent of management" (p.63).*

The advantages and disadvantages of separating the board of directors and the chief executive officer positions have been studied extensively (Shleifer and Vishny, 1997; Baliga et al., 1996; Dalton et al., 1998). For example, Pi and Timme (1993) in their study about separation between the board of directors and the chief executive officer covered 112 banks in the US during 1987-1990 to show that approximately 25% of the banks have separation between the board of directors and the chief executive officer, while 75% have duality.

Some researchers recommend the separation between the two positions based on agency theory, while others recommend chairman and chief executive officer positions to be held by one person. As result, the latter will impair the functions of monitoring and control, and create incentives for the chief executive officer to engage in opportunistic behaviour at the expense of shareholders, and because of which he will be able to dominate the board; but other researchers do not see it this way (Rouf, 2011).

Jensen (1993) shows that the benefits of separation between the two positions of chairman and chief executive officer are in dismissal pay compensation and evaluation as well as in the shareholders' interest. Booth et al. (2002) stressed that CG should separate the role duality between the chairman and the CEO. Shivdasani and Zenner (2004) reported that if one a person had occupied the CEO and chairman duties in any company at the same time, it was extremely difficult for the board of directors to replace a poor-performing CEO. Goyal and Park (2002) reported duality reduces the flexibility of a board to address poor performance.

Therefore, duality will enable the chief executive officer to obtain more information than other directors on the board. Mohamad and Sulong (2010) argued that, when the chairman of the board and CEO positions are held by one person, he or she may withhold information from outsiders. Fama and Jensen (1983) found the role of duality refers to the mix of decision control and decision management and that "*the board is not an effective device for decision control unless it limits the decision discretion of individual top managers*" *(p.314).* This leads to a reduction in the management's ability to take control and fulfil a governance role (Finkelstein and D'Ave, 1994). Also, Cadbury (1992, p.21) recommends that the two roles of chairman of the board and CEO be separated in quoted companies in the UK. From the above, companies with duality between the chairman and the CEO are more likely to be related to lower levels of disclosure, and thus may be exposed to fraud and ineffectiveness.

Forker (1992) found a negative association between disclosure quality and CEO duality. Gul and Leung (2004) addressed the relation between role duality and LVD in Hong Kong; they observed 385 firms to examine the effect of expertise of outside directors on the relationship between CEO duality and LVD. They found a negative association between CEO duality and LVD, and a relationship between outside expertise and LVD. Huafang and Jianguo (2007) examined the relationship between level of disclosure and role duality in China with a sample consisting of 559 listed companies in 2002. They employed Checklist items: 30 voluntary items un-weighted, which provided evidence of negative association between role duality and LVD. This finding is consistent with the findings of Haniffa and Cooke's (2002)

study that examined the association between role duality and voluntary disclosure in Malaysia, which found a negative association.

Many previous studies have found a negative relationship between role duality and level of disclosure; they point to the importance of separation between the chairman and CEO (Fama and Jensen, 1983; Jensen, 1993; Khodadadi et al., 2010).

2.2.2.4 Audit committee

In recent years, researchers have focused on the role of the audit committee after a consequence of corporate scandals, which have happened across the world. Previously, the appointment of auditor, compensation, and supervision of preparation of the financial statement and the annual report were responsibilities of the chief financial officer, but since the (US) Sarbanes–Oxley Act of 2002, the audit committee is directly responsible for these functions (Ali, 2014). The role of the audit committee is "oversight and monitoring" of a firm's financial reporting, financial performance and dealing with external auditors, who review financial statements and internal control, thus it provides assurance of high quality financial information. In addition, the audit committee is considered as a method to enhance the concept of corporate accountability and CG (Carcello and Neal, 2000). Wallace and Zinkin (2005) reported the role of the audit committee is to ensure the company follows both local and international accounting standards in decisions regarding accounting disclosures, practices and financial policies. In addition, the audit committee has other duties, such as reviewing outcomes of the process of external and internal audits, and supervision of the financial reporting process.

The presence of the audit committee will guarantee continuous contact between the board and external auditors (Rashidah and Fairuzana, 2006), increase of confidence in financial statements and a reduced rate of errors, irregularities (Rouf, 2011). Thus, audit committees have influence on the company's board to reduce information asymmetry and have a role in effective corporate governance. Forker (1992) regarded the audit committee as a tool to improve disclosure and reduce agency conflict, and as one of the most effective oversight mechanisms. Therefore, if audit committees have a large proportion of independent outside directors, and they have

financial backgrounds, experience and training, they will understand their duties and enhance the oversight process.

2.2.2.5 Audit firm

The need for external audit is to constrain fraud and asymmetries on financial statements and increase the level of confidence. Adelopo (2011) stated, "*The theoretical expectation of a relationship between auditor type and disclosure stem from the fact that auditors provide certification for the truth and fairness of some of the information in the annual report" (p.4).* Therefore, the role of external auditors is to ensure the client complies with accounting standards and other regulations. The audit firm, as a neutral party, provides the responsibility to declare the reliability and validity of the financial data (Porter et al., 2003). In addition, the audit firm has a role to mitigate the conflict between directors and shareholders and, consequently, reduce agency conflict (Hossain et al., 1994; Naser et al., 2002). Therefore, the audit firm can influence the level of disclosure (Ahmed and Nicholls, 1994). The audit firm size can affect the level of disclosure; the audit firm preserves its reputation by increasing the level of disclosure. Alsaeed (2006) stated, "*Audit firms are primarily divided into large (Big 4) and small (not Big 4). Large audit firms are widely spread across the world while small audit firms operate domestically" (p.484)*

The big audit firms seek to protect and avoid damage to their reputation through provision of the high level of disclosure, more so than small audit firms (DeAngelo, 1981; Chow and Wong-Boren, 1987). The type of audit may play an important role in enhancing the credibility of disclosure (Healy and Palepu, 2001). From the signalling theory background, the big audit firms may use the information released by their clients as signalling their own quality (Inchausti, 1997).

According to Owusu-Ansah (1998), they reported the big audit firms have a competitive advantage over small audit firms for three reasons. First, the big audit firms have many customers, which means they are not economically dependent on a particular customer, and therefore, it is easy to report any errors or misstatements if found in the annual report of the customer. Second, large companies are interested in their reputation, and any damage to their reputation will lead their current customers to convert to another audit firm. Third, the big audit firms' potential exposure to

legal liability is larger since the investors are mainly dependent on the auditor's reports of large companies in making their investment decisions.

However, Malone et al. (1993) reported small accounting firms may succumb to their clients' needs to keep dealing with them. Dumontier and Raffournier (1998) indicated the ability of the big audit firms to apply international accounting standards (IASs) more than small audit firms, where the big audit firms have experience in accounting and auditing.

2.2.3 Ownership structures

Regarding using ownership structure in disclosure studies, previous studies have investigated the impact of ownership structure in several aspects on level of disclosure, such as government ownership used in Eng and Mak (2003),Hashim and Devi (2008),(Jiang, 2009) and (Al-Akra et al., 2010). Foreign ownership was used in Meek et al. (1995) and Liang et al. (2012). Family ownership was used in Chen and Jaggi (2000), Haniffa and Cooke (2002) and Chau and Gray (2010). Outside ownership was used in Fama and Jensen (1983), Hossain et al. (1994), Chen and Jaggi (2000) and Tsamenyi et al. (2007). Block-holder ownership was used in Eng and Mak (2003) Huafang and Jianguo (2007) and(Ismail and Elshayeb, 2012).

According to agency theory, which is based on the separation between ownership (principals) and management (agents), agency conflict arises because of differences of interest and asymmetric information between the two parties (Chrisman et al., 2004). Jensen and Meckling (1976) developed agency theory, explaining it as:

> *"a contract under which one or more persons (the principals) engage another person (the agent) to perform some service on their behalf that involves delegating some decision-making authority to the agent. If both parties to the relationship are utility maximizers there is good reason to believe that the agent will not always act in the best interests of the principal. The principal can limit divergences from his interest by establishing appropriate incentives for the agent and by incurring monitoring costs designed to limit the aberrant activities of the agent" (p.5)*

The managers may seek to pursue their interests (not always maximize shareholder value) at the expense of shareholders; that is because of the greater separation between ownership and management: here agency conflict between insiders and outsiders would be generated (Agarwal and Gort, 1996; Depoers, 2000). From a different viewpoint, La Porta et al. (1998) suggested the presence of another type of conflict of interest in companies: this conflict occurs when controlling shareholders confiscate the rights of minority shareholders; that confiscation is represent in loan guarantees, transfer of resources and excessive executive compensation. In other words, Jalila and Devi (2012) pointed to the existence of two types of agency problem, TYPE I and TYPE II: a Type I agency problem happens when there is misalignment between the agents and principals; while a Type II agency problem happens when there is conflict between the majority shareholder and the minority shareholder. They call Type I the "Alignment effect", that occurs when shareholders do not play an active role in the management although they invest in the business of the firm. The Type II is called the "Entrenchment effect", that occurs when the majority shareholder who is a manager, in fact, (occurs mainly in family companies) confiscates the rights of the minority shareholder.

Omar and Simon (2011) indicated the managers are acting in accordance with the interests of the owners in order to reduce the cost of monitoring so as not to harm managers' remuneration. Moreover, Fama (1980) suggested that the managers may be disciplined for their bad performance through the managerial labour markets, which provide "full ex post settling up" of the conflict problems, since managerial labour markets enhance the managers' reputations. As mentioned above, the ownership structure may take different forms in companies. Concentrated ownership is a characteristic for Kuwaiti listed companies, where the concentration of ownership is in family ownership or government ownership and their agencies. La Porta et al. (1999) indicated that ownership concentration is a common form in companies, as large shareholders are either institutions or individuals may control the management of the firm. Previous disclosure studies suggest that the ownership structure of a company could be a determinant factor of the extent of disclosure in the company (Eng and Mak, 2003; Arcay and Vázquez, 2005).

Various studies have investigated the effects related with concentrated ownership or dispersed ownership in developed or developing countries. (Fama and Jensen, 1983) indicated the conflict of interest between the shareholders and management arises with a low concentration of ownership. Hossain et al. (1994) indicated the managers' actions under monitoring when the ownership is dispersed widely. Moreover, Barako et al. (2006) suggested the ability of the company with institutional owners to monitor disclosure practices. According to Hasan et al. (2013), who examined the relationship between the concentrated ownership and the level of corporate disclosure in Bangladesh, they found concentrated ownership has the power to influence the level of disclosure. Huafang and Jianguo (2007) investigated the effect of ownership structure (blockholder ownership and foreign listing/shares ownership) on voluntary disclosures of listed companies in China; they found ownership structure is associated with increased disclosure; while White et al. (2007) found no association between disclosure practice and ownership concentration in Australian biotechnology companies. In addition, Bozzolan et al. (2006) and Woodcock and Whiting (2009)failed to find any proof of ownership concentration affecting level of disclosure.

On the other hand, Haniffa and Cooke (2002) found that ownership diffusion in positive significant association to LVD. In addition, Gelb (2000) reported there is positive significant association between the quality of annual reports and ownership diffusion. However, Wallace et al. (1994) and Naser et al. (2002) found insignificant relationship between ownership dispersion and level of disclosure. Regarding corporate social and environmental disclosure, Reverte (2009) suggested that companies with concentrated ownership are less likely to release more information to the public, while companies with diffused ownership are more motivated to release more information about their social and environmental performance to stakeholders.

2.2.4 Firm characteristics

Firm characteristics are corporate attributes that can affect the level of corporate disclosure. Since the 1960s, many researchers started to investigate the associations between level of disclosure and firm characteristics. Various characteristics were used in previous studies, by the location of these studies, such as: Alsaeed (2006) in

Saudi Arabia used firm size, debt, firm age, profit margin, return on equity liquidity and industry type as firm characteristics; and in Malaysia, Akhtaruddin et al. (2009) used firm size, gearing and profitability. Hossain and Hammami (2009) used firm age, firm size, profitability, complexity and assets-in-place in Egypt. Rouf (2011) in Bangladesh used just two variables, firm size and profitability as firm characteristics. Al-Moataz and Hussainey (2012) in Saudi Arabia used firm's profitability, liquidity, debt ratio and size as firm characteristics.

Several theories have provided explanation of the effect of the firm characteristics on disclosure, such as agency theory, political cost theory and signalling theory that are used to explain the effect of firm size on the level of disclosure. Stakeholder theory and political cost theory are used to illustrate the impact of firm age on disclosure. Signalling theory is used with liquidity. Agency theory is employed to explain the effect of profitability on disclosure. From these examples, it may be worth indicating that previous studies used different theories in order to explain the effect of firm characteristics on disclosure. That means there is no particular theory that can be used to provide justification for the effect of firm characteristics on level of disclosure.

Different measures have been used to identify each firm characteristic, such as firm size can be measured by log of total assets, total capital employed or total number of employees. Firm age can use number of years since foundation or number of years since listing in the stock market. Profitability can be measured by net profit divided by total shareholders' equity, net income available to shareholders divided by net sales or net income divided by total assets. Gearing can be measured by debt ratio = *total debt* divided by *total assets or by debt-to-equity ratio = total debt* divided by *total* equity. Regarding the industry type, one can use a dummy variable taking the value 1 when the firm has interests in particular industries; it is otherwise zero. From the previous example, it can be noted there is no agreement on the use of a particular scale to measure the specific characteristics of the company.

However, the findings of effect of firm characteristics on the extent of disclosure varied in previous studies; for example Wallace et al. (1994), Barako et al. (2006), Aksu and Kosedag (2006), Hassan et al. (2006), Soliman (2013), Ullah (2013) and Uyar et al. (2013) found significant positive association between firm size and LVD. While Aljifiri and Hussainey (2007) in the UAE and Hasan et al. (2013) in Bangladesh found insignificant association between firm size and disclosure. Firm age was found to have insignificant association with disclosure, such as in Haniffa and Cooke (2002), Uyar et al., (2013) and Wijana A P et al. (2013); while Camfferman and Cooke (2002) in UK and Dutch companies, and Alsaeed (2006) in Saudi Arabia found positive significant association between the company age and disclosure. Liquidity was found in positive relationship with disclosure, such as in Cooke (1989), Camfferman and Cooke (2002) and Mathuva (2012). However, Wallace et al. (1994), Naser et al. (2002), and Mangena and Pike (2005) found a negative relationship between liquidity and disclosure. In addition, Barako et al. (2006) and Elzahar and Hussainey (2012) did not find any significant association between disclosure and liquidity.

2.3 Conclusion

This chapter focused on voluntary disclosure and the factors which have an effect on LVD, and addressed the historical background to corporate financial reporting. A definition for each of voluntary disclosure and CG were provided and their importance discussed. Information asymmetry in corporate reports was discussed. The importance of transparency in disclosure and evaluation of voluntary disclosure was observed, because disclosure is the mechanism by which accounting information is communicated to the user who needs it. How CG mechanisms, ownership structure and firm characteristics as factors may affect LVD were discussed. In the next chapter, theories of voluntary disclosure, used in the previous disclosure studies, are discussed. In addition, previous disclosure studies in both developed and developing countries are reviewed.

Chapter 3: Theories and Empirical Evidence

3.1 Introduction

This chapter is divided into two parts; in the first part, a theoretical review of common theories that used in explanation of voluntary disclosure practices in many countries that attempt to explain the incentives that motivate corporate to disclose more information voluntarily is discussed. There are seven theories employed in this study, used to form the research questions and hypotheses of this study. In the second part, empirical disclosure studies on LVD and its categories are discussed. The gap in the previous empirical studies on both voluntary disclosure and categories is discussed.

The chapter is organised as follows: theories of voluntary disclosure are presented in section 3.2. These theories are: section 3.2.1, Agency theory; section 3.2.2, Signalling theory; section 3.2.3, Capital need theory; section 3.2.4, Stewardship theory; section 3.2.5, Legitimacy theory; section 3.2.6, Stakeholder theory; section 3.2.7, Political cost theory; and then in section 3.2.8, the theories are discussed. Empirical disclosure studies are discussed in section 3.3: on total voluntary disclosure in section 3.3.1, and on voluntary disclosure categories in section 3.3.3. The gap in the previous literature studies is discussed in section 3.4. Finally, section 3.5 presents the summary.

3.2 Part One: Theories of Voluntary Disclosure

3.2.1 Agency theory

Agency theory is an economic theory, related to business organisation that was evolved in the 1970s. According to agency theory, a business firm is in contract between two parties where one is a principal, and the other one is the agent; here the shareholder acts as the principal, and managers are the agents. Hendry (2001) and Jensen and Murphy (1990) argued that recent economics is dominated by such a kind of firm having agency relationship; these firms rapidly engage with best corporate governance practices. In this respect, it should be addressed that conflict between principal and agent comes from policy and contractual conditions of the firms. Zahra

and Pearce (1989) argued that there are some assumptions in the agency model that focus on the conflict between agent and principal, which is very important for controlling and monitoring board's function.

In addition, agency theory established the necessary mechanisms to defend shareholders from administration's conflict of interest (Fama and Jensen, 1983). Daily and Dalton (1994) they advocate that the board should contain outside and independent directors in the positions of chairman and CEO or the agency cost becomes higher and the firm will suffer in the financial market. From the control viewpoint, CEO has more influence than chairman (Johnson et al., 2005).

It is generally acknowledged that the quality of the annual report may be developed through willingly providing more information (Healy and Palepu, 2001; Watson et al., 2002). Agency theory can describe why managers wish to release more information. In disclosure literature, many propositions have been established depending on agency theory. Jensen and Meckling (1976) discovered that in a widely established company there exists a high potentiality for conflict of interest between proprietors as a principal and managers as an agent. The agency cost rises as the size of the company increases. Consequently, a positive relationship between company size and disclosure is anticipated by agency theory. Similarly, a positive relationship between disclosure and each of gearing register status and auditor excellence is also anticipated by this theory. Cooke (1989), Ruland et al. (1990) and Hossain et al. (1994) are some examples of disclosure theories that applied agency theory in clarifying the distinction in disclosure practices.

Furthermore, in applying agency theory for the company management a problem arises regarding information irregularity. Ng (1978) claimed that as the organisation's authentic payout is expected to be noticeable by the manager even though financial reporting denotes an information system to the owner of the firm, it is indeed not information to the manager. For the financial reporting matter, this distorted information feature has great importance. Agency theory creates another problem in that it pays attention solely to the necessities of financial stakeholders (shareholders and creditors) for financial information and neglects the desires of

other stakeholders (such as employees and the public) having interests in company fiscal reports because they are not have connections with the managers.

Therefore, information unevenness has been acknowledged as one of the impetuses for deliberate disclosure decisions in the perspective of disclosure (Healy and Palepu, 2001). For the reduction of agency cost, it is observed that disclosure is one of the useful monitoring tools (Craswell and Taylor 1992). To moderate the severity of the problem of information irregularity, the two parties can use level of disclosure as a tool. Managers, as agents, acting in the interests of owners can have a motivational impression. On the contrary, managers are inspired, and sometimes forced to disclose more information by the owners. It is stated that this theory fails to explain non-monetary incentives for preventing disclosure (Ockabol and Tinker, 1993).

3.2.2 Signalling theory

Signalling theory has been applied as a possible explanation of deliberate disclosure practices, as contemporary accounting outrages have repeated brought attention to corporate clarity. Spence (1973), in the perspective of education, based on Akerlof's (1970) seminar paper, first initiated the concept of signalling. Spence disputed that workers having greater efficiency will attain education (assuming education is a signal of ability) with a view to differentiating themselves from those having less efficiency, as employers cannot readily notice workers' capability. As the costs of attaining education are too high for less-skilled workers, the underlying theory is that the signal cannot be attained cost-free. To explain deliberate revelations, signalling theory can be used. That information irregularity is one of the shortcomings in the corporate environment is well understood from the study of Morris (1987). As a common phenomenon, signalling is applicable in any market having information irregularity. When the party having more information hints it to others, in that case the model displays how irregularity can be lessened (Morris, 1987).

Furthermore, businesses having no information may desire to differentiate themselves from businesses bearing bad news, to avoid confrontational perceptions that would happen if they do not do so, corporations have inducements to continue with releasing information (Ross, 1979). Verrecchia (1983) advocated that

considering the consequence of disclosure on the market, a manager's decision will be made regarding disclosing information (i.e. to release or withhold the signal). Hypothesized by Verrecchia, an "inception level of disclosure" will be present; the manager will reveal information above this level and will suspend information below this level. By way of non-disclosure, interpretation by the market of this level will be defined in portion and for withholding information, the market's speculation on the manager's motivation will disrupt that. Verrecchia recommended in an earlier paper (1990) that the initial level may be prejudiced by the quality of information existing to the manager; in essence, there is an inverse relationship between the quality of information and the threshold level of disclosure.

According to Ross (1979), the disclosure system of strong and weak firm signalling theory is used for differentiation, in which it is observed that weak firms are more unwilling to disclose their information than the strong firms. Regarding this issue, Grossman (1981) said that because of the tendency of people to discuss the undisclosed matter, the firm should disclose both good and bad information about the company, if that is costless. In addition, Skinner (1994) says that the disclosure of bad news helps the company to prevent declining share price by signalling the reduction of reputation cost for non-disclosure of information where good news indicates the quality of the company. The company may also disclose its difference with companies who have bad information, if the company has no important information to disclose. Consequently, quality signalled information can add great value to the company with the trade-off decision between the informational advantage and financial advantage.

Eccles et al. (2001) argued that managers should use credible signals to give signals correctly to stakeholders. On the other hand, Hughes (1986) stated that misleading information will harm the company. The company information disclosed will be treated as false if people find it wrong once, thus the firm will lose its credibility. The effects of signalling are different for different stakeholders, such as investors and competitors as shown by Farrel and Gibbons (1989). Besides, a signal will send correct information when the company concentrates more on the investors than do competitors. In addition, the firm will lose its credibility if it becomes more concerned about the entrance of new competitors. In addition, it is observed that the

involvement of multiple users will make the process more difficult (Newman and Sansig, 1993).

3.2.3 Capital need theory

For maintaining existing operations, companies who have growth potential will search for outside finance, debt or equity. Obtaining funds becomes costly because of market uncertainty and one-way information (Suwaidan, 1997). This happens because of compensation claim against the investment risk by the investors. The expected rate of return may fall if the company wants to disclose more information to the market (Healy and Palepu, 2001). Besides, the company willingly discloses more information to reduce the information asymmetry while making capital market transactions. Firth (1980), Diamond and Verrecchia (1991), Cooke (1993), Marston and Shrives (1996) and Botosan (1997) argued that for reducing the cost of capital the managers may take the decision to increase disclosure of information. Gray and Roberts (1989) and Adhikari and Tondkar (1992) suggested that market pressure works as the fuel of corporate disclosure. It is a function of the financial reporting system to disclose information to interested parties in the capital market through both formal and informal contracts (Adhikari and Tondkar, 1992). Thus, to increase the quantity and quality of disclosure the listed companies should create pressure on the users act contact.

To collect capital at the lowest possible rate is the main reason for information disclosure, and this is said based on capital need theory. This may be done in the forms of both shares and loans by ensuring the reduction of investors' uncertainty and information asymmetry while raising capital cheaply. For increasing market efficiency, it needs to reduce information asymmetry in the capital market and this is the key function of a financial reporting system. According to Core (2001), for collecting capital cheaply there is not enough fixed disclosure. On the other hand, Barry and Brown (1986), Merton (1987) and Suwaidan (1997) suggested that the company has to compensate premium against investment risk.

According to Diamond and Verrecchia (1991), Cooke (1993), Hossain et al. (1994), Botosan (1997), Sengupta (1998) and Healy and Palepu (2001), increase of share price, decrease of information risk and cost of capital are the result of more disclosure. Besides, Meek et al. (1995) stated that companies compete with one another to obtain capital at the lowest possible price based on information disclosure and other related issues.

3.2.4 Stewardship theory

From the studies of Hoskission et al. (2000) and Blair (1995), it is well understood that there are also some critics of agency theory, as there is limitation in the sociological and psychological mechanism of the principal-agent relationship to explain in detail. Davis et al. (1997) they suggested stewardship theory as an alternative to agency theory for corporate governance. Boyd (1995), Donaldson and Davis (1991) and Donaldson (1990) referred to psychology and sociology as the roots of stewardship theory, which is also similar to organisational theory. Donaldson and Davis (1991) stated that, the stewards have to act according to the interest of their principals and the aim is to observe the prevailing situation.

Managers are good stewards of firms: this is the main theme of stewardship theory. According to this theory, the managers are so good that they do not want to make secret profit in expense of the shareholders' interest and try to disclose more information to avoid conflict of interest for assets of the company. The shareholders of the company appoint the directors and the directors are held responsible for their practice of power at the AGM. To know whether the company's accounts and financial statements are true and fair or not, an independent auditor is appointed who presents a report regarding this issue. Adams (2002) argued that, because of excessive rules and legislations this theory remains at the starting point.

Now, it can be said that to develop mutual trust and cooperation between stewards and principals is the focal point of stewardship theory. According to Tian and Lau (2001), a company's performance is strongly co-related with the credibility and cooperative relationship between stewardships and principals. To avoid the information asymmetry problem of agency theory, this theory can be used as it has

an efficient mechanism to share information. Thus, this theory will contribute to the management control system, which is very important for becoming a successful company.

3.2.5 Legitimacy theory

According to Brown and Deegan (1998), in regards of elucidating corporate affairs, legitimacy theory has been evolved. Watson et al. (2002) described that, generally, companies reveal certain information in their annual report. This is an example of legitimacy theory that is perceived as the signal of companies' legitimacy. In this regard, Suchman (1995) perceived legitimacy theory as a generalised idea that if the customs, beliefs and values are socially established then people's reactions will be pertinent and desirable. According to the theory, corporate information is revealed as the feedback toward the environmental factors, which include economic, social and political aspects with a view to legitimating corporate actions. Companies are encircled by political, social and economic systems, which force them to reveal information (Williams, 1999). Rizk (2006) argued that an organisation can sustain itself if it acts according to a suitable value system. Therefore, organisations tend to acquire social approval on the basis of this theory which can be called legitimacy of their actions (Patten, 1991; Reich, 1998; Deegan, 2002).

Deliberate revelation of information is related to the legitimacy concept. Management intends to legitimize its actions with a view to gaining approval in society. Managers of companies should emphasize stakeholders' interests toward the companies (Donaldson and Preston, 1995). Both of them should work collaboratively. It is perceived as an ethical prerequisite for a company's management to legitimize its actions. A 'legitimacy gap' may arise due to the discrepancy of values between society and company (Sethi, 1979). Therefore, companies can lessen the legitimacy gap by disseminating information. According to Watson et al. (2002), the basis of the entire analysis is that disclosure of information indicates the companies' signal toward their legitimacy. Watson et al. (2002) also argued that companies should reveal corporate information, including corporate governance information willingly. As a result, smooth communication can be

established between the directors and stakeholders, which led to increase confident about the companies' financial and non-financial performance.

Generally, corporate performance is measured on the basis of the extent of profit maximization. According to Ramanathan (1976), legitimacy theory perceives profit maximization broadly as a measure of organisational legitimacy. From the viewpoint of Adams and Roberts (1995), being a responsible corporate member, managers provide adequate information to shield their self-interests to maintain, promote and legitimize relationships. Nevertheless, to stay away from probable regulatory intervention managers provide that information (Gray and Roberts, 1989). Lindblom (1994) and Rizk (2006) argued that companies' actions can be legitimized by four approaches. Firstly, stakeholders have to be made aware about the alterations in companies' performance. Secondly, stakeholders' perceptions have to be changed rather than their actual behaviour. Thirdly, their concerns have to be diverted to other relevant issues with a view to influencing their perception. Finally, exterior expectation has to be changed regarding performance.

Disclosure plays a significant role in each of the above-mentioned approaches. Managers can easily contact stakeholders and society by revealing information deliberately. That is why managers will endeavour to legitimize corporate actions as well as their managerial positions. To elucidate disclosure practice legitimacy theory has been applied. After gaining social acceptance, most of disclosure studies, such as social and environmental disclosure, have been based on this theory. The concept of disclosure has been supported by the evidence of these studies, which are perceived as a means of legitimacy (Deegan, 2002).

3.2.6 Stakeholder theory

Mary Parker Follett introduced the concept of stakeholder theory around 75 years ago, which re-emerged in the 1980s (Schilling, 2000). Freeman (1984, quoted in Schilling, 2000) defines a stakeholder as, whenever organisations' achievements manipulate or are manipulated by any group of people or individual then that group of people or individual is called a stakeholder. The stakeholders mean a number of people who have direct or indirect interest in the business (Carroll 1993, quoted in

Schilling, 2000). Freeman (1997) stated that large multinational companies became much too commanding, and were answerable to shareholders only. That is why to reflect the fear at societal level stakeholder theory has been evolved. To elucidate corporate disclosure stakeholder theory has been applied (The Corporate Report, 1975). The spectrum of corporate financial report users has been enlarged from shareholders to stakeholders. From another point of view, stakeholders have the right to get information regarding companies' activities. However, stakeholder theory has been perceived as an interesting aspect in light of the companies' behaviour regarding corporate financial reporting (Gray et al., 1995).

Gray et al. (1995) stated that agency theory deals with the relationship between managers (the agent) and shareholders (the principal). On the other hand, stakeholder theory deals with the relationship between managers and all other stakeholders (the principal) such as staff, shareholders, customers, government and suppliers. From the viewpoint of Crowther and Jatana (2005), stakeholder theory involves a number of stakeholders in the organisation. All of them expect some output for their investment. Therefore, the focal point of the theory is the answerability of the company towards its shareholders (Sternberg, 1997). Management intends to balance the stakeholders' interest with the company's objective. Thus, the company attains its objectives and maintain ethical conduct. To attain stakeholders' support and approval, their perceptions are managed by disclosure (Gray et al., 1996). Also disclosure is used to deflect stakeholders' disagreement and disapproval. In this regard, Deegan (2002) argued that managers intend to disseminate information toward some specific group of stakeholders to prove that they are meeting those stakeholders' desire.

Watson et al. (2002) stated that managers use deliberate disclosure to contact the stakeholders with a view to obtaining their support. However, different stakeholders require different information and seek different priorities (Wolfe and Puder, 2002). Furthermore, they gather information in different ways. That is why effective usage of deliberate disclosure policy may assist in building faith with the stakeholders and shareholders. In this circumstance, Rowley (1997) explains that, "*Firms do not respond to each stakeholder individually but instead must answer the simultaneous demands of multiple stakeholders*" *(p.907)*.

A number of points should be considered to handle issues such as competition degree and information cost. Stakeholder power will affect the disclosure decision (Mitchell et al., 1997). Therefore, the manager should find balance amongst the stakeholders' information needs. However, stakeholder theory is applicable in transitional economies, developing countries and highly controlled industries (Rizk, 2006). To establish the voluntary disclosure approach, different strategies should be considered which might gratify the information need of stakeholders.

3.2.7 Political cost theory

Political cost is perceived as one of the salient costs of companies. That is why companies intend to lessen this cost. In 1987, Watts and Zimmerman introduced the concept of political cost theory for the first time to include it in voluntary disclosure. Based on Watts and Zimmerman's research, a number of researchers use political cost theory. Among them, some researchers reveal the relationship between social divergences and type of industry and between social divergences and size of company. In this regard, Watts and Zimmerman opined that companies would find measurement of social divergence to be beneficiary. According to Watts and Zimmerman's theory, political expenditures are shown to the market. Politicians can utilize the distribution of wealth, such as taxes, aid, insurance, contributions etc. As a result, companies will be influenced to take the policy. Due to this influence the flow of taxes, information and special rules are changed. That is why sensitive companies will intend to take accounting choices to lessen the anticipated political costs (Watts and Zimmerman, 1978). To elucidate voluntary disclosure a large number of studies utilise political cost theory. From those studies, it has been presumed that there is a relationship between disclosure and sensitivity toward political pressure. A number of studies considered company size as a proxy for political cost approach, although Watts and Zimmerman (ibid.) disagreed on this point. From some other studies it has been indicated that industry sensitivity may be a proxy for political cost approach (Patten, 1991; Blacconiere and Patten, 1994; Patten and Nance, 1998).

Based on the theory of Watts and Zimmerman (1978), Milne (2002) assessed voluntary and social disclosures, which have relied on positive accounting theory. Watts and Zimmerman's theory has an association to discretionary management

behaviour. That is why Milne has not found any full arguments in favour of the theory. Simultaneous application of all the three hypothesized predictors of behaviour cannot be found (the debt/equity hypothesis, the bonus plan hypothesis, and the political cost hypothesis). Political cost hypothesis or size are used most of the time, which indicate a weak test of the original argument. According to Milne, no studies have taken the chance to assess management behaviour except the chosen disclosure approach.

3.2.8 Discussion of theories

Signalling theory, like agency theory, acknowledges the isolation of ownership and management and also advocates that managers are motivated to release information due to market pressure. Then more than any others, i.e. owners and investors, managers have more information regarding the company. Managers may wish to drive signals to concerned parties – owners, investors, and governmental agencies – to differentiate themselves from other companies. For this purpose, disclosure can be employed as a useful means. Companies with both good news and bad news or no information news have motivations to signal others. Skinner (1994) revealed that managers of companies having bad news may also have motivations to unveil the bad news to decrease the reputation costs and if they do not unveil this news in a timely manner that cost may be sustained.

Both signalling theory and agency theory have been critiqued for the assumption that individuals are acting in their self-concern. Moreover, a number of writers have also criticized the hypothesis of equal distribution of power. They dispute that organisations exercise power not the individuals (e.g. Gray et al., 1996, as cited in Watson et al., 2002). The involvement of three parties, namely the stockholder, the company and the potential competitor, speeds up the use of signalling and disclosure (Newman and Sansig, 1993). Disclosure is made to help the shareholders make their investment decision; on the other hand, the abovementioned experts assume that the main task of the company is to maximize the wealth of the shareholders. Besides, it will make it difficult for competitors to enter into the market. It is also said by them that the communication problems of the company may become more complicated if the number of users is increased for analysis expansion.

There are some arguments regarding stakeholder theory. As a supporter of agency theory, Sternberg (1997) criticized stakeholder theory on several points. According to him, stakeholder theory is unsuited to corporate governance and business. It does not focus on the maximization of long-term owner value. The theory allows the managers to be unanswerable to their owners. Thus, they violate their obligations toward the owners. Furthermore, Sternberg states that balancing stakeholder benefits is a worthless job. In addition to that, stakeholder theory weakens private property and answerability.

Legitimacy theory shows the usage of disclosure to legitimize their business. However, it is inadequate to clarify disclosure practices. In this regard, Rizk (2006) stated that legitimacy theory is inapplicable in developing countries due to the low level of social disclosure. Depending on the power of the stakeholders, managers find out the significance. Hence, there is no difference between stakeholder, legitimacy and political economy theories in light of the social disclosure literature (Gray et al., 1995).

3.3 Part Two: Empirical Evidence

3.3.1 Empirical studies on total voluntary disclosure

Yuen et al. (2009) examined the impact of ownership concentration, government ownership and legal entity, percentage of tradable share, CEO-is-top director, and independence of board and audit committee on voluntary disclosure provided by publicly listed companies on the Shanghai Stock Exchange (SSE) in China. The sample was 200 randomly selected companies from the Shanghai A-share market. The study used a checklist of 34 items divided into six categories (board structure and functioning, employees, directors' remuneration, audit committee, related party transactions, stakeholder interests); with the weighted approach used in this study, items where applicable, took the ratio predefined in the disclosure index. Multiple regression models were employed in this study. Firm-specific characteristics were control variables. The findings show the adjusted R-squared for model is 31.3%. The extent of voluntary disclosure of publicly listed companies on the SSE is relatively low (21.4%). The percentage of tradable share and independence of board were

found a significant positive relationship with voluntary disclosure at the 1% and 5% levels, respectively, while the audit committee was found to have a significant negative relationship with voluntary disclosure at the 5% level.

In the case of Bangladesh, Rouf (2011) addressed the association between corporate characteristics, governance attributes and the extent of LVD based on a sample of 120 listed non-financial companies in the Dhaka Stock Exchange (DSE) in 2008. Corporate characteristics included firm size, profitability. Corporate governance attributes included NEDs, audit committee, board leadership structure, board size and ownership structure. An un-weighted approach was used in order to measure voluntary disclosure. The researcher established the disclosure checklist (91 items) which depended on previous research such as Akhtaruddin et al (2009), Chau and Gray (2002), Ho and Wong (2001), and Ferguson et al. (2002). The Ordinary Least Squares (OLS) regression model was applied to examine the association between voluntary disclosure and explanatory variables. The findings indicated the adjusted R-squared is 58.6%. There are positive relationships between board size, audit committee and the role duality with voluntary disclosure at the 10% level for the first two variables and the 1% level for role duality. While ownership structure and net profitability were found to have a negative association with voluntary disclosure at the 1% level and 5% level, respectively. NEDs was not significantly related with disclosure. With regard to firm size, it was not significantly related with disclosure when measured by either the total assets of the firm or the total sales of the firm.

In Iran, Khodadadi et al. (2010) investigated the effect of corporate governance structure (independent directors on the board, role duality and the percentage of institutional investors) on the extent of voluntary disclosure in listed firms on the Tehran Stock Exchange (TSE). They investigated 106 observations during 2001-2005 among listed companies on the TSE. A disclosure checklist comprising 31 voluntary items was used to measure the extent of voluntary disclosure. An un-weighted approach was used in this study for two reasons: first, they thought individuals have no more information and knowledge about their decision-making and judgement; second, this approach allowed the researchers opportunities to make measurements independently from different individuals' viewpoints. The three hypotheses were tested by using regression logistic, the results indicated that only the

percentage of institutional investors was found to have a significant positive association with voluntary disclosure at the 1% level. They mentioned that NEDs' role does not comply with the fundamentals of agency theory in Iran. However, they noted this supervisory tool has a small role in enhanced financial disclosure. Duties and liabilities of chairman and CEO have not been well separated in Iranian firms.

Chau and Gray (2010) addressed empirically the relationship between the extent of voluntary disclosure and levels of family ownership and board independence including the influence of an independent chairman on 273 listed firms in Hong Kong for the year 2002. A disclosure checklist consisting of 88 information items split into twelve categories was established to measure the extent of disclosure. An un-weighted approach was used to scores voluntary disclosure in each company under investigation. To investigate the relationship between the dependent variable and independent variables the authors used three panels: panel A was the full sample (273 firms); panel B contained a non-independent chairman (127 firms); and panel C contained an independent chairman (146 firms). Linear multiple Ordinary Least Squares (OLS) regression model was employed to investigate the relationship between the dependent variable of voluntary disclosure and the independent chairman, proportion of NEDs to total number of directors, and family ownership of a firm. In other words, they used three regression models in this study. In addition, several sensitivity tests were conducted. The findings indicated that the extent of voluntary disclosure is associated with the level of family shareholding and more closely examined the nature of this relationship. The appointment of an independent chairman positively impacts on LVD and reduces both the influence of NEDs and family ownership levels. Release of more corporate accounting information may help to attract international investors because disclosing more information will reduce information asymmetry as well reduce the cost of capital for the firm. However, the evidence from previous studies is mixed. Table 3.1 summarizes some empirical studies.

Table 3.1 Previous studies of the relationship between the disclosure and its determinants

Study	contrary	Sample size	Independent variables	Methodology	Results
Nandi & Ghosh (2012)	India	60 firms listed through period from 2000-01 to 2009-10	ard size, board composition, audit committee, family control, and CEO duality. firm size, profitability, leverage, liquidity and firm age	Multiple regression (Year-wise) The Standard & Poor (2008) model has used in order to measure the level of corporate disclosure. Weighted approach and un-weighted approach	The extent of voluntary disclosure is 62.42 %. All corporate governance attributes were positively association with the disclosure, expect board composition it was negatively associated The firm size, profitability and liquidity were fond positively association with the disclosure, while leverage and firm age were found negatively association
Bhayani (2012)	India	45-listed non-financial firm for the period of 2008-2009 to 2010-2011	Firm age, listing status, ownership structure, leverage, size of the audit firm, residential status, firm size and profitability	Nine regression models used .The corporate disclosure index is consist of 74 reporting items, Un-weighted approach	Ownership structure was found significant positively association, While audit firm size was significant negatively relationship in all nine models with the disclosure at 1% level. Listing status of the firm were found significant positively at 5% level in models 1, 4, 5 and 7 where it were significant at the 10% level in models 2,3,6,8 and 9.Levearge was negative correlated at 1% in models 2,3,6,7,8 and 9. However, it was significant negatively at 5% level in models 1 and 4, while in model 5 it was significant at 5% level. Firm age was found insignificant in all models. Profitability as measured by return on capital employed (ROCE) explains more

					significant variations in the disclosure more than both the return on net worth (RONW) and return on sales (ROS).the firms audited by the big four auditing release more information than others. The firms, which have more debts, it will disclose only mandatory information.
Satta et al (2013)	Italy	32 documents during fiscal year 2010	Diffuse ownership, institutional investors' ownership, the proportion of owners on the board of directors, the board size, the proportion of independent non-executive directors, the number of committees established on the board and the presence of an audit committee	A linear regression model has applied by using QDA-Miner software. Content analysis	The adjusted R square is 61.91%. The diffuse ownership, the proportion of independent non-executive directors, the board and the presence of an audit committee were found positively association with the quality of voluntary disclosure5% for the diffuse ownership and independent non-executive directors, while at 1% for the audit committee. The proportion of owners on the board of directors, the board size and the number of committees established on the board were negatively association with the quality of voluntary disclosure at 5% for the proportion of owners on the board of directors and board size while at 1% for the number of committees established on the board. The institutional investors' ownership was insignificant with the quality of voluntary disclosure.

Dhouibi & Mamoghli (2013)	Tunisia	10 banks for the years 2000-2011	Board size, NEDs, role duality, blockholder ownership, auditor reputation, state ownership, foreign ownership, firm performance and firm size	Prais-winsten regression model to overcome the problem of multicollinearity	The adjusted R square are 66.1% and 69.5% for model 1(exclude foreign ownership) and model 2 (exclude state ownership) respectively. The board size, blockholder ownership and state ownership were found negative and statistically significant with the extent of voluntary disclosure, while foreign ownership, firm performance and Firm size were found positive and statistically significant. However none of independent non-executive directors, role duality and auditor reputation have significant with the disclosure.
Ibrahim & Jaafar (2013)	Nigeria	69 listed companies out of the total top 100 companies at 31 December 2011.	NEDs, board size, the frequency of board meetings, the separation of CEO and chairman role, the independent outside directors in the audit committee, audit committee size, the frequency of audit committee meetings, firm size and the industry type	Multivariate regression model, disclosure index based on the number of operating segment items Un-weighted method	The adjusted R square is 20%. The separation of CEO and chairman role and firm size were found positively significant association with the dependent variable at 10%, while industry type was positive significant association at 1% level. The frequency of board meetings was found significant association with the dependent variable but negatively at 5% level.

Htay (2012)	Malaysia	108 observations from1996 until 2005	Board leadership structure, board composition and board size ,director ownership, institutional ownership and block ownership	GLS regression Disclosure index comprise 46 of information items. The disclosure index was scored by the opinions of 131 accountants and 51 financial analysts.	The adjusted R square is 88%. The two variables of corporate governance mechanisms were found positively significant with the voluntary accounting information disclosure; independent non-executive directors on the board at 1%level while board size at 5% level. Regarding with ownership structure, the block ownership is the only variable was negatively with the voluntary accounting information disclosure at 10% level.
Al-Janadi et al (2013)	Saudi Arabia	87 firms years 2006 and 2007	NEDs, the proportion of family members on the board, independent audit committee members, role duality, audit size, government ownership and foreign ownership	OLS regression the disclosure checklist consists of 22 voluntary items, dichotomous procedure; 2 if fully disclosed, 1 slightly disclosed, 0 not disclosed.	The adjusted R square of model is 55.8%. Three variables of internal mechanisms were significant with the level of voluntary disclosure; non-executive directors is positively significant at 1% board size is positively significant at 10% but role duality is negatively with the level of voluntary disclosure at 10%. On other hand, two variables of external corporate governance mechanisms were significant with the level of disclosure, audit firm is positively significant at 10% while government ownership was negatively significant at 5%.The remaining variables have no effect on the level of voluntary disclosure.

Soliman (2013)	Egypt	The top 50 most active-traded companies listed in the Egyptian Stock Exchange over the period 2007-2010,	Firm size, auditor size, profitability and firm's age	OLS regression stepwise method The disclosure checklist include 60-disclosure item. The un-weighted approach	The results show the adjusted R square is 58.42%. the average of the level of voluntary disclosure is 32%.Firm size and profitability were found to have positive significant association with the level of voluntary disclosure at 5% level, while firm age was positive significant association with the level of voluntary disclosure 10 % level. Auditor size has no bearing on the level of disclosure.
Hasan et al (2013)	Bangladesh	214 companies from four sectors of the Bangladesh stock market	Board independence, dominant personality, board size, institutional ownership, general public ownership and external auditor	ANOVA technique and OLS regression Disclosure checklist of 220 information items Un-weighted approach	The adjusted R square is 57.5%. The external auditor is positively significant association with the disclosure in. The remaining variables have no bearing on the level of disclosure.
Allegrini & Greco (2013)	Italy	177 of non-financial in 2007	Board independence, board size, role duality, lead in board committees, dependent director, and board and audit committee diligence	OLS regression disclosure checklist include 60 disclosure items	The adjusted R square is 40.7%. The average of the level of disclosure is 35%. The board size is positively significant association with the disclosure at 5% level, while role duality is negatively significant association at 10% level. Board and audit committee diligence board activity is positively significant association with the level of disclosure at 5% level, while audit committee activity positively significant association at 1% level. The remaining variables have no effect.

Hassaan (2013)	Jordan	75 of non-financial companies in 2007	Board independence, board leadership, board size, ownership structure, government ownership, management ownership, private ownership and public ownership in addition control variables	Stepwise regression The disclosure checklist consist on the IFRSs include 275 IFRSs based items	The adjusted R square for model is 24.5%. The public ownership ratio is the only variable that explains variations in the levels of compliance with mandatory IFRSs disclosure requirements in the Jordanian. The public ownership ratio was found to be significant negative relationship with dependent variable at the 0.05 level. Companies with dominant public ownership responded less with the overall mandatory IFRSs disclosure requirements.
Uyar et al (2013)	Turkey	131 annual reports of manufacturing companies listed in BIST.	Institutional/corporate ownership, ownership diffusion/dispersion, independent directors, board size, listing place, listing age, firm size, profitability, leverage and auditor size	OLS and 2SLS regressions Disclosure checklist of 96 information items Un-weighted approach	The adjusted R square for Model 1(2SLS) is 32.3%, Model 2(2SLS) is 32.2%, Model 3(OLS) is 36.2% and Model 4(OLS) is 35.5%. There are a positive relationship between disclosure and the variables such as auditing firm size, proportion of independent directors on the board, firm size and institutional/corporate ownership, while leverage and ownership diffusion were found to have negative significant relationship with the disclosure. The remaining variables were found to be insignificant.

3.3.2 Discussion

Al-Janadi et al. (2013), in Saudi Arabia, adopt a disclosure checklist from the study of Al-Janadi et al. (2012), and Nandi and Ghosh (2012), in India, used the Standard & Poor (2008) model in order to measure the extent of disclosure, while all studies established some disclosure checklist. However, different statistical methods were used to investigate the relationship between the dependent variable and the independent variables among the studies. Moreover, some studies used more than one model in order to investigate the relationships, such as Bhayani (2012) who used nine models, Dhouibi and Mamoghli (2013) who used two models, and Uyar et al. (2013) who used four models.

Most of the studies used an un-weighted method to measure level of disclosure, while Yuen et al. (2009) used a weighted approach, but Nandi and Ghosh (2012) used both weighted and un-weighted approaches. It is noticeable that scholars did not indicate whether there was a difference in the results between these different approaches. The adjusted R-squared in most of studies varied from study to study; the highest adjusted R-squared was in Htay (2012), in Malaysia, and smaller adjusted R-squared appeared in Ibrahim and Jaafar (2013), in Nigeria. The difference of adjusted R-squareds among the studies may be due to the different independent variables used in these studies or differences of culture of the business environment among countries.

Not all the studies covered all companies listed on the stock exchange, each study using a sample of companies. The largest sample was 273 companies in Chau and Gray (2010), in Hong Kong, while the smallest sample was 32 companies in Satta et al. (2013), in Italy. In addition, sectors used varied between most studies. Rouf (2011), Bhayani (2012), Allegrini and Greco (2013) and Hassaan (2013) used non-financial companies, while Dhouibi and Mamoghli (2013) and Htay (2012) used a sample from the banking sector. Ibrahim and Jaafar (2013) and Soliman (2013) used the top 100 companies listed and the top 50 most active-traded companies listed, respectively. Satta et al. (2013) used medium-sized listed firms and Hasan et al. (2013) used a sample from four sectors, while Uyar et al. (2013) used a sample from manufacturing companies listed.

Most prior studies use a single point of time, though there are studies using a period of ten years, such as Nandi and Ghosh (2012) and Bhayani (2012) in India, Dhouibi and Mamoghli (2013) in Tunisia, and Htay (2012) in Malaysia. Furthermore, Khodadadi et al. (2010) in Iran used a period of five years, and Soliman (2013) in Egypt used a period of three years. It is noticeable from these studies that there is an increasing interest in the application of longitudinal study because it provides more explanation as to how disclosure practices develop over time.

3.3.3 Empirical studies on voluntary disclosure categories

Most of the previous studies analysed only one dimension of level of disclosure. In 1995, Meek et al. analysed level of disclosure based on the categories of voluntary disclosure. They recommended greater consideration of the importance of this style of analysis; they stated that:

> *"One reason for doing this is that the decision relevance of information probably varies by type. For example, the strategic and financial information categories have obvious decision relevance for investors. The non financial information category is directed more toward a company's social accountability, extending beyond the investor group to include other company stakeholders as well. As a result, the variables affecting voluntary disclosure choices may also vary by information type".* (p.562)

In terms of this type of analysis, recently disclosure studies have started to analyse voluntary disclosure based on its categories. Abd-Elsalam and Weetman (2007) reported that analysing different categories of disclosure assists with understanding the different determinants of this disclosure. Recently, a number of disclosure studies have focused not only on total voluntary disclosure but also on the categories of voluntary disclosure. The following paragraphs address some previous studies that employed this type of analysis, beginning with Meek et al. (1995) who are considered as one of the founders of this analysis.

Meek et al. (1995) examined factors influencing voluntary disclosure of three types of information (strategic, non-financial, and financial) based on the annual reports of multi-national corporations (MNCs) from the US, UK and continental Europe. They

investigated association between voluntary disclosure and explanatory variables (firm size, country/region of origin, industry type, gearing, multi-nationality, profitability and international listing status). The study used a sample of the annual reports for the year 1989 of 226 multinational companies from different countries: US 116 firms, UK 64 firms, France 16 firms, Germany 12 firms and the Netherland 18 firms. A self-constructed checklist containing 85 items was employed, and an un-weighted approach used to score voluntary disclosure in order to measure the extent of voluntary disclosure in the annual reports. The findings for adjusted R-squared were 33% for strategic information category, 14% for non-financial information category, 45% for financial information category and 35% for overall disclosures. Thus, the findings show that the factors explaining voluntary annual report disclosures differ by information category. The strategic information category seems to reflect national/ regional influences and international listing status. Disclosures in Europe are more developed than in the United States. Industry type may also be more politically sensitive. That approach (dividing voluntary disclosure based on the information types) used in this study is useful to understanding the determinants of disclosure.

In Hong Kong, Ferguson et al. (2002) examined the impact of international capital market pressure on voluntary disclosure based on three types of information, strategic, financial and non-financial, in the annual reports of former wholly state-owned People's Republic of China (PRC) enterprises, listed on the Stock Exchange of Hong Kong (SEHK). The authors followed the model developed by Meek et al. (1995). The sample included the annual reports of 142 non-financial companies for the year 1995/1996. The disclosure checklist contained 93 disclosure items established to measure the extent of LVD; the un-weighted approach is used to score level of disclosure for each firm. To investigate the association between the impact of international capital market pressure and voluntary disclosure five explanatory variables were used in this study (firm size, gearing, industry, multiple-listing status and firm type (Local vs. H-Share vs. Red-Chip) by a regression equation. The findings indicated the adjusted R-squared was 25.1% for strategic information category, 14.7% for non-financial information category, 33% for financial information category and 34.23% for overall disclosure. Firm size was a positively associated significant variable with total voluntary disclosure and in each of the three

categories. Gearing was positively significant in financial information category and with overall disclosure. H-Share was positively significant with overall disclosure, strategic information category and financial information category. The authors noted that formerly wholly state-owned enterprises disclose significantly more strategic information and more financial information than other listed companies.

Leventis and Weetman (2004), in Greece, examined voluntary disclosure practices in corporate annual reports from the Athens Stock Exchange. In this study, three categories of voluntary disclosure were developed, namely corporate environment, social responsibility and finance-related disclosures. They follow Meek et al. (1995), in the same way dividing voluntary disclosure but by different category labels. Each category is tested for association with seven company-specific variables as explanatory variables: these variables were corporate size, gearing, profitability, liquidity, industry, share return and listing status. In order to measure the extent of disclosure, the authors used a self-constructed checklist of 72 items for annual reports. An un-weighted approach was applied to score voluntary disclosure of the sample, which included 87 annual reports of non-financial publicly-traded companies listed on the Athens Stock Exchange for the year 1997. To test the hypotheses related to explanatory variables, the study used ranked regression. The results indicate the adjusted R-squared of overall disclosure was 35.6% while the categories were 22.3% for corporate environment category, 15.4% for social responsibility category and 29.3% for financial information category. Corporate size was found to have a positive significant association with overall voluntary disclosure and in each category, while share return was negatively significant associated with overall voluntary disclosure and in each category. Profitability, liquidity and gearing were found to have no significant relationship with overall voluntary disclosure, or with the three categories. However, the remaining variables were varying among the categories of voluntary disclosure.

Based on the Standard & Poor’s (S&P) methodology, Aksu and Kosedag (2006), in Turkey, addressed transparency and disclosure scores and their determinants in the Istanbul Stock Exchange (ISE) based on the 52 largest and most liquid firms. The annual report and corporate website were investigated for each firm in the sample. The disclosure checklist used to measure the extent of voluntary disclosure consisted

of 106 information items classified into three categories, namely, ownership structure and investor relations, financial transparency and information disclosure, and board and management structures and processes. The study employed four explanatory variables, namely, profitability, gearing, market capitalization, and market-to-book ratio, to investigate the extent of voluntary disclosure. Cross-sectional regressions were used to investigate the relationship between the extent of voluntary disclosure and the explanatory variables. The results indicated profitability, firm size and market-to-book ratio to be significant variables that could explain the variation in overall voluntary disclosure and each of ownership structure and board and management categories only, while gearing is an insignificant variable with overall voluntary disclosure in the three categories. The annual reports and websites did not contribute enough to increased voluntary disclosure.

To address perpetuating traditional influences, Ghazali and Weetman (2006) in Malaysia, examined factors associated with voluntary disclosure in corporate annual reports in the Kuala Lumpur Stock Exchange (KLSE) after the 1997 financial crisis. In the same vein as Meek et al. (1995), the authors used a disclosure checklist classified into three main categories: strategic, financial and corporate social responsibility; the checklist consisted of 53 information items. An un-weighted approach was applied to score voluntary disclosure for each company in the sample. Ownership (ownership concentration, number of shareholders, director ownership, government ownership), board of directors (family members on the board, NEDs, independent chairman) and competitiveness costs (degree of company competitiveness and degree of industry competitiveness) were employed as explanatory variables, using stepwise regression to explain voluntary disclosure and its categories. The results indicated the adjusted R-squared for overall disclosure was 36.1%, while financial information category was 26.4%, strategic information category was 21.5% and corporate social responsibility information category was 16.6%. Number of shareholders and director ownership are significant at the 1% level in explaining all types of information disclosure. Neither of the two variables reflecting new governance initiatives for board of directors (NEDs and independent chairman) is statistically significant in explaining any type of information disclosure. The findings also presented that competitiveness considerations, as a proxy for proprietary costs, do not have a significant influence on voluntary disclosure. The

profitable firm will release more information to signal the shareholder that the company is well-managed and professionally-run by the management. In all the disclosure models, industry competitiveness was the only factor, which was not significant.

Agca and Onder’s (2007) study contains 51 non-financial companies from various sectors, excluding banking and insurance, listed on the Istanbul Stock Exchange in 2003, following the classification of Meek et al. (1995), and examined voluntary disclosure practice in their corporate annual reports. The authors employed a checklist consisting of 87 information items, classified into three categories, namely strategic information, financial information and non-financial information, to measure disclosure. The study used explanatory variables (firm size, auditor type, gearing, ownership structure, profitability and multi-nationality) in OLS regression in order to explain voluntary disclosure and its categories. The results indicated firm size and profitability variables are significant for the strategic information category, while the gearing variable is significant for the non-financial information category. According to the total disclosure model, firm size, profitability, and auditor variables are significant. On the other hand, firm size and auditor variables are significant for the financial information category. Table 3.2 summarizes some empirical studies on voluntary disclosure categories.

Table 3.2 Empirical studies on voluntary disclosure categories

Study	contrary	Sample size	The components of voluntary disclosure	Methodology	Results
Lim et al (2007)	Australia	181 firm observations	Forward looking quantitative category, strategic category, non-financial category and historical financial category	OLS and 2SLS dichotomous scores The voluntary disclosure checklist consists of 67 items	The Adjusted R-sq was 20.69%, 6.01%, 21.25% and 34.37% for forward looking quantitative category, strategic category, non-financial category and historical financial category respectively. Board composition was found a positive association with voluntary disclosure of information in annual report, while the independent boards found more voluntary disclosure with forward looking information category and strategic information category. Board structure has no impact on the voluntary disclosure of non-financial category and historical financial information category.
Patelli & Prencipe (2007)	Italy	175 non-financial Italian listed companies in 2002	Background information category historical category non-financial statistics category projected information category the segment information category management discussion and analysis category	Multivariate analysis Weighted approach The voluntary disclosure checklist consists of 74 items	The independent directors were found to be significantly associated with the level of voluntary disclosure and with each of background information category, key non-financial statistics category, and management discussion and analysis category

Wang et al (2008)	China	109 companies	Strategic information category, financial information category and non-financial information category	Multivariate analysis An un-weighted approach The disclosure index consists of 79 discretionary items	The proportion of state ownership, foreign ownership, firm performance measured by return on equity, and audit firm were found a positive relationship with the overall of the level of voluntary disclosure, while leverage has no bearing on all types of voluntary disclosure. The both state ownership and foreign ownership significantly affect strategic information category while they were not bearing on the financial information category. Firm size was found positive associated with overall voluntary disclosure and strategic information category only. The voluntary disclosure no relation with cost of capital
Al-Shammari (2008)	Kuwait	82 companies (2005)	Corporate environment category, social responsibility category and financial information category	Multivariate regression An un-weighted approach The disclosure index consists of 76 discretionary items	The Adjusted R-sq of the different categories was 39.5% for corporate environment category, 12.1% for social responsibility category and 11.5% for financial information category. Corporate environment category was positively associated with size and leverage, while it was negatively significant with real estate industry. In social responsibility category, size and complexity are the only significant variables. Company size, leverage, age and auditor are the only significant factors in explanation differences in the level of financial information category

Murcia &Santos (2012)	Brazil	98 companies in 2006, 100 companies in 2007 and 92 companies in 2008	Economic (43) and socio-environmental (49)	Content analysis An un-weighted approach The disclosure index consists of 92 items	The Adjusted R-sq of total disclosure is 17.93%, economic disclosure is 6.64 % and socio-environmental disclosure is 24.35%. Sector and Origin of Control are the only two of explanatory variables were positively significant with the overall disclosure or with any of the two categories, while profitability was positively significant with the overall disclosure and the economic category. Tobin"s Q was statistically significant with the overall disclosure and the social - environment category. Leverage and auditing firm are statistically significant only in the economic category. However, the remaining variables have no bearing on the overall disclosure or two categories.
Alves et al (2012)	Iberian Peninsula	38 firms from Portugal, 102 firms from Spain	Strategy category, market and competition category, management and production category, future perspective category, marketing category and human capital category	Multiple regression models Un-weighted approach The disclosure index consists of 60 items	The Adjusted R-sq of strategy category is 48.6%, market and competition category is .32%, management and production category is 26.6%, future perspective category is 30.3%, marketing category is 44.6% and human capital category is 47.5%. Firm size is the only the variable was positively significant with all categories, while performance was positively significant with all categories, except future perspective category. The board expertise was positively significant with management and production category and market and competition category. Management ownership was

					negatively significant with all categories, except market and competition category, and future perspective category. The proportion of directors' remuneration was positively significant with market category and human capital category. The presence of a large shareholder was negative association with the level of voluntary disclosure in Iberian Peninsula companies.
Samah et al (2012)	Egypt	The most active 100 Egyptian companies in year 2009	Financial transparency category, ownership structure/ exercise of control rights category, board and management structure/ process category, corporate responsibility /compliance category and auditing category	OLS model A weighting approach The ISAR checklist includes of 53 disclosure items	The Adjusted R-sq of overall disclosure is 61.8%, while ownership structure and exercise of control rights category, financial transparency and board and management structure and process category and corporate responsibility and compliance category were 51.6%,15.4%,45.6% and 63% respectively. Board composition was found positively significant with the overall disclosure, ownership structure and exercise of control rights category and financial transparency category. Role duality was negatively significant with overall disclosure and ownership structure and exercise of control rights category and board and management structure and process category. Audit committee was just positively significant with corporate responsibility and compliance category. Board size, director ownership and number of shareholders have no bearing on the overall disclosure or its categories.

3.3.4 Discussion

Most of the studies reviewed were in developing countries, although this type of research study began in developed countries. However, scholars still follow the approach of Meek et al. (1995) in splitting voluntary disclosure into specific groups/ categories of information. That is evidence of the growth of knowledge in developing countries, and that they are keeping pace with recent development in the science of accounting.

The majority of studies reviewed were conducted in their countries, except Ferguson et al. (2002), in Hong Kong, where they used a sample of wholly state-owned People's Republic of China (PRC) enterprises, listed on the Stock Exchange of Hong Kong (SEHK). Alves et al. (2012), in the Iberian Peninsula, used samples from two states 38 firms in Portugal, 102 firms in Spain.

Although Meek et al. (1995) split voluntary disclosure into three categories, the following studies split voluntary disclosure into more than three categories, for example Lim et al. (2007), in Australia, divided the index into four categories. In Italy, Patelli and Prencipe (2007) divided the index into seven categories; Alves et al. (2012), in the Iberian Peninsula, split the index into six groups. In contrast to these studies, Murcia and Santos (2012), in Brazil, split the total voluntary disclosure into only two categories (economic (43) and socio-environmental (49)).

The reviewed studies were based on analysis of voluntary disclosure in only one period, except Murcia and Santos (2012), in Brazil, who used the panel data approach (98 companies in 2006, 100 companies in 2007 and 92 companies in 2008). The researcher may face underlying problems with some variables such as gearing when comparing a profitable company with a company that has problems with debts in one period, but if the researcher conducts a longitudinal study, may be the debts of the company have been solved.

There are different ways to allocate some items to the different categories among the studies reviewed; for example, if researcher has allocated item A in category X, maybe another researcher has allocated the same item A in category Y. That means

there is no agreement on the categorization of some items. The reasons for this conflict may be due to the thoughts of the researchers and their understanding of how to deal with the items based on their scientific environment.

Statistical methods used in the studies reviewed were found to vary. For example, Patelli and Prencipe (2007), Shammari (2008), China, Wang et al. (2008) and Alves et al. (2012) used multiple regression in order to investigate the relationship between the dependent variable and independent variables. However, Lim et al. (2007) used two-stage least squares regression (2SLS), and Ghazali and Weetman (2006) used stepwise regression, while Leventis and Weetman (2004) used ranked regression, and in Turkey, Aksu and Kosedag (2006) used cross-sectional regressions. Samah et al. (2012), in Egypt, used the Ordinary Least Squares regression for overall disclosure and three categories, while using binary logistic regression for corporate responsibility and compliance categories. In addition, most studies reviewed used an un-weighted approach to score LVD, except the study of Patelli and Prencipe (2007), which used a weighted approach to score level of disclosure. The reason for using different statistical methods in one study is due to the attributes of the data.

Patelli and Prencipe (2007) not only split the disclosure index into categories but also went further, to split the independent variable. Four types measured the independent variable. (INDIR98) the proportion of independent directors excluding those who were already part of the same board in 1998, (INDIR3) the proportion of independent directors excluding any that sit on more than three boards and (INDIR) the proportion of independent directors excluding any that sit on more than five boards. While (INDIRADJ) the proportion of independent directors after excluding all the cases above. This method is better to investigate the potential effect of the independent variable on the dependent variable.

3.4 The Gap in Previous Literature Studies on Voluntary Disclosure

Part two of this chapter reviewed and discussed previous literature on voluntary disclosure in developing and developed countries, and the studies on voluntary disclosure categories. The following paragraphs identify the gap in the literature regarding voluntary disclosure, especially with regard to the Kuwaiti context.

It is noticeable that most of the previous studies were conducted in the business environments that have corporate governance codes, but in Kuwait the financial sector has corporate governance codes since 2004, which were issued by the Central Bank of Kuwait. On other words, the corporate governance codes do not apply to all companies in the Kuwait business environment, except the financial sector. The study is intended to provide more explanation of disclosure practices in the business environments where corporate governance is not applied in all listed companies.

Prior studies have employed several theories to provide explanation of why companies disclose information to the public, such as agency, signalling, capital need, and political cost theories. It is noticeable that each study employed one theory or, at most, two theories; however, this study employs seven theories – additionally including stewardship theory, legitimacy theory and stakeholder theory – in order to explain voluntary disclosure practices in the Kuwaiti context.

Most studies reviewed used firm characteristics as independent variables to investigate their effect on voluntary disclosure. That is evidence of the importance of firm characteristics, which may enhance understanding about the extent of voluntary disclosure. Al-Shammari (2008) is the only study applied in Kuwait, being a longitudinal study over the period 2007 to 2010. To the best of this researcher's knowledge, there is no previous empirical longitudinal study, at the time of conducting this study, concerning voluntary disclosure with firm characteristics for this period in the Kuwaiti context.

There are some studies, which analysed the determinants of voluntary disclosure, such as corporate governance mechanisms, ownership structure and firm

characteristics, but there no study which analysed these determinants together in the Kuwaiti context to the best of this researcher's knowledge.

As regards methodology, previous disclosure studies used one or two statistical techniques, such as correlation (parametric and non-parametric), Ordinary Least Squares (OLS) regression, two-stage least squares regression (2SLS), ANOVA and generalised least squares (GLS). This study goes further by using five statistical techniques in order to investigate the relationship between LVD and its determinants, namely, OLS regression, normal score model, GLS model, Tobit model and the quantile model at different points, to increase confidence in the results of the study.

3.5 Conclusion

This chapter summarises the most common theories applied in literature reviews to explore disclosure practices in different countries. These theories are agency theory, signalling theory, capital need theory, stewardship theory, legitimacy theory, stakeholder theory and political cost theory. These theories were discussed in subsection 3.2.8. Empirical disclosure studies on both total voluntary disclosure and voluntary disclosure categories in both developed and developing countries are discussed in section 3.3. After reviewing these studies, the gaps in the previous literature studies on voluntary disclosure were demonstrated in section 3.4.

In the next two chapters, background and financial reporting practice in the Kuwaiti context are discussed in chapter 4, and the research hypotheses are presented in chapter 5.

Chapter 4: The Background and Financial Reporting Practice in Kuwaiti

4.1 Introduction

It has been argued that historical, political, economic and legal systems have affected the state's accounting system (Salter and Niswander, 1995; Archambault and Archambault, 2003). Černe (2009) stated regarding the accounting system, *"As a social science, accounting is affected by the environment in which it operates, but at the same time, it is one of the factors impacting on this same environment. This is a fact that points to the interdependency of accounting and its environment"* (p.66) After shedding light on the theoretical framework and the most relevant theories and, in addition, reviewing the relevant literature in previous chapters, this chapter provides an overview of the Kuwaiti business environment.

This chapter is structured as follows: section 3.2 provides a brief history of Kuwait. The economy of the Kuwait is presented in section 3.3. Information about the Kuwaiti capital market and the Al-Manakh crisis is in section 3.4; the new Kuwait stock exchange in section 3.5; the market divisions in section 3.6; listing requirements on the KSE in section 3.7; and the tax system in Kuwait in section 3.8. Section 3.9 sheds light on corporate financial reporting and regulation in Kuwait. The importance of corporate governance in Kuwait is considered one of the factors that may affect LVD, and is discussed in section 3.10, in addition, to highlight the board of directors, shareholders and general meetings, disclosure and auditing in the Kuwait business environment. The summary is presented in section 3.11.

4.2 A Brief History of Kuwait

The official name of Kuwait is the State of Kuwait. It is an Arab country in western Asia. It is surrounded by the Arabian Peninsula on the north-eastern boundary, and is located at the tip of the Arabian Gulf. Here borders are shared with Saudi Arabia to the south and Iraq to the north (see figure 5.1). The word "Kuwait" is derived from the word "kut", which means a "small fort" (Casey, 2007). The history of Kuwait commenced in the 18th century. Some tribal people and families migrated toward the

northeast zone from the central Arabian Peninsula. Among them the Al-Sabah family was one of the recognized families who belonged to the Al-Anazi tribe. That is why Sabah was perceived as the first monarch of Kuwait, who was elected by his peers and started the Royal family of Kuwait. Kuwait was ruled by Sabah from 1756 to 1762. However, Kuwait entered into an agreement with the British Empire from 1899 to 1961; according to the agreement, the United Kingdom assured Kuwait's security and protection. In addition to that, UK also agreed not to interfere in Kuwait's domestic issues. The agreement was ended on 25th February, 1961, which was declared as the independence day of Kuwait. The Al-Sabah family has ruled Kuwait since its founding, more specifically from 1756 until now. The size of the country is 17,820 square kilometres (6,880 square miles). According to the statistics of The Public Authority for Civil Information (PACI, 2013), the current population of Kuwait is around 4 million people; 31% of them are Kuwaiti citizens, whereas the rest are immigrants or labourers who come from other countries to earn their livelihood. Arabic is the first language and English the second, which is widely used in education and business. The Kuwaiti Dinar (KD) is the official currency of Kuwait, whose average and current exchange rate is 0.446 KD to £1.

Figure 4.1 Kuwait country map

The government system of Kuwait is parliamentary with a constitutional monarchy. The economic and political capital is served from Kuwait City. It is widely perceived as a liberal country in the Arab region; it is also recognized as having the world's fifth largest oil reserves and petroleum products. At present, 87% export revenue and

75% government income come from this source. It is regarded as the eighth richest country in the world in terms of per capita income. The World Bank has categorized it as a high-income economy. Furthermore, it is recognized as a key non-NATO supporter of the United States (CBK, 2010).

From the start of the 18th century, Kuwait concentrated on trade commerce and it expanded its business from the Gulf to Africa, Asia and Europe to earn more income. Kuwait proved to be a booming merchant class arena due to its customs of fishing, pearls, trade and seafaring. The prior mentioned sectors were the basis of Kuwait's economy until the 1920s. After that, Japan bought cultured pearls, for which reason Kuwait's pearl industry came to a sudden end and faced the Great Depression. More recently, Kuwait's economy recovered in 20th century through the discovery of oil in the Gulf region (AL Amiri, 2013).

4.3 The Economy of Kuwait

A significant economic period was commenced with the first oil shipment in 1946. However, Kuwait firstly enjoyed the benefit of oil in 1934, when it formed an oil company named the Kuwait Oil Company (KOC) which was perceived as an equal partner of the Anglo-Persian Oil Company (now British Petroleum) and the Gulf Oil Corporation. Commercially, oil was discovered in 1938. After ten years, Aminoil (an American company) was allowed to search and mine the islands and territorial waters off the shores of Kuwait. In addition to that, in 1958 a Japanese trading company was granted offshore exploration and oil extraction in Kuwait. In the 1960s, the Kuwaiti government formed Kuwait National Petroleum Company (KNPC) as a joint venture. With the passage of time, the Kuwaiti government had taken control of the entire petroleum sector by 1978. After that, the Kuwait Petroleum Corporation (KPC) was formed which brought all industrial sectors under one holding company. Thus, the control of those industries became more effective. The KPC manages eight large companies, each of which is specialized in its own arena in terms of manufacturing, oil production and transportation (KPC, 2013).

The economy of Kuwait has undergone an extensive augmentation since the discovery of oil. The national income, as well as Kuwaiti society, has seen a

substantial increase due to the discovery of oil. Kuwait attained infrastructure development from the oil revenue. Nevertheless, the government has enabled the other sectors to flourish, such as education, real estate, financial sector and health, with the oil revenue generated. These massive developments in all sectors of Kuwait have dramatically augmented the national income as well as economic and social life. The price of oil increased due to high international demand from 1972 to 1980. According to the annual report of Central Bank of Kuwait (CBK), the Gross Domestic Product (GDP) increased to KD7,755 million in 1980 from KD1,264 million in 1972 (CBK, 2008, 2010).

The growth of Kuwait's economy was at its peak after the 1973 oil price rise. At that time, the government developed the infrastructure of the country, such as water, electricity, highways, education and health. In the meantime, the price of oil declined to below US$10 per barrel in 1980, which made the country's revenue fall; the GDP also decreased to KD 2,805 million in 1989. By this time, the Iraqi-Iranian War (1980-1988) had caused huge losses to the Kuwaiti government and neighbouring countries. In the last phase of 1982, speculation grabbed the Kuwait Stock Market (KSM), which resulted in the Al-Manakh crisis. A number of banks became bankrupt at that time (described in the next chapter). The situation became intense when Kuwait was attacked by Iraqi troops in 1990 (ibid.).

Table 4.1 Kuwait's GDP and Oil Prices

Year	GDP, billions dollars	Average oil price ($)
1970	2.9	3.6 $
1975	12	12.21 $
1980	29	37.42 $
1985	21	26.92 $
1990	18	23.19 $
1995	27	16.75 $
2000	38	27.39 $
2005	81	50.04 $
2010	120	71.21 $

Resource: InflationData.com and Forecast Chart

Kuwait's GDP and oil price increased ten-fold from 1970 to 1980. The GDP was $2.9 billion and the average oil price was $3.6 per barrel, which increased to GDP of $29 billion dollars and average oil price of $37.42. Due to the war between Iraq and Iran in 1985, the GDP of Kuwait declined to $21 billion. However, due to the invasion of Kuwait by Iraq in 1990, the oil price further declined to $23.19, resulting in the GDP dropping to $18 billion. However, the GDP and oil price largely augmented up to 2010. The GDP reached $120 billion and average oil price reached $71.21 at that time. The Central Bank of Kuwait (2007) reported that the oil industry covers 94% of the total export merchandise, 88% of the government's revenue budget and 50% of the total GDP. The demand and price of oil depends on the world's political and economic situation. That is why the Kuwaiti government and national assembly are endeavouring to decentralize their sources of income. (See table 3.1.)

4.4 The Kuwaiti Capital Market

The Kuwaiti government perceived the need for shareholding or joint stock companies after the unearthing of oil. These are needed to develop the country's infrastructure. That is why it enticed companies to issue shares on the KSE, which was formed in 1952. The National Bank of Kuwait was regarded as the first public company that traded on that market. The KSE was formed to establish a dependable mechanism for financing large investment projects. Nevertheless, it maintains the balanced development of both private and public sectors. Thus, it created adequate wealth by meeting up investors' desire. Kuwaiti companies became self-disciplined to raise KSE finances. To do so, those companies have to be managed very professionally to improve performance according to expectations. The first trade occurred on the KSE in 1950 in public cafés and real estate brokerage offices. Both of these possessed different prices and quantities to trade. After that, the National Bank of Kuwait traded in 1952, the National Cinema Company in 1954, Kuwait Airways in 1956, and Kuwait Oil Tankers in 1957. The companies mentioned helped to shape the modern Kuwaiti economy (KSE, 2001; CBK, 2005).

The Kuwaiti government emphasized the employment of all its citizens in 1960. It concentrated on augmenting domestic liquidity so that people can accumulate more

savings and investments. Due to the high demand for public shareholding companies and a large number of Kuwaiti investors, the Kuwaiti government invested in the KSE, which gave rise to unofficial brokers and unqualified investors. The first Company Law No. 15 was enacted in 1960 by the government with a view to regulating new companies. This law was followed, commercial Law No. 27 in 1962. According to this law, Kuwaiti companies can be established abroad. However, the need for regulating the KSE rose in the last phase of the 1960s. To meet this need, Commercial Law No. 32 was enacted in 1970, which regulated stock trading in shareholding companies. From 1972, the KSE launched daily reporting on trades (ibid.).

In the Gulf area, the KSE is known as the first and the largest stock exchange. It commenced operation in 1962, after gaining independence from the British. But share trading started in the country in 1952. The market fell in 1976 due to its prior speculative trading in the over-the-counter market. Then restrictions were put on the listing of new companies by the government. The government also brought forward trade and margin regulations. The KSE was established and stabilised by 1977. Souk Al-Manakh[5] (a parallel stock exchange) was established in 1979, due to the prohibition of the government on the formation of public companies. It was a much-unregulated market in Kuwait, where many Gulf-based companies traded that did not meet the official market listing requirements. In 1981, the authorities became relaxed on the banning of forward trading; thereafter prices in the official and parallel market rose sharply. Until mid-1982, the market price followed an increasing trend. After that, the stock market fell and then collapsed. Therefore, the government made a number of reforms to augment the efficacy of the stock market. Hassan et al. (2003) stated the underlying reforms. Some of the major measures that have been believed to be effective for the improved functioning and efficiency of the Kuwait Stock Exchange (KSE) can be outlined as:

- The limit system on price alteration and written auction system that relentlessly matches stock transactions.

[5] Al-Manakh is the building's name.

- Official market and parallel market were separated, emphasis on the disclosure rules to ensure transparency of the market and the registration of brokerage companies and dealers
- Disclosure rules imposition in regards to ensure the transparency and accountability in the market. (p.8)

After the Al-Manakh Crisis, Kuwaiti government showed negligence toward those Gulf companies, as the Al-Manakh market was not based on law. According to the government's belief, every individual is liable for their investment decisions. It could not anticipate that the trading on the Al-Manakh market would rise so much, and that caused the ultimate problem. In the first phase of 1982, the trading on the Al-Manakh market and the KSE surpassed the anticipation of the government. A number of investors from other countries were enticed to invest in Kuwait. That is why large investors and illegal brokers used this chance to speculate on the share price. As there was no requirement to publish financial statements and analyses, so investors could not get the pricing information of shares (Al-Yaqout, 2006).

Four reasons that caused Al-Manakh crisis were traced by Al-Yaqout (2006). Firstly, the respective authorities were unsuccessful in enacting laws to control the stock markets. Secondly, post-dated cheques were used to solve problems while share prices fell very rapidly whenever investors presented the post-dated cheques due to the dearth of liquidity. Thus they faced huge losses. Thirdly, financial information was not reliable, as there was no control on it. Many companies had submitted erroneous reports. The last and foremost reason was that the investors were inexperienced and less informed.

The Kuwait Stock Exchange brought foreign investments successfully after the enactment of the Foreign Investment Law on the 10th September 2000. Savings are encouraged by foreign investment activities. It entices Kuwaiti citizens to invest in securities. Thus, the financial sector of Kuwait has become developed. On the other hand, a number of factors hindered the development of the KSE such as small size of market makers and foreign ingeniousness and GCC-nationals' restrictions on ease of access to the market. Hassan et al. (2003) argued that the Kuwaiti government significantly controls economic movements, unsuitability of short selling, inadequate

facilities for securities lending and borrowing, negligence of information disclosures, tendency of bankruptcy of companies and non-existence of derivatives.

The year 2007 was regarded as a successful year for the Kuwait market. A number of successes had been achieved in this year, such as neutralization of 23 stocks, and declaration of new listing conditions, etc. The prior mentioned developments occurred in the first phase of 2007, which occurred after correcting in 2006. Nonetheless, the booming trend of the market continued up to the end of 2008. More specifically, the great achievement was the reduction of income tax from 55% to 15%, which was imposed on commercial institutions operating in the country. This effort entices a massive amount of Foreign Direct Investment (FDI) in the country. In addition to that, the capital market benefitted from an approved bill that exempted profit that had been made by foreign companies who trade stocks in the KSE. This trading of stocks is made directly or via portfolios and investment funds. Thus, a massive amount of portfolio investments can be expected to come via foreign institutional investors in the country (CBK, 2008).

Moreover, the KSE is regarded as the second largest stock exchange in the Arab world. In the last phase of 2007, the size of Kuwait's equity market was $194 billion which covers 124% of GDP. Thus, Kuwait became one of the largest budding economies in the world in terms of GDP. The notable thing is that the KSE became the most effective stock exchange amongst the Arab countries. In the KSE, there are 191 listed companies, of which 17 are non-Kuwaiti. A quarter of the total listed companies are asset management firms and non-bank investment houses (KSE, 2009).

4.5 The New Kuwait Stock Exchange (KSE)

The government became more aware after the Al-Manakh crisis, when it concentrated on regulation of the KSE. In this regard, the KSE was made an independent financial institution in August 1983, administered by an executive committee. The KSE brought a new trading system in September 1984, which offered widespread stocks and derivatives to investors. It consists of 180 companies listed in eight sectors. With a view to augmenting the efficacy of the market, it runs

independently. Moreover, the Kuwait Clearing Company monitored movements of share prices and speculation. Nevertheless, a price unit method was launched to control the sharp movement of share prices. It controls the movements up to a maximum of five units during a single day. Lastly, to control the forward dealings of the market, a committee was formed to set rules. The operation of the KSE was stopped after the attack by Iraqi troops in 1990 until September 1992. Due to this fact, the KSE operated on a small scale from 1992 to 1994. However, the KSE regained its confidence in 1995, from when trading increased until 2002. The trading functions soared to the record heights of KD16, 253 million in 2003 and KD28,422 million in 2005 after the third war (Iraq liberation war).

The stock market trading in Kuwait was influenced by the global economy, as the performance of the KSE is affected by the performance of stock markets of other countries, the credit crunch, and the Dubai crisis in 2009; many other corporate scandals throughout the world since 2001 have affected the performance of the KSE. In addition, volatile political conditions in the Gulf region badly affected the capital movements of the KSE (the Iranian-Iraqi War in 1980 and the second Gulf War in 2003).

After the Iraq liberation war, the price of oil increased, which enticed the government to invest in those projects, which were beyond control at a prior time due to budget deficits. The share price index soared to a high of 12.558.9 points in 2007. The Kuwaiti Capital Markets Authority was founded, in accordance with Law No. 7 (2010), which was approved by the Kuwaiti parliament in February 2010. Under the law, the authority was granted to the Law Commission to regulate and control the activities of securities and realization of the principles of transparency, fairness, efficiency, and requiring listed companies to implement corporate governance principles and practices to protect investors from unfair and contrary.

4.6 Market Sectors

The KSE is segmented into primary (official) and secondary (parallel) markets. The regular market is perceived as the equity market. Here, based on price-time priority (5 percent of the firm's capital), sell and buy orders are matched. The 'small cap'

market is known as the parallel market. It consists of such companies, which have less capital or less than three years of continuation. There are seven major sectors of firms in the KSE, namely, insurance, real estate, banks, investment, food, industrial and services. Total trading volume from 2007 to 2010 is depicted in table 4.2.

Table 4.2 The total trading volume (Shares) 2007-2010

Sector	2007	2008	2009	2010
Banking	6.86%	5.36%	7.55%	7.39%
Investment	34.67%	35.14%	33.32%	31.36%
Insurance	0.13%	0.08%	0.04%	0.12%
Real Estate	28.60%	21.77%	25.06%	26.42%
Industrial	7.8%	6%	5.79%	6.93%
Services	20.4%	30.61%	26.78%	26.67
Food	1.535	1.05%	1.46%	1.11%
Total(KD)	65,211,018,500	75,751,678,000	97,914,252,500	68,942,152,500

Source: Kuwait Stock Exchange

It is shown in table 4.2 that the total trading volume of the seven sectors has increased in the KSE to KD 68,942,152,500 from KD 65,211,018,500 between 2007 and 2010. Within this, the share trading of the banking sector has increased from 6.86% (2007) to 7.39% (2010), however, it declined in 2008 to 5.36%; the insurance sector has negative growth in 2008 and 2009, though it increased in 2009 to 7.55%. Though share trading of investment and real estate started at 34.67% and 28.60%, respectively, in 2007, they ended up at 31.36% and 26.42%, respectively, in 2010. The share trading of the insurance sector has seen a dramatic decline from 2007 to 2009, 0.13% to 0.04%; the investors have shown confidence on trading of insurance shares resulting in it trading at about 0.12% in 2010. It has happened to the industrial sector share trading as well, i.e. even though the share trading of this sector was 7.80% in 2007, it saw a negative trend in 2008 and 2009, at 6% and 5.79%, respectively. The share trading flow of services has performed in a steady manner, for example, the share trading of the services sector was 20.40% in 2007, ending up trading at 26.67% in 2010. The food sector has seen a declining trend of share trading during this period, i.e. 1.53% share trading in 2007 has declined to 1.11% in 2010.

4.7 Listing Requirements on the KSE

To be listed on the KSE, first of all a company has to obtain approval from the Minister of Commerce and Industry. Then it has to apply to KSE. However, listing requirements vary based on the company's desire, whether it wants to be listed in the Parallel Market or Official (First) Market. Generally, the Parallel market is used to trade shares before sending it to the Official market. Those who want to be listed in the Official (regular / First) Market have to satisfy eight underlying conditions. (1) The firm's paid-in-capital should be equal to or more than KD10 million. (2) The firm's net shareholder equity should be more than or equal to 115 percent of the weighted average of the paid-up capital in each of the last two fiscal years. (3) Profit has to be earned in the last two fiscal years, and the yearly net profit should be more than or equal to 7.5 percent of the weighted average of the paid-up capital at the end of each fiscal year. (4) A number of shareholders should occupy 30 percent of the company's capital, which has been set by the market committee's scheduled guide, according to the book value of the latest fiscal year (KSE, 2009); ownership of the company should not be confined to trading units. (5) In the case of a closed company, it has to augment its capital up to 50 percent in a single fiscal year in order to be listed in the market and the capital augmentation should last for at least one fiscal year (KSE, 2009). (6) 25 percent of the paid-up capital has to be kept in the clearing chamber for two years from the enlistment date. (7) The company should comply with all the listing procedures of the KSE within four months after obtaining approval from the committee. If it fails then its enlistment will be considered as void. (8) In the case of a closed company, strategic shareholders (shareholders holding 5 percent or more of a company's share capital) should possess a minimum of 25 percent of the shares.

4.8 The Tax System in Kuwait

The citizens of Kuwait do not pay income tax, which is a unique characteristic of Kuwait's economy. The Kuwaiti government does not impose any sort of social security tax or income tax on local residents or on non-resident workers. The citizen pays tax in the form of Zakat. The amount of payable Zakat is determined by measuring the net worth of the payers. Zakat is one of the most important

fundamentals in Islam and it is regarded as the third pillar of Islam. Zakat can be explained as a mechanism by which funds are transferred from the surplus unit to the deficit unit of society. Generally, Zakat refers to purification or purity. However, the payer pays Zakat to express his worship towards Allah.

In general, it is thought that the most important reason for paying Zakat is that it ensures purity of both body and soul. It is the duty of rich people to help the poor to satisfy their needs by paying Zakat. Undoubtedly, Zakat improves and strengthens the relationship between the poor and the rich in society. The amount of payable Zakat is determined based on the capacity of the payer, which ensures social justice. In this aspect, the National Assembly has passed a new law that will determine the amount of payable Zakat (according to Islamic shari'ah law) for all the share holding companies in Kuwait. Law No 46 of 2006 explained the significance of Zakat and shareholding companies and the role of public. The law was issued on November 27, 2006 in the state budget of Kuwait. All the closed share holding companies and public limited companies of Kuwait, except foreign companies and government companies, are bound to pay Zakat. Eligible companies will pay Zakat at the end of the financial year, which ends in December. Each company is required to pay Zakat of one percent of annual net profit. Each company is bound to pay Zakat if they do not have any outstanding obligation and the company is growing year after year.

4.9 Corporate Financial Reporting and Regulation in Kuwait

The Kuwait government evaluates and justifies the financial reporting of the companies in order to protect the interests of investors and other financial report users. The KSE and the Ministry of Commerce and Industry issue most of the regulatory laws for listed companies in Kuwait. Some of the important laws are Ministerial Resolution No. 18 (1990), the Stock Exchange Law (1983) and its amendments, and Company Law No. 15 (1960) and its amendments. According to Company Law No. 15, companies must maintain a record of their activities. It is the duty of each of the board of directors to prepare a profit loss statement and balance sheet which will represent the accurate financial position of the company. The report must be presented to the Ministry of Commerce and Industry within three months after the end of the financial year. At least two registered auditors will audit all the

financial statements. Financial statements must be distributed among the shareholders. However, the law did not specify what sort of accounting principles should be maintained in preparing financial statements.

According to the Stock Exchange Law of 1983 and its amendments, to be listed on the KSE, companies must follow certain accounting standards. Companies must publish audited annual report of the last two years that will present satisfactory financial structure and operating profit. It is the sole discretion of the KSE authority to implement any additional requirements that are necessary to be listed on the KSE. It is obligatory for each of the companies to present audited financial reports of profit loss statements and balance sheet to the KSE. Companies submit interim and quarterly statements within two months of the end of the fiscal year and profit loss statements and balance sheet within three months after the end of the fiscal year. All the listed companies on the KSE are required to follow accounting rules and regulations of the Ministry of Commerce and Industry. Otherwise, be de-listed or ceased. However, the law did not specify any definite standard that should be followed in preparing financial reports.

Neither the Stock Exchange Law of 1983 nor Company Law No. 15 dictates any specific accounting standard. To develop information disclosure, the Ministerial Resolution No. 18 of 1990 was implemented. It is obligatory for all companies that conduct business in Kuwait to maintain International Financial Reporting Standards (IFRSs). The Kuwait Accounting and Auditing Association started its operation in 1973, which is regarded as the only professional association. The association has no authority to enforce compliance or to control professions; rather the government has requested the association to provide advice to all companies. Most of the activities of this association are confined to conducting courses in financial statement analysis and accounting standards.

4.10 Corporate Governance in Kuwait

4.10.1 Characteristics of the board of directors

According to Article 90, the establishment of the board of directors will be by the founding members of the company who hold a large portion share of the company, because Kuwaiti companies are closely held. Company members are elected by the vote of shareholders at the general meeting. The ultimate duty of the board is to ensure that the company is complies with the articles of association and most of the structure of the board is single tier.

According to Articles 138 and 141 of Kuwait's Company Law, each company must elect at least three directors for the next three years through ballot voting of the shareholders. The duration of the selected directors is renewable. The directors of a listed company must be qualified enough, must not have any connection with criminal or fraudulent activities and must not breach the trust or honour of the company. Article 139 says that the worth of share of directors must be at least KD7,500 or £15,000. Directors must deposit this share within 30 days after appointment into the company, and will not be able to withdraw this portion until his term is ended. Article 139 also says that if the value of the shares goes below KD 7,500, directors will lose their position.

No individual can be director of more than three companies. Any individual director cannot be appointed as a chairman or managing director if he is already appointed as such in other organisations. However, no directors can sell his share as long he is holding a position in the company. Without further approval of the general assembly, no director can expose company decisions or secrets (Article 140). According to Article 142, any director (governmental, institutional or individual) can appoint a representative on his own behalf to the board. According to Article 43, if any board director resigns his position, the largest shareholder will take responsibility for that position.

Board members must meet four times each year. According to Article 144, in each meeting at least fifty percent of the directors, including three directors, must be present. According to Article 145, board members must elect one or more managing directors for the company who will be the core representatives of the company; at the same time directors must select one chairman and deputy chairman through secret ballot voting. The board has the authority to operate the company according to general assembly resolution, articles of association and company law. According to Article 146, the power of the board of directors is limited in the perspectives of sanctioning loans, selling company property, giving guarantees to third parties and discharging borrowers from paying their liabilities.

The chairman is regarded as the president of the company. The chairman is responsible for operating board resolutions and he has the authority to represent the company as well as to sign representing the company. According to Article 147, the deputy chairman will represent the company in the absence of the chairman. Articles 148 and 149 say that the board members as well the chairman are jointly responsible to the shareholders, company, stakeholders and to all concerned parties for each law violation, fraudulent activity and misappropriation and misuse of the company's articles of association. The board distributes the authority to conduct regular operation to the concerned authority. The board holds the power of decision-making in the aspects of new investment, dividends and write-offs.

Non-executive directors (NEDs) are also regarded as company directors, but they do not take part in the day-to-day activities of management like executive directors. NEDs are members of the company's board. Thus, NEDs also participate in board meetings. Though Kuwaiti law does not indicate any significant differences between non-executive and executive directors, it always permits the directors to donate their time for the welfare of the management as well as of the company. NEDs are usually appointed from high government officials who support the company in many problematic situations, and also help to obtain any kind of government permission. NEDs are usually appointed from rich and influential families of Kuwaiti society. Though some NEDs are appointed on the basis of their qualifications, nevertheless personal relationship and connection with officials are very important. To get any type of independent opinion, companies usually go outside the firms. Consequently,

in most of the listed companies in the KSE, the NEDs cannot act properly either for the minority shareholder or for the executive shareholders, rather they simply discuss and suggest different plans and ideas; thus, NEDs should hold at least a few shares of the company. According to the Kuwaiti Company Law, there is no article which obliges companies to establish audit, nomination or compensation committees; however, some companies have established some committees, but these cannot be considered as corporate governance mechanisms, which are not provided for in the Commercial Law.

4.10.2 The rights of shareholders

Company shareholders do not take part in the regular operation of the company. Rather, they perform certain supervisory functions, such as appointing and removing auditors and directors, attending the general assembly, approving the annual financial statement and collecting financial information. Kuwaiti laws support shareholders to protect their rights, to assist in registration, to enforce rights and to transfer ownership. According to Articles 131 and 132, all the shareholders have an equal amount of rights as well as liabilities in the aspects of receiving annual financial reports, purchasing new shares, disposing of shares, accessing the company's registers, filing an action, participating in general meetings and management, receiving shares in the company's property at liquidation and receiving dividends. The common shareholders or the ordinary shareholders have the right to vote in the extraordinary or general meetings.

According to KSE listing requirements and the Company Law of Kuwait, it is mandatory for all listed companies to arrange an annual general assembly. If the company fails to comply with this requirement, it will be de-listed from the KSE. The board will prepare the agenda of the meeting and the directors will decide the location and time of assembly. However, the shareholders, directors and government have the right to arrange any special meeting in addition to the general assembly in case of urgency. The agenda as well as notice of the meeting must be published at least 15 days prior to the date of the meeting and in at least two Arabic daily newspapers. The shareholders can receive a copy of the report of the board of directors, the auditor's report and the financial statement of the period.

The management of a company has to consider the demands of the shareholders, which are raised at the general meeting. If half of the shareholders are not present in the general meeting then it will not be considered as a valid one. Without showing any cause, the board can call another meeting if the quorum is not fulfilled. According to Article 154, to be counted as a representative of the meeting and as a voter the shareholders have to collect an invitation card. In Article 155, it is said that anyone can cast a vote at the meeting if they have the card whether they are shareholders or not. Vote per share is the basis for casting votes for making laws of the company, and the majority will be granted in case of making any decision. On the other hand, the number of votes cast on a given issue can be counted where a person may cast his vote according to the number of his shares if there is a pole system. In this system, the large share holder can affect the decision regarding his investment. At the general meeting, the chairman counts the raised-hands vote. According to Article 157, the following issues may be included in the general meeting:

1. Financial position and annual report of the company
2. Evaluation of financial and annual report based on auditor's report for future planning of the company
3. Allocation of profit, dividend, and approval of financial statement
4. Making decision on bonus, appointing an auditor and his/her fees and electing board members
5. Making decisions on issuing guarantees, bonds, mortgaging or borrowing and relieve directors from liability
6. Any issues raised by at least 10% shareholders who are interested about the issues must be discussed.

According to Article 133, it is not possible for the general meeting to sue against directors of the company, to constrain the rights of shareholders, to reduce the profit distribution percentage or to increase the financial liability of shareholders. Article 134 suggested that a register should be kept for recording the sales volume of shares, the number of shareholders and members in details with amount paid for shares by individuals. Article 158 refers to some particular situations, such as merger with another company, to set up whole company activities, to amend the memorandum

and articles of the company and to increase or decrease company capital, on which the general meeting can share opinions.

It is possible to remove the directors from the company before their expiry by setting up an extraordinary meeting when shareholders having more than 25 percent shares want to do so. In Article 159, it is recommended that the board is bound to arrange the meeting within 30 days after the proposal of the shareholders. But the meeting will not be lawful if no representative of the rest share capital attends. Again, according to the Article 160, the board has the right to arrange a second meeting if the first one fails to meet the quorum. In addition, this time any one of the 50% shareholders must attend the meeting to make the meeting successful. The dividend is the main concern for shareholders. According to company law, the dividend is usually declared in the annual general meeting of the company. Directors usually declare the amount of dividends. According to Article 167, if the company fails to earn satisfactory profit in any year, the dividend will be given from the statutory reserve of the company.

4.10.3 Disclosure and auditing

Shareholders put greater concern on the disclosure policy of the company. Usually, there are two sources available for disclosure such as the regulation of the KSE for listed companies and company law. As mentioned earlier, companies usually disclose information at the general meeting, such as director's remuneration, shareholder's register and company's agenda. According to Article 191/4 and 93, each of the shareholders has the right to receive the balance sheet, profit and loss statements of the year, official gazette and a list of the board of directors.

According to Article 161/11, all listed companies must appoint auditors who will be present at the general meeting and they will audit all the financial statements for the coming years. In order to ensure independence of the auditor, Kuwaiti law strongly prohibits any servant or officer of the company from being an auditor. Apart from this, none of the auditors can be a partner of the company; nor can they be an employee of the company; nor can they offer consultancy services to the company (Article 162). It is the power of the auditor to audit any and all types of books and

documents, including the financial statement. According to Article 163, auditors will report to the shareholders about the accuracy of the financial statements and reports that have been examined; at the same time, they will also comment on the income statements and balance sheets that have been presented at the general meeting.

Moreover, after auditing the financial statements, the auditor will certify that from the explanation and based on their knowledge the financial statements are fairly presented without material mistake. Auditors will also certify that financial statements possess all types of information that are very essential for the concerned parties, and that they comply with regulatory requirements. The role of auditors is very significant for all concerned parties. The laws do not suggest the board to maintain an external auditor to observe the operation of external auditors. According to Article 164, auditors must report to the shareholders on the following facts:

1. Whether the auditors have got all sorts of cooperation and information to carry on audit independently
2. Whether company maintain proper records of their activities
3. When the book of accounts depicts the real picture of profit loss statement and balance sheet
4. Whether the books of accounts are prepared in accordance with director's report
5. Any violation of the articles of association or violation of company law
6. Whether there are any fraudulent activities or breach of contract between Shareholders and auditors.

Generally, the shareholders put greater importance on the audit report and director's report because these reports contain information regarding company business, future plans, employment and financial position. According to Article 131/4, shareholders must collect all these reports. According to Article 151, shareholders have the right to know about the decisions of board and company. The board members cannot enter into any type of contract with the company without approval of the shareholders. The board will act to protect the interest of the shareholders. The KSE also bound companies to disclose information. Investors receive more and more information because of regulatory requirements. Listed firms must submit any type of statements

to the KSE on their demand. According to Article 15, the KSE control unit must keep all records of shareholders. According to Law No 2 (1999), the company must report to the KSE regarding those shareholders who have more than five percent share in the company.

4.11 Conclusion

After reviewing the Kuwaiti market, laws and regulations governing the market and some of the corporate governance mechanisms, the following key factors may be concluded:

1 The capital market of Kuwait is not highly liquid and it is dominated by a small number of firms; at the same time trading volume is not significant. The equity market is not well improved. It has thin trading, and noisy stock price. Firms do not maintain a high disclosure policy.

2 In Kuwait, the practice of good corporate governance has not properly developed yet due to lack of dispersed ownership. For example, Kuwaiti companies exhibit very few outside directors, high takeover attempts, equity based incentives for management and an absence of proxy fights.

3 Company law does not suggest the board to maintain an audit committee that will observe the functions of external auditors.

4 The founding members of any company highly control and dominate the corporate world. They influence the decision of management by imposing their representative on the management or on the board. Family members and owners are dominant on the board of any company. According to Al-Shammari (2003), internal information of the company is available to these groups. Omet (2005) reported that family owned private companies control the capital market of Kuwait and few state-owned companies and the total number of large listed companies is very few.

5 The chairman, the CEO and the board members are not well organised. In the majority, the chairman plays the role of CEO.

Though the market of Kuwait is safe and regulated through certain legislative bodies, they still have not developed a comprehensive structure for the security market. Therefore, no definite regulation can support companies to develop disclosure. Some of the relevant laws are: the new Kuwait Capital Markets Law (KCML), the rules and regulations of the Central Bank of Kuwait (CBK) for banks and investment companies, the Kuwait Commercial Companies Law (CCL) and the listing rules of the Kuwait Stock Exchange (KSE) for listed companies. Thus, the International Monetary Fund (IMF) advised the introduction of a new, distinctive, independent and single law that would regulate the operation of the capital market of Kuwait. This law would develop a regulatory body that would solely supervise the function of the capital market. In order to introduce a capital market authority, the government recently passed Law No. 7 of 2010. The new capital market law works to protect the interest of the minority as well as of the majority shareholders. It compels the listed companies to practise the code of corporate governance. According to the new law of the capital market, the managers of listed companies are bound to disclose their ownership percentage in the company concerned. The capital market authority compiles all the segregate issues of capital market and put it in a unique system.

To sum up, disclosure practice in Kuwait is not developed to the standard international practice and it is still practiced in a scattered manner. The laws usually cover the general concepts of disclosure, which are related to transparency, and accountability of the board to the Kuwaiti Stock Commission (KSC). Moreover, the practice of general concepts cannot ensure the highest standard of disclosure practice. Thus, Kuwaiti companies should follow the practice of the GCC, because they have made tremendous improvement in practising standard forms of corporate governance.

Chapter 5: Hypotheses

5.1 Introduction

The empirical study aims at quantitatively examining LVD practices and their association with CG mechanisms, ownership structure and firm characteristics in the annual reports of Kuwaiti listed companies. In previous chapters, the theoretical framework was reviewed, in chapter 2, reviewing the importance of LVD, definitions of LVD and motivations that induce companies to disclose information to public, in addition, reviewing definitions of CG and the effect of CG mechanisms, ownership structure and firm characteristics on LVD. In chapter 3, the theories used in this work to explain LVD practices were reviewed, as well as previous studies on LVD in developed and developing countries. In chapter 4, an overview of the Kuwaiti business environment was provided.

The third objective of this study is to find whether there are statistically significant relationships between LVD and its categories with the CG mechanisms, ownership structure and firm characteristics. In the following sections, each factor is reviewed through previous studies to provide their impact on LVD in order to build the hypotheses used to achieve the third objective.

5.2 Corporate Governance Mechanisms

CG mechanisms affect LVD for the annual report. According to previous disclosure studies, many scholars have investigated the influence of CG on disclosure through a variety of variables. NEDs, board audit committee, board size, role duality and audit firm have been examined, such as in Leung and Horwitz (2004), Barako (2007), Kent and Stewart (2008), Samaha (2010), Rouf (2011), Mohamad and Sulong (2010), Uyar et al. (2013) and Al-Janadi et al. (2013). The following sections shed light on these mechanisms.

5.2.1 Non-executive directors

There is a strong belief in the business environment that the existence of NEDs (outsiders) on the board of directors is an internal mechanism to help the board of directors with observation and monitoring of the activities and behaviour of top management (Stapledon and Lawrence, 1997). Hanson and Song (1998) pointed out that a board of directors that includes NEDs (outsiders) is only suitable to monitor the performance and action of the firm's management. The increased presence of NEDs (outsiders) increases the independence of the board, and subsequently increases disclosure.

By empirical evidence from prior studies, NEDs (outsiders) play a more important role than the executive directors (insiders) in maximising shareholders' wealth, but executive directors (insiders) can give more to a firm through their knowledge and skills than outside directors. At the same time, NEDs (outsiders) are necessary to supply independent opinion, on matters such as executive director appointments, pay awards and lay-offs when they deal with the executive directors (insiders). As such, effective management should have independent directors, which means a board consisting of NEDs (outsiders) (Mohamad and Sulong, 2010).

However, the executive directors (insiders) have experience and are knowledgeable about the firm's operations; they have an intimate knowledge of what is happening in the firm. The firm needs executive directors to set up its strategic planning and make decisions (Bhagat and Black, 1999). Concerning financial reporting, outside directors may persuade firms to disclose more financial and non-financial information to stakeholders. A board dominated by outside directors is less likely to suffer the issuance of any financial statement that includes any fraud (Beasley, 1996). Forker (1992) also argues that, because NEDs have fewer relations with the management, this will push the management to disclose more data to shareholders.

In the USA, Beasley (1996) analysed 75 fraud and 75 no-fraud firms. He found that financial statement fraud was less when the board had a high proportion of NEDs, because the appointment of outside directors to the board of directors increases the ability and power of the board to observe and monitor activities of top management

from any fraud and errors. In this state, companies are able to issue the annual report without fraud and errors. Akhtaruddin et al. (2009) found that companies with a larger proportion of independent NEDs on their board may expect more disclosure.

Patelli and Prencipe (2007) tested the effect of various variables on level of disclosure (size, gearing, profitability, ownership structure and independence of directors on the board of directors) in 175 listed companies in Italy. They provide evidence of a positive association between LVD in corporate annual reports and the proportion of NEDs on the board of directors. In addition, they reported that board composition is one of the many factors that can reduce agency conflicts inside the firm. Cotter and Silvester (2003) concluded that Australian companies obtain benefit from a board of directors that includes NEDs on the board.

In a similar vein, Cheng and Courtenay (2006) found a significant positive association between a high proportion of independent directors and level of disclosure in the annual report in Singapore. In Hong Kong, Chen and Jaggi (2002) found, when they examined the relationship between independent directors and level of disclosure, a positive relationship. These results agree with agency theory, which predicts that a higher proportion of independent directors will increase LVD (Barako et al. 2006).

On the other hand, some literature found a negative association between NEDs and LVD. Eng and Mak (2003) examine the impact of ownership structure and board composition on LVD in the annual reports of 158 Singapore listed firms; their study has been extended to address the effects of firm size, gearing, industry type, reputation of the auditor of the firm, number of analysts following the firm, and stock price. Although NEDs have greater representation on the board of Singapore firms (average=57%), the researchers found a negative association between NEDs and LVD because NEDs are elected by blockholders to represent their interests and may be able to obtain information directly, rather than through other public disclosure channels.

In Hong Kong, Gul and Leung (2004) tested the relationship between NEDs and LVD in 385 listed companies for 1996. They found a negative association between LVD and the proportion of NEDs (expert) on the board. That study used 1996 data, to test the relationship between CG variables and LVD. This was, however, one year before the Asian Financial Crisis in July 1997; after 1997, many rules and legislation were issued by Hong Kong authorities, for example, CG requirements and accounting standards by the Stock Exchange and the Hong Kong Society of Accountants (HKSA).

In contrast, some of the literature shows that NEDs do not have any effect on LVD. For example, Ho and Wong (2001), for Hong Kong listed companies, examined the relationship between four major CG attributes (independence of NEDs on the board, audit committee, dominant personalities (CEO/ chairman duality) and the percentage presence of family members on the board) on LVD; they used a weighted related disclosure index to measure LVD. They cannot provide any significant relationship between board independence and LVD.

Haniffa and Cooke (2002) investigated whether CG and personal attributes, in addition to company-specific characteristics, are possible determinants of LVD in Malaysia, where they found no relationship between the proportion of independent directors and LVD. In addition, Abdullah and Mohd-Nasir (2004) failed to find a significant influence of the existence of independent directors on LVD.

In Kuwait, there are no laws or regulations to organise the structure of the board of directors in Kuwaiti listed companies[6], which allows any company to organise its board according to its vision. However, Al-Shammari and Al-Sultan (2010) found the average of NEDs is 0.82; their sample was 170 companies listed in 2007. That percentage shows Kuwaiti companies listed are interested to appoint NEDs to their board of directors.

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[6] The first rule of principle (1-1) of corporate governance rules that issued in 2013 and the Article No. (218) of Legislative Decree No (25) for the year 2012 on the issuance of the Companies Act, as amended, provides that "should be the majority of the Board of Directors of the non-executive members..."

Thus, NEDs (measured by the proportion of outside directors on the board) may be expected to be positively related with LVD in Kuwaiti listed companies. The task of board of directors is to observe and monitor activities of the top a firm's management (Fama, 1980; Fama and Jensen, 1983). Stapledon and Lawrence (1997) and Hanson and Song (1998) observed that if the company has a higher proportion of NEDs on the board it will increase the level of monitoring and observation of the operation and activities of a firm's management and will restrict directors' opportunism. NEDs will encourage the management to disclose more information to other parties.

Since the prior literature indicated mixed evidence about the relationship between NEDs and LVD. Thus, it is hypothesised that:

> ***H1.*** *There is an association between the non-executive directors and the level of voluntary disclosure in the annual reports of Kuwaiti companies.*

5.2.2 Board size

The value of a company may be affected by board size, through the role that the board plays in monitoring and observation on the firm's activities; besides the role of the board to monitor managerial performance, the board reduces opportunistic behaviour and enhances financial disclosures. With respect to board size, it is one of the independent factors employed in previous literature to investigate the relationship with LVD. The total number of members sitting on each company board measures board size. In accordance with the law, any company should have a board consisting of one or more members. Some scholars mention that increased board size may increase the expertise diversity on the board, including financial reporting expertise; the board of public firms should consist of not less than three members (Eisenberg et al., 1998).

Board size is considered as one of many factors which may influence LVD. However, previous studies have shown that a small board is more efficient, dynamic and functional than a large board. Chen and Jaggi (2000) argued that information asymmetry might decrease with a large number of directors on the board. The ability to encourage higher LVD is affected by the size of the board (Zahra et al., 2000).

Daily and Dalton (1992) indicated board size is a main factor of board structure; it has stirred debate concerning board size by scientists. During the last 50 years, there was a belief regarding board size: the early literature indicated that the average board size is between 12 and 14 (Gordon, 1945), while Chaganti et al. (1985) reported that board size ranges from 5 or 6 members to 30 plus members. Board size is different from country to country, depending on the laws and legislation of each country. The duties of the board of directors, as the top-level management body in a company, are formulating policies, monitoring and strategizing, and this may influence LVD, according to the size of the board. Jensen (1993) warned that the board of directors' work with eight directors or more may face difficulties to monitor the firm's work; also the board is unlikely to function effectively. Kim and Nofsinger (2007) suggested a board with fewer directors might be a better board. In addition, Yermack (1996) reported that a larger board size was believed to lead to a worse performance and that decision-making was less efficient. In Kuwait, according to the Company Law No. 15 of 1960 and its amendments, the number of directors on the board should be no less than three, and there is no maximum number of directors (Article 183).

In order to reducing opportunistic behaviour of directors, Lauenstein (1977) pointed out that the firm with large board size led to avoiding adopting decisions by the board and reduced individual commitment by directors. Singh and Harianto (1989) mentioned in their search for the size of the board that it plays an active role in deterring opportunistic behaviour of directors, such as any actions against shareholders' interests; and whenever the size of the board is large that it led to more deterrence that is effective.

However, some previous studies found a negative association between board size and level of disclosure, such as Parsa et al. (2007), Dhouibi and Mamoghli (2013) and Damagum and Chima (2013). However, some studies found a positive association between board size and LVD, for example, Hussainey and Al-Najjar (2011) and Al-Janadi et al. (2013). In addition, some others found insignificant association between board size and LVD, such as Arcay and Vazquez (2005), Cheng and Courtenay (2006), Donnelly and Mulcahy (2008), Hasan et al. (2013) and Uyar et al. (2013).

In the Kuwaiti business environment, the legislator indicates that the minimum of the board size should at least have three members but there is no maximum limit of the board size[7]. Although previous disclosure studies focused on the relationship between board size and the extent of disclosure, there is no certain theory to explain this relationship; also the results were mixed. This researcher would expect board size, measured by the total number of members (executive and non-executive) sitting on each company board, to be negatively related with LVD in Kuwaiti listed companies, since the previous literature pointed out mixed evidence about the relationship between board size and LVD. Thus, it is hypothesised that:

> ***H2.*** *There is a negative association between the board size and the level of voluntary disclosure in the annual reports of Kuwaiti companies.*

5.2.3 Role duality

Some researchers consider duality have many advantages for a company, for example, Pfeffer and Salancik (1977) argued that duality between chairman and chief executive officer will increase corporate awareness and ability to save its vital resources. Anderson and Anthony (1986) indicated duality let a company focus on its objectives and goals, and improved the level of operations. Another advantage of duality is its ability to remove any kind of confusion, misunderstanding or conflict between chairman and chief executive officer. Thus, it provides a safe and suitable environment for more effective and smooth of decision-making in a company. Boyd (1995) shed light on the effect of duality through the concept of stewardship behaviour; he found the dual leadership structure in environments characterized by scarce resources and complexity has a positive impact on firm value.

Donaldson and Davis (1991) pointed out through stewardship theory about the duality between chairman and CEO*, "The executive manager, under this theory, far from being an opportunistic shirker, essentially wants to do a good job, to be a good steward of the corporate assets"* (p.51). That indicates duality will add value to the company. Davis et al. (1997) mentioned that in the case of duality between the CEO and chairman of the board, it will increase the ability of the company to maximise

[7] The minimum of the board size should at least have five members; this article has been modified according to the provisions of the Companies Act No. 25/2012.

corporate value, and thus reflect on shareholders interest better than in the case of separate CEO and chairman.

Nevertheless, the evidence from previous LVD studies is mixed. Some of them found negative association and others positive association; also, there are many which found no evidence to choose between duality and LVD. For example, Cheng and Courtenay (2006) examined the relationship in 104 firms listed on the Singapore Stock Exchange (SGX) in the year 2000; they found no relationship between CEO duality and LVD. In addition, Ho and Wong (2001), in a study of the association between CEO duality and LVD in Hong Kong's listed firms, pointed out that there was no significant relationship between CEO duality and level of disclosure.

A number of studies in many countries around the world found no evidence of role duality having an effect on LVD, for example, Arcay and Vazquez (2005) in Spain; Cheng and Courtenay (2006) in Singapore; and Ghazali and Weetman (2006) in Malaysia. However, Forker (1992), Haniffa and Cooke (2002) Gul and Leung (2004), Xiao and Yuan (2007), Donnelly and Mulcahy (2008), Laksmana (2008), Al-Shammari and Al-Sultan (2010) and Al-Janadi et al. (2013) found negative significant association between role duality and level of disclosure. However, Rouf (2011) found a positive significant relationship between dual leadership structure and disclosure.

It is important to note that Kuwaiti company law does not prevent duality in Kuwaiti companies, which encourages Kuwaiti companies to combine two positions, chairman and CEO, in one person. However, Al-Shammari and Al-Sultan (2010) found 57% of Kuwaiti listed companies in 2007 have role duality, although in Kuwait there are no obligatory laws for the separation of roles between chairman and CEO[8]. This researcher would conclude that separation between chairman and CEO will increase LVD for listed companies in Kuwait, Thus, it is hypothesised that:

> ***H3.*** *There is a positive association between the role duality and the level of voluntary disclosure in the annual reports of Kuwaiti companies.*

[8] The rules of corporate governance issued in 2013, according the principle (1-1) refers to" May not combine the post of Chairman of the Board and CEO"

5.2.4 Audit committee

Mallin (2004) mentioned that any board of directors may set up a number of committees and distribute some activities, duties and responsibilities to these committees; in return these committees should submit a detailed report about their activities and works to the board of directors, although this does not relieve the board of directors of the responsibility for these committees. Ho and Wong (2001) argued that the presence of an audit committee has an influence over the magnitude of corporate disclosure. In the UK, the combined code (2006) recommends three types of committees that board of directors should have, audit committees; remuneration committees; and nomination committees. In addition, the board of directors may establish other types of committee, which it considers necessary for the proper functioning and supervision according to companies' circumstances.

Thus, audit committees will influence the board to reduce information asymmetry and have a role in effective CG. Forker (1992) regarded the audit committee as a tool to improve disclosure and reduce agency conflict, and it is one of the most effective oversight mechanisms. Therefore, if audit committees have a large proportion of independent outside directors who have financial backgrounds, and experience and training to understand their duties, it expects that this will enhance the oversight process. Furthermore, Kala (2001) reported the audit committee has a role to support top management in supervision and to ensure the functioning of the internal controls and enhance their effectiveness.

Scholars and regulators assert that audit committees should only consist of NEDs or independent directors to give a higher degree of active supervision (Dechow et al., 1996; Carcello and Neal, 2000; Abbott et al., 2004). Persons (2005) provided proof to support the view that independent audit committees associate positively with the financial reporting process and asserted that the audit committee should consist of independent directors to show that the financial statement has a low level of fraud. In addition, Beasley (1996) showed that the audit committee, which has a high percentage of independent outside members, would lower financial statement fraud. Both McMullen (1996) and Dechow et al. (1996) found evidence that committal of

financial statement fraud is high in companies that do not include an audit committee.

Prior research provides a positive association between the presence of an audit committee and corporate disclosure (Wright, 1996; Ho and Wong, 2001; McMullen, 1996; Samah, 2010). Wright (1996) found that an audit committee is robustly related to the financial statement. Ho and Wong (2001) and Bliss and Balachandran (2003) argued that an audit committee was positively associated with LVD. Therefore, Song and Widram (2004) pointed out that one of the characteristics of the audit committee's functions is a final guarantee to approving financial reporting before release to stakeholders.

Rouf (2011) found, when he examined the linkages between company characteristics, governance attributes and the extent of LVD in Bangladesh, based on a sample of 120 listed non-financial companies on the Dhaka Stock Exchange (DSE) in 2007, a positive association between LVD for firms that had an audit committee. Furthermore, in Kenya, in the developing countries context, Barako et al. (2006) examined the relationship between the presence of the audit committee in Kenya and LVD by using a weighted disclosure index. He found a significant positive association between the presence of an audit committee and LVD.

However Abbott et al. (2004) found a negative relation between audit committee independence and the financial reporting statement. Forker (1992) also found no significant relationship between the existence of an audit committee and disclosure. Akhtaruddin et al. (2009) found the audit committee has no impact on LVD. In addition, Kent and Stewart (2008) stated:

> *"That company with smaller audit committees and, surprisingly, those with a smaller proportion of members with accounting and finance expertise, also have a higher level of disclosure in Australian companies"* (p.651).

Kuwaiti law and legislation do not mention the issue of establishing audit committees in Kuwaiti listed companies[9]. However, Al-Shammari and Al-Sultan (2010) found 48% of the Kuwaiti companies listed in 2007 have an audit committee, which means Kuwaiti companies are interested in establishing audit committees on their board. This researcher would expect audit committees with a large proportion of independent outside directors to release more finance information about the real finance position of the company and increase LVD. Although there is no legislation in Kuwait forcing Kuwaiti listed companies to adopt or establish the audit committee Thus, it is hypothesised that:

> ***H4.*** *There is a positive association between the audit committee and the level of voluntary disclosure in the annual reports of Kuwaiti companies.*

5.2.5 Audit firm

Previous research found there is association between level of disclosure and type of auditor (Samaha and Stapleton, 2009). Zalan et al. (2013) indicated that companies audited by big audit firms have higher quality than other companies audited by small audit firms. Chung et al. (2003) indicated the importance of appointment of an independent external auditor due to the large role of the independent external auditor to reduce managerial opportunism. Hasan et al. (2013) stated:

> *"The external audit can be an effective control mechanism to monitor the managers and guarantee the integrity of financial reports".* (p.112)

From an agency theoretical background, Adelopo (2011) indicated auditing by a big audit firm is considered like certification by the auditors to reduce agency costs, because it enhances the perception of credibility of the annual reports, since the big audit firm has the best hands and more experience. In addition, Watts and Zimmerman (1986) indicated that an audit firm might affect the company to release more information in order to reduce possible litigation costs.

[9] The second rule of principle (2-2) of corporate governance rules that issued in 2013 and the Article No. (216) of Legislative Decree No (25) for the year 2012 on the issuance of the Companies Act, as amended, provide that " The Board may authorize one of its members or a committee from among its members or any of the others to do the work of one or more specific or supervision of the facet Activity of the company or in the exercise of certain powers or competences assigned to the board "

Murcia and Santos (2012) expected that firms audited by big audit firm such as KPMG, PricewaterhouseCoopers, Deloitte Touche Tohmatsu, and Ernst & Young, may release more information than firms audited by other auditing firms. Also, Becker et al. (1998) indicated that many scholars found that financial information of companies audited by a big audit firm is more reliable than firms audited by other auditing firms.

Previous studies investigated the relationship between audit firm size and level of disclosure. (for example, Camfferman and Cooke, 2002; Naser et al., 2002; Al-Janadi et al., 2013; Uyar et al., 2011, 2013; Hasan et al., 2013) they found significant positive association with level of disclosure, while Forker (1992), Wallace et al. (1994), Huafang and Jianguo (2007), and Chau and Gray (2010) found insignificant association. However, Wallace and Naser (1995) found a negative relationship between audit firm size and disclosure level.

In Kuwait, several local auditing firms have collaborated with the big audit firms; also, Kuwaiti law does not mention that Kuwaiti companies listed should be audited from one of the big audit firms. However, Al-Shammari and Al-Sultan (2010) found 63% of the Kuwaiti companies listed in 2007 have been audited from one of the big audit firms. Although there are some audit firms in Kuwait that have international links with the big firm audits, there are no obligatory laws for firms to be audited by a big audit firm or limits to the number of audit firms which should be auditing Kuwaiti listed companies. Therefore, some Kuwaiti companies are audited by one or two local audit firms or by one or two audit firms that have international links with the big audit firm or mixed between the two types. Thus, it is hypothesised that:

> ***H5.*** *There is positive association between the audit firm and the level of voluntary disclosure in the annual reports of Kuwaiti companies.*

5.3 Ownership Structure

A firm's ownership structure is considered as one of the independent variables in this study, which may be determinant of LVD. In the modern corporate entity, there is noticeable separation of ownership and management, which makes investors increase their monitoring of the decisions and performance of management in order to protect their interests in firm; information produced by these companies is considered feeds for this monitoring process (Watts, 1977; Watts and Zimmerman, 1978). Through the agency theory context, characterized by the separation of ownership and control, the usefulness of corporate information to any investor can be understood because any investor can use the annual report of the firm, which comprises both financial and non-financial information, in order to monitor the performance and procedures of management and for creating investment decisions.

Jensen and Meckling (1976) define an agency relationship thus:

> *"As a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent"* (p.5)

In this condition, the separation of ownership (principal) from agent (management) not only has clear benefits, but can also lead to increasing disputes between them. A conflict of interest can arise between the principal and agent, owing to the separation of ownership and control. Arnold and de Lange (2004) referred to the appearance of information asymmetry when the agent has superior access to information than the principal. In addition, Morris (1987) said, in this condition, the principals could not control the agent's actions because of separation of ownership and control, thereby resulting in a conflict of interest. An underlying assumption in this section of this study is that agents disclosing more voluntary disclosures are acting in the interest of stakeholders who are expected to gain advantage from increased disclosures (Lev, 1992; Botosan, 1997). Gray et al. (1996) pointed out that each company must provide information to anyone who has direct or indirect interest with it, according to the normative perspective of the accountability model, because it is the responsibility of the company to disclose information.

Jalila and Devi (2012) indicated the importance of the formation of ownership in two forms ownership concentration and ownership diffuse. They stated:

> *"The effect of the ownership structure on financial reporting aspects, including disclosures, has been discussed by many researchers. Among the issues raised is the effect associated with the concentrated ownership versus the non – concentrated ownership either in developed or developing countries"* (p.248)

To highlight the influence of ownership structure in many accounting areas, some previous studies used two forms of ownership structure; ownership concentration and ownership diffuse (For example, Wang, 2006 and Hashim and Devi, 2008) they used this format to discuss the effect of ownership on earnings in formativeness and earnings management. In addition, Reverte (2009) used this format to investigate the determinants of corporate social responsibility (CSR) and Chau and Gray (2010) to examine the effect of ownership on quality of disclosure. Al Nodel and Hussainey (2010) used this format when they investigated the effect of debt-to-equity ratio. Yuen et al. (2009), Rouf (2011), Satta et al. (2013), Dhouibi and Mamoghli (2013), Hasan et al. (2013) and Uyar et al. (2013) examined the effect of ownership structure on LVD.

In this study, ownership structure is patterned in two forms of ownership concentration and ownership diffuse and follows the approach of La Porta et al. (1999) which was adopted in this study to determine ownership structure, if an investor owned (direct or indirect) more than 20% of the company's shares, which means this company has concentrated ownership.

However, some studies found positive association between ownership and LVD, such as Hasan et al. (2013) in Bangladesh; they found concentrated ownership has the power to influence level of disclosure. White et al. (2007) found no association between disclosure practice and ownership concentration in Australian biotechnology companies. Uyar et al. (2013) indicated there was a negative significant relationship between ownership concentration and LVD. Yuen et al. (2009) found insignificant association between shares held by the top ten shareholders and LVD. Bozzolan et al. (2006) and Woodcock and Whiting (2009)

failed to prove ownership concentration affected on level of disclosure. On the other hand, Haniffa and Cooke (2002) found that ownership diffusion is in positive significant association with LVD. In addition, Gelb (2000) reported there is positive significant association between quality of annual reports and ownership diffusion. This researcher would expect ownership structure with ownership concentration to be related to less release of finance information in the annual report of Kuwaiti listed companies. Thus, it is hypothesised that:

> ***H6.*** *There is positive association between the ownership concentration and the level of voluntary disclosure in the annual reports of Kuwaiti companies.*

5.4 Firm Characteristics

In the analysis of the relationship of firm characteristics and LVD, six variables are considered because these variables could affect firms' disclosure behaviour. These variables are firm size, firm age, liquidity, gearing, profitability and industry type, as seen in prior studies, such as Cheng and Courtenay (2006), Aljifri and Hussainey (2007), Huafang and Jianguo (2007), Akhtaruddin et al. (2009), Rouf (2011) and Mohamad and Sulong (2010).

5.4.1 Firm size

Firm size is considered the most common variable on the tests conducted on LVD in previous disclosure studies (Raffournier, 1995; Owusu-Ansah, 1998; Ahmed and Courtis, 1999; Watson et al., 2002; Barako et al., 2006; Alsaeed, 2006; Rouf, 2011; Al-Moataz and Hussainey, 2012; Nandi and Ghosh, 2012; Bhayani,2012 and Uyar et al. (2013). In addition, several theories have provided explanation of the effect of size firm on disclosure, such as agency theory, political cost theory, signalling theory and others.

Jensen and Meckling (1976) explained the relationship between firm size and disclosure by agency theory through the association between disclosure and the amount of outside financing, which means if the size of firm is large it needs more outside financing, therefore the firm should release more information in order to reassure its creditors. In this regard, Alsaeed (2006) indicated the agency cost in a

large firm is higher because the shareholders are spread wide; to reduce the agency cost, Watts and Zimmerman (1983) suggested releasing more information for shareholders. Watts and Zimmerman (1986) used political cost theory to explain the effect of firm size; they reported large firms suffer from higher political costs because the firm will be under higher scrutiny from both society and government due to their visibility.

Hussainey and Al-Najjar (2011) they used signalling theory in order explain the effect of firm size; they expected a positive relationship between firm size and corporate disclosure. They reported under signalling theory the large size firm always tends to catch the attention of financial analysts, who need more information in order to analyse the position of the large size firm. Thus, that will push the firm to disclose more information to meet the analysts' needs. They also said, the small firm will suffer from competitive disadvantages if it tries to keep up with the large firm in the case of disclosure of more information. In addition, McKinnon and Dalimunthe (1993) stated:

> *"Larger firms tend to attract more analysts' followings than smaller ones, and may therefore be subjected to greater demand by analysts for private information"* (p.40)

Firth (1979b) reported that firms with higher visibility are more like to release more information in order to enhance and improve firm image. Watts and Zimmerman (1978) reported that the large size firm has a larger incentive to release more information in the annual report than small size firms because the large size firm needs to maintain its reputation and avoid government intervention. In addition, Bukh et al. (2005) indicated the ability of large companies to bear the cost of production of disclosure over firms of small size. Al-Akra and Ali (2012) stated:

> *"Larger firms account for a greater proportion of the economy's goods and services and have a large number of employees. They have a large asset base and are more established than smaller firms. All these factors suggest that large firms are associated with higher disclosure levels"* (p.538)

Regarding what measure should be used to calculate firm size, many scholars use different measures. For example; number of employees, such as Craven and Marston (1999); value of firm (market capitalization), such as Owusu-Ansah (1998); number of shareholders, such as Cooke (1989, 1992); revenues, such as Murcia and Santos (2012); and total sales, such as Cooke (1989, 1992), Wallace et al. (1994) and Abd-Elsalam (1999). Some studies use one measure, while other studies use more than one measure; by reviewing the previous disclosure studies, it is found that the most common measure is total assets. Yuen et al. (2009), Al-Moataz and Hussainey (2012) and Htay (2012) measured firm size by natural logarithm of the firm's total assets.

Previous studies provided mixed results about the relationship between firm sizes and the level of voluntary disclosure. For example Ahmed and Courtis (1999), Haniffa and Cooke (2002), Naser et al. (2002), Eng and Mak (2003), Ghazali and Weetman (2006), Alsaeed (2006), Hossain and Hammami (2009), Al-Janadi et al. (2013), Soliman (2013), Ullah (2013), Dhouibi and Mamoghli (2013), Uyar et al. (2013), Wijana et al. (2013) they found significant positive association. Other studies found insignificant association between firm size and disclosure, such as Barako (2007), and Aljifri and Hussainey (2007). However, Hasan et al. (2013), in Bangladesh, concluded insignificant association between firm size and disclosure. Thus, this researcher would expect firms with large size to have a positive relationship with the annual report of Kuwaiti listed companies. Thus, it is hypothesised that:

> ***H7.*** *There is positive association between firm size and the level of voluntary disclosure in the annual reports of Kuwaiti companies.*

5.4.2 Firm age

The age of the company is considered one of the modern variables that has been discussed recently, as Camfferman and Cooke (2002) stated:

> *"The age of a company may be relevant, as older firms may have built up differential experience in corporate reporting over time"* (p.20)

Where lays the importance of the firm age variable in contributing to the expanding disclosure literature, helping to understanding the difference in level of disclosure reporting among companies (Alsaeed, 2006). Agrawal and Gort (1996, 2002) reported that an older firm can be characterized by the knowledge, experience and capacity gained through its life. However, that does not make an older firm safer from the effects of competition through early disclosure of financial information in a business environment, while younger firms do not suffer competition, because younger firms do not tend to release more information in order to avoid the additional costs of disclosure (Sejjaaka, 2003). Owusu-Ansah (1998) pointed out that the additional cost of disclosure is considered as an influential factor, which prevents the younger firm from disclosing more information. Kakani et al. (2001) argued that younger firms have a lack of reputation and capital, unlike older firms that release more information in the annual report, so the extent of a company's disclosure may be influenced by its age.

According to stakeholder theory, Watson et al. (2002) reported voluntary disclosure as the method to communicate with stakeholders, and each stakeholder needs require different information from the others. For Wolfe and Puder (2002), therefore, voluntary disclosure is an appropriate method to meet the needs of different stakeholders. Rowley (1997) states that:

> *"Firms do not respond to each stakeholder individually but instead must answer the simultaneous demands of multiple stakeholders"* (p.907).

Where older firms have more stakeholders than younger firms, thus older firms should release more information to meet the desires of stakeholders.

Alsaeed (2006) studied the relationship between disclosure and firm-specific features of forty firms in Saudi Arabia. The results showed firm age was insignificant in explaining the variation of voluntary disclosure. In India, Hossain and Reaz (2007) investigated the relationship between level of disclosure and firm characteristics in thirty-eight listed banking companies; the findings indicate there is an insignificant relationship between level of disclosure and firm age. The same result was found in previous studies, such as Haniffa and Cooke (2002) and Bhayani (2012), while

Hossain and Hammami (2009) examined empirically the determinants of LVD in the annual reports of twenty-five firms listed on the Doha Securities Market (DSM) in Qatar. They found age is positive and significant at the 1% level as an explanatory variable for LVD; the same result was found in Soliman (2013) in Egypt. However, Nandi and Ghosh (2012) examined the impact of firm characteristics and CG attributes on LVD of listed firms in India; they found a negative association between corporate disclosure and firm age. In addition, Kakani et al. (2001) pointed out that long-established banks might not release more information or be more compliant than younger banks. Thus, according to previous studies, this researcher would expect firm age has no relationship with the annual report of Kuwaiti listed companies. Thus, it is hypothesised that:

> ***H8.*** *There is no association between firm age and the level of voluntary disclosure in the annual reports of Kuwaiti companies.*

5.4.3 Liquidity

'Liquidity' refers to the firm's ability to fulfil its short-term liabilities, although there is no one measure that could adequately reflect all the aspects of liquidity in a firm (Alsaeed, 2006). Liquidity is considered as a method to show the extent of willing and ability of the firm to meet its financial obligations, thus the firm with low liquidity ratios leads the stakeholder to predict bankruptcy of the firm (Altman, 1968; Laidroo, 2008). According to this definition, companies should allow for more disclosure if they have high liquidity ratios. On the other hand, companies may make more disclosures with low liquidity ratios to appear confident to their stakeholders (Laidroo, 2008). Wallace et al. (1994) showed that the company should have an incentive for more disclosure with low liquidity, to alleviate fears and inform shareholders that the company is aware of the problem.

Al-Moataz and Hussainey (2012) mentioned the previous studies using signalling theory and agency theory in order to investigate the relationship between liquidity ratio and disclosure levels, Abd-Elsalam (1999) reported firms with high liquidity ratio tend to release more information in their annual report in order to distinguish themselves from firms with low liquidity ratios. On the other hand, under agency theory approach, firms with low liquidity ratios tend to disclose more information to

meet the desires of shareholders and creditors for information (Al-Moataz and Hussainey, 2012).

Karim (1996) argued the effect of a higher level of disclosure will be to mitigate information asymmetry between firm and stakeholders, thus improving the price of stock in the market and resulting in increased liquidity. Wallace and Naser (1995) reported firms tend to release more information to stakeholders to justify their liquidity position, if they suffer from a low liquidity ratio. Attig et al. (2006) linked between liquidity and information asymmetry in the stock market; they implied if there is high liquidity that it will reduce information asymmetry.

Numerous financial ratios can be employed to measure the liquidity position of a company, for example, current ratio, quick ratio and net working capital. However, the results are mixed. For example, Cooke (1989), Camfferman and Cooke (2002) and Mathuva (2012) found a positive association between disclosure and liquidity ratio, while Wallace et al. (1994), Naser et al. (2002) and Mangena and Pike (2005) found a negative relationship between liquidity and disclosure level. In addition, Belkaoui and Kahl (1978), Wallace and Naser (1995), Owusu-Ansah (1998), Ahmed and Courtis (1999), Barako et al. (2006) and Elzahar and Hussainey (2012) did not find any significant association between the two variables. Thus, according to the mixed result for the relationship between disclosure and liquidity, this researcher would expect liquidity to have no relationship with the annual report of Kuwaiti listed companies. Thus, it is hypothesised that:

> ***H9.*** *There is no association between liquidity and the level of voluntary disclosure in the annual reports of Kuwaiti companies.*

5.4.4 Gearing

In prior studies, there has been a focus on gearing as one of the variables that has to be taken into account when investigating the relationship between the factors affecting level of disclosure. The relationship between managers and stakeholders (external holders of capital) could be explained by agency theory, where managers are the agents and stakeholders are the principals. The cost of disclosure could be

more in those companies depending on debt in the capital structure (Leftwich et al., 1981).

Many scholars defined gearing (capital structure) in terms of debt/equity ratio. Chow and Wong-Boren (1987) used a gearing ratio (measured by the nominal value of a firm's total debt divided by the sum of the market value of its equity and the nominal value of total debt). In this case, the board of a company could try to alleviate agency conflict by disclosure of more financial information (Sejjaaka, 2003). Jensen and Meckling (1976) concluded that voluntary disclosure can mitigate agency conflict between company and creditors and make visible the ability of the company to meet its debts.

Gandia and Andres (2004) argued that more disclosure of financial information gives guarantees to debtors that the firm can meet the debt, and Bujaki and McConomy (2002) suggested that firms are liable to more disclosure of financial information in order to guarantee to creditors that they can effectively service their debts. However, Joh (2003) and Watson et al. (2002) did find that a firm with more debt may increase agency conflict, especially in the risk and return between the company and creditors. Thus, firms tend to release more information about their financial position to creditors in order to help them to monitor constantly the financial position of firms to assess the firm's ability to pay the obligations on time.

The relationship between gearing and level of disclosure was found mixed in prior research. Some studies found no significant relationship between level of disclosure and gearing. for example, Chow and Wong- Boren (1987), Wallace et al. (1994), Raffournier (1995), Wallace and Naser (1995), Ahmed (1996), Chen and Jaggi (2000), Depoers (2000), Camfferman and Cooke (2002), Haniffa and Cooke (2002), Ghazali and Weetman (2006), Chau and Gray (2010), Elzahar and Hussainey (2012) and Hasan et al. (2013).

However, other studies concluded a positive significant association between gearing and level of disclosure, e.g. Malone et al. (1993), Hossain et al. (1995), Ahmed and Courtis (1999), Naser et al. (2002) and Camfferman and Cooke (2002). In addition, with Eng and Mak (2003) and Uyar et al. (2013) found negative significant

association between gearing and level of disclosure. Thus, according to the mixed result of the relationship between disclosure and gearing, this researcher would expect gearing has no relationship with the annual report of Kuwaiti listed companies. Thus, it is hypothesised that:

> ***H10.*** *There is no association between gearing and the level of voluntary disclosure in the annual reports of Kuwaiti companies.*

5.4.5 Profitability

Profitability is considered one of the most common ratios to use to evaluate the financial position of any company; many investors depend on this ratio in making investment decisions. Without something like this ratio, investors cannot differentiate between good companies and bad companies (so-called 'lemons'). Many previous disclosure studies have used the profitability ratio as an explanatory variable to investigate the variances in LVD.

According to agency theory, the managers of profitable companies tend to release more information in their annual report to stakeholder in order to reduce the agency cost, improve their financial positions, and enhance their positions and compensation arrangements (Inchausti, 1997). Any company can mitigate the affect problem of information asymmetry and maintain their reputation by releasing more information for the public (Singhvi, 1968). Agency theory also suggests that to increase the manager's compensation they tend to disclose more information (Abd-Elsalam, 1999).

Signalling theory suggests that managers of highly profitable companies tend to release more information in their annual report for stakeholders in order to increase investors' confidence, support management continuation of their positions and compensation, and raise capital at the lowest cost: see Inchausti (1997), Watson et al. (2002), Al-Moataz, and Hussainey (2012). Moreover, Rouf (2011) reported managers are motivated to release more information to maintain their positions and increase their remuneration and to signal institutional confidence.

Abd-Elsalam (1999) reported that bad news might persuade the firm to release it on time in order to distance itself from legal liability and to preserve reputation. The company with low profitability will disclose more information about the risks they face (Vandemele et al., 2009). Firms with bad news may be motivated to release more information in the annual report to decrease the degree of risk for legal liability, disorder in their reputation and decrease in their share value (Skinner, 1994). In addition, Alsaeed (2006) reported management of a profitable firm might tend to disclose more information to the stakeholder to promote a positive impression. However, Hussainey and Al-Najjar (2011) stated:

> *"Therefore, it is not safe to conclude that less profitable firms are more likely to produce higher levels of future-oriented information than profitable firms"* (p.17).

From the above, it may be seen that there are different theories and different explanations to predict the direction of the relation between profitability and LVD. Based on the differences in explanation of the relationship between the two variables, the previous disclosure studies provided different results. Most researchers have found positive association between profitability and level of disclosure, such as Wallace et al. (1994), Raffournier (1995), Owusu-Ansah (1998), Haniffa and Cooke (2002), Naser et al. (2002), Ali et al. (2004), Ghazali and Weetman (2006), Agca and Onder (2007), Soliman (2013), and Damagum and Chima (2013). Other studies provided a negative relationship between profitability and level of disclosure, such as Chen and Jaggi (2000), Barako et al. (2006), Schleicher et al. (2007) and Vandemele et al. (2009). On the other hand, Wallace et al. (1994), Raffounier (1995), Meek et al. (1995), Al-Janadi et al. (2013) and Hasan et al. (2013) found an insignificant relationship between profitability and level of disclosure. Thus, according to the mixed result of the relationship between disclosure and profitability, this researcher would expect profitability has a positive relationship with the annual report of Kuwaiti listed companies. Thus, it is hypothesised that:

> ***H11.*** *There is positive association between profitability and the level of voluntary disclosure in the annual reports of Kuwaiti companies.*

5.5 Summary

The previous discussion has established the basis for developing the hypotheses to be tested in the current study in order to achieve the third objective through reviewing previous disclosure studies. Three main hypotheses are developing in this study: the first hypothesis relates to CG mechanisms, which have been divided into five sub-hypotheses; the second hypothesis relates to ownership structure; and the third hypothesis relates to firm characteristics, which have been divided into six sub-hypotheses. These hypotheses are tested later to answer the third research question. The following chapters start part two of the study (methods and analysis), which consists of chapter 6, research methodology and methods used in this study; chapter 7, description of LVD (dependent variable); and chapter 8, description of independent variables and testing of hypotheses.

Chapter 6: Methodology

6.1 Introduction

This chapter aims to present the research procedures followed in this study to achieve its five objectives (chapter 1); and sheds light on the theoretical framework of this study, highlighting the most relevant theories in chapter 3; reviewing the relevant literature in chapter 4; and providing an overview of the Kuwaiti business environment in chapter 5. Based on the proposed theoretical framework and the literature review, the empirical section in the current study aims to measure LVD and its categories over the period of study. Moreover, it aims to investigate the association between LVD and each of CG mechanisms, ownership structure and firm characteristics.

This chapter outlines the research procedures and the methods applied to achieve the empirical objectives, starting with an overview of the research process in section 6.2. Section 6.3 outlines the philosophical and theoretical perspectives of the study. The research paradigm and research approach are presented in sections 6.4 and 6.5, respectively. Section 6.6 provides methodological choices appropriate for the present study. Section 6.7 provides details of the research design to select the appropriate approaches to achieve the aim of the study. The independent variables used to investigate the relationship of the dependent variables to the hypotheses are provided in section 6.8. The statistical tests include parametric tests, non-parametric tests; univariate and multivariate analyses are applied in this study. In addition, the assumptions of OLS are discussed in section 6.9. Finally, a summary of the chapter is provided in section 6.10.

6.2 The Research Process

Every day the term ‘research’ may be heard in many places, such as television, newspapers and radio. There is no agreement in the literature on how the term ‘research’ should be defined because everyone defines it from his special viewpoint. However, according Sekaran and Bougie (2013), there are some characteristics and features of the research. Research as a process of finding out, examination and

investigation, or as a systematic method to generate new knowledge about our life, to review and synthesize existing facts, to explore some existing situation, phenomenon or problem, to present solutions to a problem, to explore and analyse more general issues and to give details about a new phenomenon. From previous characteristics and features, Sekaran and Bougie (2013) stated that research in business, "can be described as a systematic and organised effort to investigate a specific problem encountered in the work setting, which needs a solution" (p.2). Leedy (1989) defined research from a more utilitarian point of view; he stated, "research is a procedure by which we attempt to find systematically, and with the support of demonstrable fact, the answer to a question or the resolution of a problem" (p.5). Research can be classified into many different kinds according to the purpose, the process, the logic and outcome of research, as in table 6.1.

Table 6.1 The Research kinds

Type of research	Basis of classification
Exploratory, Descriptive, Analytical or Predictive research	Purpose of the research
Quantitative or qualitative research	Process of the research
Deductive or inductive research	Logic of the research
Applied or basic research	Outcome of the research

Source: (Hussay and Hussay, 1997.p.10)

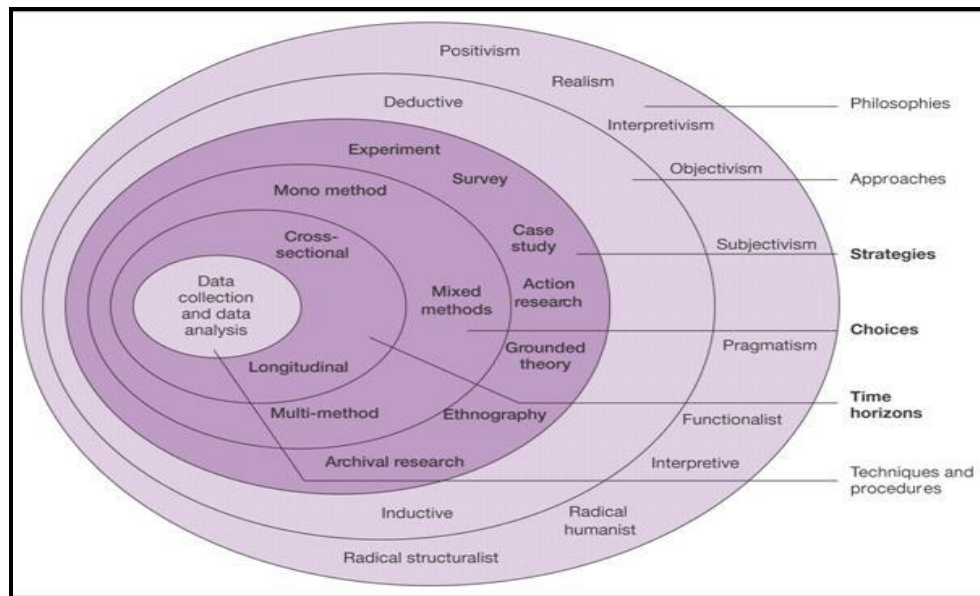
6.3 Research Philosophy

The research procedure consists of a number of stages or events that should be taken to conduct research; each of these stages requires logical decision-making choices. The nature of the knowledge and its development was related by the term research philosophy. Saunders et al. (2007) reported the stages of research process could be viewed as layers of a research onion. The research onion consists of six layers; research philosophies, approaches, strategies, choices, time horizons, techniques and procedures (see figure 6.1). Before deciding about data collection and data analysis you need to have peeled away the layers of the research onion to arrive there.

Under the research philosophy adopted by researchers, the research philosophy can influence the way in which the research is undertaken. In social sciences, like

accounting, when undertaking research, it is important to consider assumptions about the nature of social science and the nature of society.

Figure 6.1: The research onion



Source: from Saunders et al. (2007, p.102)

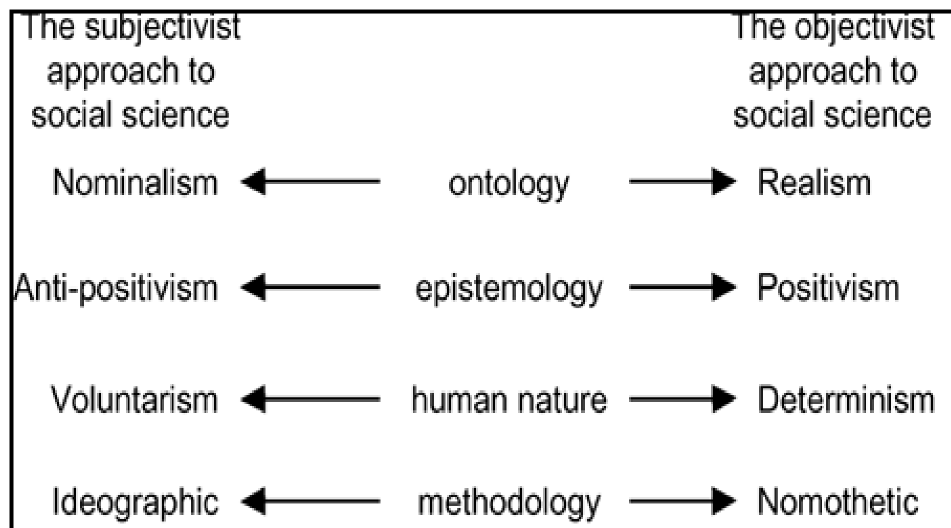
6.3.1 The nature of social science

Burrell and Morgan (1979) identified four sets of assumptions that inform social science research, namely: ontological, epistemological, human nature, and methodology. One’s conception of social reality (**ontology**) determines one’s beliefs about the most appropriate ways of knowing (**epistemology**), which in turn determine one’s assumptions about free will and determinism (**human nature**), and ultimately the methods and tools one adopts to answer the research question (**methodology**). Under each of these assumptions there are two positions (see figure 6.2). **The objective** subsumes realism, positivism, determinism and the nomothetic approach, whereas **the subjective** dimension contains the nominalist, anti-positivist, voluntarist and ideographic perspectives (Burrell and Morgan, 1979.p.3). Objectivism means the perspective of where social entities occur in a reality outside of social actors (Saunders et al., 2007). Bryman (2004) clarifies this meaning by stating that:

"Objectivism is an ontological position that asserts that social phenomena and their meanings have an existence that is independent of social actors It implies that social phenomena and the categories that we use in everyday discourse have an existence that is independent or separate from actors" (p.16).

The subjectivist believes in free will: everyone has the freedom to make decisions that change the path of their lives (May, 2005). In addition, Blaikie (1993) argued that these aspects are very relevant to Social Science since the humanistic factor introduces an element of 'free will' that adds a complexity beyond that seen in the natural sciences and others. In sum, objectivists look at social entities as objective entities held in a reality outside of the social factor, while the subjectivists see themselves as social constructions built up from social factor perceptions and activities (Bryman, 2004).

Figure 6.2 The subjective–objective dimension



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

6.3.1.1 Ontology

The first set of assumptions is ontological, 'ont-' means 'being' or 'existence' while '-ology' means 'knowledge' or 'theory', In other words, it is the theory of being (Marsh and Stoker, 2002). It focuses on understanding 'what is' and what about the nature of reality. Blaikie (1993) reported that ontology is concerned with assumptions about what represent social reality. In ontology, two contrasting

positions can be classified, Realism and Nominalism. Realism is explaining about the social world by real, factual and tangible structures, because objects have a being independent of human mentality (Saunders et al., 2007). Meanwhile, nominalism means using names, concepts and labels in order to give a structure to reality. In other words, nominalism believes the social world to be external to individual recognition (Burrell and Morgan, 1979). The construction of research objectives is an ontological position (Iskander, 2008).

6.3.1.2 Epistemology

The second set of assumptions is epistemological. Epistemology considers visions about the most suitable ways of investigating the nature of the world (Easterby-smith et al., 2008). Most questions in epistemology are concerned with what awareness is and what the sources of awareness are (Eriksson and Kovalainen, 2008). In other words, the theory of knowledge is epistemology (Marsh and Stoker, 2002). The research method is the beginning of questions of epistemology (Blaikie, 1993). The methods associated with this study's particular epistemology are explained further below. In general, on epistemological positions, two contrasting positions can be classified, Anti-positivism and Positivism (Burrell and Morgan, 1979).

Positivist epistemology means illustrate and guess of natural science; it is characterised by seeking for regularities and causal relationships among its elements by using the hypothesis testing (deductive or theory testing). Positivism depends on the values of reason, truth and validity, and a focus on facts by direct observation and experience and using quantitative methods, such as surveys, experiments and statistical testing (Burrell and Morgan, 1979; Blaikie, 1993; Saunders et al., 2007). In other words, the hypotheses are generated by using theories, Therefore, the research is a testing and developing of theories (Saunders et al., 2007). Therefore, positivism tends to explain and predict what happens in the social world by searching for relationships and patterns. That means hypotheses are developed then tested (Burrell and Morgan, 1979).

Anti-positivism means that the researcher should understand the differences between humans as social factors, by involvement in the activities that are under study. As Burrell and Morgan (1979) say, *"One has to understand from the inside rather than the outside"* (p.5). Anti-positivism tends to reject that observation of behaviour can help people to understanding; thus, Social Science rejects the notion that science can create objective knowledge of any kind (ibid.).

In sum, positivism uses methods such as experiments, surveys, and statistical testing, from which the research can produce generalisations; while anti-positivism uses other methods, such as observation and interviews, and generalisability is not of crucial importance (Saunders et al., 2007).

6.3.1.3 Human nature

The third set of assumptions about the nature of social science is around human nature, which concerns the relationship between human beings and their environment. In social science, one should understand human activities to help in any assumption about human nature. There are two contrasting positions that can be classified, voluntarism and determinism. Voluntarism holds that a human is completely autonomous and free-willed; on the other hand, determinism claims that humans and their activities are products of the environment in which they are located (Burrell and Morgan, 1979).

6.3.1.4 Methodology

The last set of assumptions about the nature of social science is the methodology, which means to discuss which methods are used to examine and gain knowledge of the social world. There are two contrasting positions that can be classified, ideographic and nomothetic (Burrell and Morgan, 1979). The ideographic approach assumes that beliefs in the social world can only be understood by obtaining first-hand knowledge of the subject under investigation. In addition, the ideographic methodology implies the analysis of subjective accounts *"*by "*getting inside"* the situations, and involving oneself in the everyday flow of life" (Burrell and Morgan, 1979.p.6). On the other hand, nomothetic methodology indicates conducting research based upon systematic protocols and techniques; the nomothetic approach adopts

standards of scientific rigour to achieve its goals, like testing research hypotheses, and uses quantitative methods of data analysis (Burrell and Morgan, 1979).

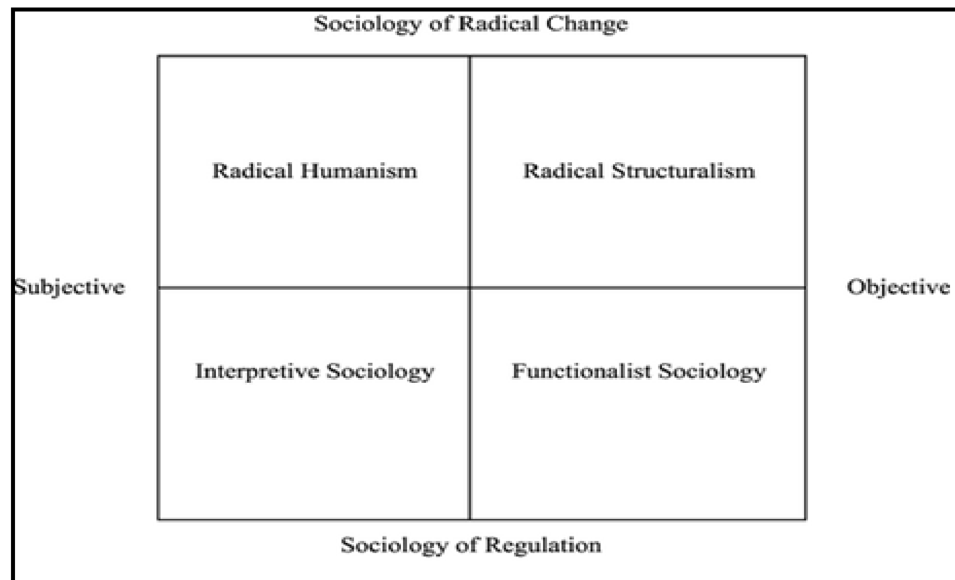
6.3.2 The nature of society

According to the nature of society, two positions on or approach to sociology may be distinguished, sociology of radical change and sociology of regulation. The first position uses radical change to illuminate society. *"It looks towards potentiality as much as actuality; it is concerned with what is possible rather than with what is; with alternatives rather than with acceptance of the status quo", according to* Burrell and Morgan (1979, p.17). On the other hand, the second position is the sociology of regulation that looks to illuminate society in terms of its unity and consistency. It relates the demand for regulation in human affairs with some questions. In contrast to sociology of radical change, it is more concerned with problems of change, conflict and regulation and is concerned with the actuality and the present situation (Burrell and Morgan, 1979; Saunders et al., 2007).

6.4 Research Paradigm

Regarding the nature of social science, there are two poles of assumptions, the objective and subjective dimensions. In addition, regarding the nature of society there are two assumptions, radical change and regulation dimensions. Saunders et al. (2007) reported the paradigm's term is a method to investigated social phenomena by which explanations and understandings can be obtained. One can use research paradigms to discern between different accounting research visions (Belkaoui, 2004). Burrell and Morgan (1979) set a matrix to distinguish between four research paradigms in order to analyse social theory, radical humanist, radical structuralist, interpretive, and functionalist.

Figure 6.3 Four Paradigms for the Analysis of Social Science



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

The radical humanist paradigm represents the radical change and subjective dimensions; this paradigm is used for a critical perspective on organisational life and is concerned with changing the situation. Radical humanists assume societal change comes by vision and ideas. Moreover, it involves a subjective approach to social science: nominalist, anti-positivist, voluntarist and ideographic. On the other hand, **the radical structuralist** paradigm seeks fundamental change to the state's existence; however, it tends to the objectivist approach to social science: realist, positivist, determinist, and nomothetic.

The interpretive paradigm applies the regulatory approach that tries to interpret the social order and organisational affairs in order to provide suggestions for improvement by discovering irrationalities. It is interested in understanding and explaining to what has happened but not to achieve change. Moreover, this paradigm implies a subjective approach to social science: nominalist, anti-positivist, voluntarist and ideological positions. On the other hand, **the functionalist paradigm** represents

both approaches, regulatory and objectivist. Saunders et al. (2007) reported that the functionalist paradigm supposes that organisations have rational existence. In addition, this paradigm seeks to clarify the existing state of social order, the facts and reasons of the social phenomena. Moreover, it involves an objective approach to social science: realist, positivist, determinist, and nomothetic.

6.5 Research Approach

Saunders et al. (2007) indicated that the second layer in the research onion is the research approach; it divided into deductive and inductive. Deduction is, "*the process by which we arrive at a reasoned conclusion by logical generalization of a known fact*", while induction is, "*a process where we observe certain phenomena and on this basis arrive at conclusions"*, according to Sekaran (2003, p.27). The deductive approach entails, according to Woolfolk (2001, p.286), "*drawing conclusions by applying rules or principles, that is, logically moving from a general rule or principle to a specific solution*". This, in turn, leads to needing to collect quantitative data or qualitative data in order to test the hypotheses developed by using a structured methodology to assist in replication of the results (Gill and Johnson, 2002). On the contrary, the inductive approach begins by collecting data that is relevant to the topic of interest, and after that conducts analysis of data, from which the findings will help to formulation of a theory that could explain those patterns (Bryman and Bell, 2003).

In addition, Bryman and Bell (2003) indicated that the deductive approach (testing of theory) is associated with quantitative research that follows objectivism, thus, realism and positivism as ontological and epistemological positions, respectively. While, the inductive approach (generation of theory) is associated with qualitative research that follows constructionism, thus, nominalism and interpretivism as ontological and epistemological positions, respectively.

6.6 Methodological Choices

According to Burrell and Morgan (1979), the objective approach is located at the extreme side of a matrix to distinguish between four research paradigms, where the

nomothetic methodology is a result of realist ontology and positivist epistemology. Proponents of the objective approach are realists. They assert that the world exists before human consciousness, it consist of hard tangible and relatively immutable structures, and is separate from the cognitive efforts of individuals (Gill and Johnson, 1997). The positivist epistemology underpins this approach. Therefore, valid knowledge about a concrete reality, in what happens in the social world, can be discovered through searching for causal relationships, and rules and regularities between its constituent elements (Burrell and Morgan, 1979; Morgan and Smircich, 1980). On the nature of humans, objectivists assert that the relationship between humans and society is deterministic, which means it determines humans and their activities by environment or position in which they are existing; thus, reality should be measured objectively instead of subjectively examined. Therefore, according to the nomothetic methodology, the research should be separate from the phenomena being examined. Generally, business research is a more moderate, objective position (Burrell and Morgan, 1979).

All of the assumptions of a nomothetic methodology normally lead to the employment of quantitative methodologies where the researcher tries to find measurable observations to examine things (Hussey and Hussey, 1997; Creswell, 1998). Consequently, the researcher is able to obtain second-hand knowledge or secondary data for the phenomena being examined and, in general, the work on quantitative research is deductive (Creswell, 1998).

According to Burrell and Morgan (1979), the subjective approach is located at the extreme left side of a matrix to distinguish between the four research paradigms where the ideographic methodology is a result of nominalist ontology and anti-positivist epistemology. Accordingly, in an ideographic methodology, things do not have meaning, but concepts are imposed on objects by a human (Pfuhl, 1980) in order to give things structured reality. The nominalist ontology assumes that humans use labels and names to structure in order to add meaning to the external world. Words do not mean empirical entities; they are just purely conceptual and exist only in the mind of the participants. From this perspective on the opposite side to the realist position, Creswell (1998) reported that the external world exists only in the self-consciousness of the human who is located socialized in the world. The anti-

positivist epistemology emphasizes the researcher to be aware of the differences between humans and social actors. Burrell and Morgan (1979) accordingly note it can be identify knowledge through contributions by the participants. For Morgan and Smircich (1980), voluntarism is considered the ideographic methodology that supports the human nature assumption: humans as active agents who interact with their environment, where humans are completely autonomous and free-willed (Burrell and Morgan, 1979). Therefore, following ideographic methodology, which focuses that the observation should be detailed of society, thus the researcher is not separate from the phenomena being examined (Creswell, 1998).

All of the assumptions of an ideographic methodology normally lead to the employment of qualitative methodologies where the researcher tries to rely on and examine things from the participants' own viewpoints (Creswell, 1998; Hussey and Hussey, 1997). Consequently, the researcher is able to obtain first-hand knowledge or primary data of the phenomena being examined. However, the researcher is interested in the meaning and interpretation that is obtained by the participants, instead of measuring the subject under examination. In general, the work on qualitative research is inductive (Hussey and Hussey, 1997).

Laughlin (1995) reported that there is no presence of the extreme or pure forms of the philosophical assumptions of ontology, epistemology, human nature and methodology. They also indicated the selection of some form of "*middle-range*" methodological position, instead of following one of the extreme forms. A middle-range position allows the researcher to use the range of research methods, quantitative and qualitative methods, to undertake empirical investigations.

According the assumption of the nature of society, the critical perspective on organisational life adopted the radical change dimension in the area of business and management. It involves a judgment about how organisational affairs should be conducted and provides avenues in which these affairs will be selected by it in order to make fundamental changes to the natural order of things. Saunders et al. (2007) state that:

> *"Regulation seeks to explain the way in which organisational affairs are regulated and offer suggestions as to how they may be improved within the framework of the way things are done at present. In other words, the radical change dimension approaches organisational problems from the viewpoint of overturning the existing state of affairs; the regulatory dimension seeks to work within the existing state of affairs"* (p.112).

As mentioned previously, the radical structuralist paradigm is consistent with the radical humanist paradigm in looking for fundamental change to the status quo. The status quo in this present study is LVD in the annual reports of the Kuwaiti listed companies. It does not seek to achieve fundamental change; therefore, both paradigms are irrelevant to the present study.

In accounting, the aim is to understand the subjective experience of people participating in the preparation, verification, communication, or use of accounting information. Riahi-Belkaoui (2002) indicated some limitations that afflict the interpretive paradigm. It supposes that an observer can comprehend the social action by sheer subjectivity and without interference. However, Saunders et al. (2007) indicated the functionalist paradigm is the prevailing paradigm in business and management research. Riahi-Belkaoui (2002) states that:

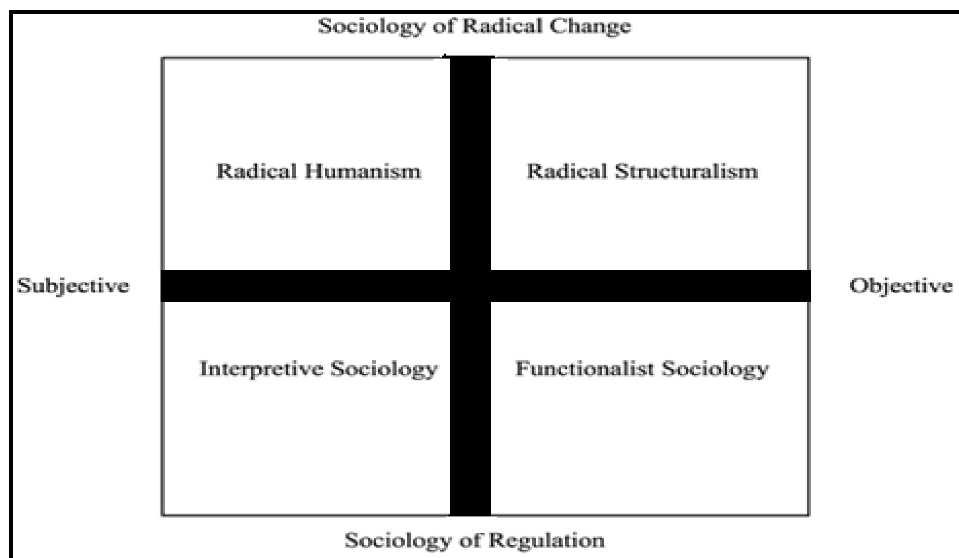
> *"The functionalist view in accounting focuses on explaining the social order, in which accounting plays a role, from a realist, positivist, determinist and nomothetic standpoint. It is concerned with effective regulation on the basis of objective evidence"* (p.259)

The functionalist paradigm supposes the separation between theory and observations, which are used to test the theory, employing the hypothetic-deductive approach and use quantitative methods in data collection and analysis (Belkaoui, 2004). A number of authors reported that there is no existence of a uniquely correct perspective. Gioia and Pitre (1990) and Jackson (1999) criticized the separate and mutually exclusive discrimination between the four research paradigms; they faced the difficulty of identifying a single paradigm. Therefore, transition zones can be seen among the four paradigms, in Figure 6.4, for achieving some sort of comprehensive view (Gioia and Pitre, 1990 and Jackson, 1999). These transition zones constitute multi-paradigm

approaches, and due to the lack of clarity of the nature of these transition regions, it is possible to build bridges that connect apparently disparate concepts together in these areas. Gioia and Pitre (1990) state that:

> *"multiparadigm approaches offer the possibility of creating fresh insights because they start from different ontological and epistemological assumptions and therefore can tap different facets of organizational phenomena and can produce markedly different and uniquely informative theoretical views of events under study"* (p.591)

Figure 6.4: The transition zones (shaded areas) between the four paradigms



Source: from Gioia and Pitre (1990): the shaded areas represent the blurred transition zones

The objective of the present study is to examine the existing status of LVD in the annual reports of Kuwaiti listed companies. Specifically, it attempts to explain the variation in LVD by a number of potential determinants. In particular, it examines the relationship between LVD and each of CG mechanisms, ownership structure, and firm characteristics. As previously mentioned, this study does not aim to achieve fundamental change. Thus, the transition zone linking radical structuralist and radical humanist paradigms, which consist of the value for activism and change (Gioia and Pitre, 1990) would be unrelated to the present study, while the other transition zone,

which links both functionalist and interpretive paradigms, provides an opportunity to benefit from the broader theoretical framework indicated in chapter 3. Moreover, it allows presenting a descriptive analysis to LVD in annual reports of Kuwaiti listed companies (see chapter 7). In addition, the interpretivist–functionalist transition zone, it possible to use a deductive approach in order to develop and test the research hypotheses (see chapter 8).

In corporate governance studies, the generally popular approach is quantitative approaches. In addition, to what has been reviewed in the research approach section, the deductive approach is considered more appropriate to the current study; this approach was used largely in the disclosure literature, e.g. Eng and Mak (2003), Haniffa and Cooke (2005); Alsaeed, 2006; Barako et al. (2008); Ntim et al., 2012a; Allegrini and Greco, (2013). Based on what was discussed above, it was decided to use the interpretivist functionalist transition zone as a multi-paradigm approach: it is the research philosophy suitable for the present study; also, it was decided to use the deductive approach in this study

6.7 Qualitative research versus Quantitative research

It should be noted that the debate concerning whether to choose a qualitative method (also called the interpretive method and behavioural method) or a quantitative method (also called scientific, positivism and mainstream) in social science fields has been an important issue for some time (Kvale, 1996: 68). The qualitative method involves mainly exploratory research; it has tended to place emphasis and value on the human, interpretative aspects of knowledge about the social world. It is used to gain an understanding of causal reasons, motivations and beliefs. The qualitative method allows the researcher to study chosen subjects in depth and in detail (Patton, 1990:13). Qualitative research requires the researcher to rely on interpretive or critical social sciences, where the research follows a largely non-linear path using practical logic and emphasises cases and contexts (Neuman, 2006: 151). The researchers look for answers to inquiries that emphasise how social experience is created and provides meaning. Collis and Hussey (2003: 353) define qualitative research as:

“a subjective approach which includes examining and reflecting on perceptions in order to gain an understanding of social and human activities”.

On the other hand, quantitative research is widely applied by social scientists (Liebscher, 1998). It includes surveys and questionnaires, which use structured questions. It is concerned with numerical data and samples are larger than in qualitative research. The measurement is quantitative, objective and statistically valid. It is used to develop and test the hypotheses of the study. Creswell (2003) reported that "Researchers sometimes advance theory to test, and they will incorporate substantial reviews of the literature to identify research questions that need to be answered". “Quantitative research is a formal, objective, systematic process in which numerical data are used to obtain information about the world. This research method is used: to describe variables; to examine relationships among variables; to determine cause-and-effect interactions between variables” (Burns & Grove 2005: p. 23). Neuman (2006: 151) reported "Quantitative researchers emphasize precisely measuring variables and testing hypotheses that are linked to general causal explanations".

In determining whether a qualitative or quantitative research approach is appropriate, qualitative research is considered subjective; the researcher is part of a process and the reasoning in this research is dialectic and inductive. While in quantitative research, it is considered objective; the researcher is separate and the reasoning in this research is logic and deductive. There are some problems with qualitative studies; for example, it more difficult to code the data, it consumes more time, there is a lot of data to transcribe, the risk of researcher bias and it is applicable only in a case study with limited applicability to other cases (Ritchie et al., 2013).

Case study research is considered as a form of qualitative descriptive research. Many researchers have tried to define the term case study, such as Yin (1984) - "case study method is an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used" (p. 23). Furthermore, Thomas (2011) offers another definition of case study “case studies are analyses of persons, events, decisions, periods, projects, policies, institutions, or other systems that are studied holistically by one or more methods" and "The case that is the subject of the inquiry will be an instance of a class of phenomena that

provides an analytical frame — an object — within which the study is conducted and which the case illuminates and explicates" (p. 513).

In recent years, several researchers have tended to use more than one approach in their studies. "Mixing methods therefore offers enormous potential for exploring new dimensions of experience in social life, and intersections between these. It can encourage researchers to see differently, or think `outside the box', if they are willing to approach research problems with an innovative and creative palette of methods of data generation" (Mason, 2006 p, 13). Collis and Hussey (2003: 78) argued that triangulation, sometimes called ‘multi-methodology’ can help overcome the possible bias and deficiencies when using a single method approach. Also, Stange et al. (2006) stated that it “Involved integrating quantitative and qualitative approaches to generate new knowledge and can involve either concurrent or sequential use of these two classes of methods to follow a line of inquiry” Moreover, Miles and Huberman (1994: 41) commented on the role of qualitative data in helping the quantitative side as follows "During analysis they can help by validating, interpreting, classifying and illustrating quantitative findings, as well as through strengthening and revising theory".

There are many ways of categorizing data. A general categorization is based upon who collected the data (secondary data and primary data). The first kind of data is primary data; it is data collected by the investigator for a particular purpose. While the second kind of data is secondary data, which refers to data collected by someone else and which was collected for other studies. Some researchers tend to use secondary data because of its advantages, such as it saves effort, time and expense (economical), it assists in improving the understanding of the problem and it allows comparison of the data that is collected by the researcher.

In this study, considered the first study, employs quantitative and qualitative methods (triangulation) in order to explore and measure the level of voluntary disclosure in Kuwait. Quantitative methods will be employed to develop and test the hypotheses of the study, while qualitative methods will be employed to understand why the managers of listed companies in Kuwait release more voluntary information in annual reports.

6.8 Research Design

Any research should be has a meaning and a value. Planning details and execution of the research are critical components of research design, and are therefore presented in this section. According to Hussey and Hussey (1997), the overall approach to the research process is the research design, starting from the theoretical framework, then to the collection and analysis of the data.

6.8.1 The purpose of study

The purpose of this study is twofold: first, to investigate LVD practices in the annual reports of Kuwaiti listed companies over a period of four years; second, to identify the causal factors affecting LVD in the Kuwaiti context. The time period is that since the observed Kuwaiti companies (banks, financial companies and insurance companies) adopted the CG codes for the first time in 2004. It also entails investigating LVD practices during those four years and how those practices developed over the period. The study reviews the most recent literature on disclosure, with a particular focus on the relationship between LVD and each of CG characteristics, ownership structure and firm characteristics. A deductive approach is used for the formulation and examination of hypotheses. Therefore, this study will adopt positive accounting theory (PAT), which has been the dominant accounting research method since the mid-1960s. The objective of this theory is seeking to "explain and predict phenomena" (Watt and Zimmerman, 1986, p.13). The term "positive research" was used to differentiate between research, which sought to explain and predict, and research that sought to offer prescriptions (normative research) (Watt, 1995). The normative research focus is on "what should to be" questions while the positive research focuses on "what is" questions, and uses hypotheses to express positive theories (Ryan et al., 1992). The current disclosure studies argument is based on positive accounting theory (descriptive theory), contrary to normative accounting theory (prescriptive theory) (Gaffikin, 2005).

6.8.2 Time Horizons

As previously mentioned, the present study focuses on one country, Kuwait. The majority of disclosure studies focus on one country, as well focusing on a specific

point of time, while there are few disclosure studies over a period. This study is considered a longitudinal study because it investigates LVD in the annual reports of Kuwaiti listed companies over a period of four years, from 2007 to 2010. LVD is determined by analysing historical data over the four-year period. Due to varying LVD between 2007 and 2010, both cross-sectional and time-series analyses are used. In addition, these methods are useful for determining the variables that influence both LVD and its categories among the companies under investigation. Such analysis is useful to those interested in voluntary disclosure matters, particularly in emerging capital markets and developing countries like Kuwait. It will be helpful to know which kinds should be highlighted and appear in the annual report.

6.8.3 The unit of study

The unit of analysis is defined as the type of data you need to collect during the subsequent data analysis stage (Sekaran, 2003). The Kuwaiti listed companies are used in this study as the **unit of analysis.** Although the Kuwait stock market includes foreign companies, they have excluded from the sample, because the objective of this study is investigate LVD in Kuwaiti listed companies. In passing, it is worth noting that the annual reports for Kuwaiti companies are more available than those of foreign companies; many companies were visited in order to get the annual reports.

6.8.4 Data collection and study sample

This section discusses the sources of the data, which are used for the analysis of the relationships between the dependent variable and independent variables in this study. There are various sources of data related to the Kuwaiti companies listed on the Kuwait Stock Exchange (KSE), which form the sample of the present study. The KSE sets disclosure requirements to which every listed company must adhere in their annual report. A quantitative approach has been used to gather the relevant data. Frankfort et al. (1996) argued that using a quantitative approach facilitates analysis of figures in terms of operationalisation, manipulation, prediction, testing of variables and statistical measures of validity.

The first source of empirical data is the annual reports of some 170 companies listed on the KSE. English versions of these reports were used to gather information about

LVD (the dependent variable) and some of the independent variables (CG, ownership structure, and firm characteristics). The second source of data is the websites of Kuwaiti companies, which provide information about their boards of directors. This information is necessary for determining one of the independent variables, namely CG mechanisms. The third source of data is documents and reports issued by the KSE, The ministry of trade and industry and financial consultancy organisations, which issue reports and analyses of listed Kuwaiti companies.

The population for this study is all the Kuwaiti companies listed on the Kuwait Stock Exchange; the Kuwait Stock Exchange Companies Guide contained 179 companies as of December 2007. The study sample was from these companies. All new companies – those listed on the Kuwait Stock Exchange since 2008 – were excluded from sample because this study covers the period from 2007 to 2010; the newly listed companies could still be developing their disclosure strategy. This approach has been followed in previous studies of accounting disclosure (Owusu-Ansah, 1998); see table 6.2.

Table 6.2 The total number of companies year ended- 2007

No	Sector	Number
1	**Bank sector**	9
2	**Investment sector**	43
3	**Insurance sector**	7
4	**Real estate sector**	34
5	**Industrial sector**	27
6	**Services sector**	53
7	**Food sector**	6
	Total	179

After completion of the collection of annual reports, the sample reached 155 companies. A number of companies were excluded due to the inability to get the annual report or lack of continuity in the Kuwaiti stock market. This concerned seven companies from the investment sector, six companies from each of the real estate and services sectors, three companies from the industrial sector, and one company from each of the insurance and food sectors; see table 6.3, final sample.(see Appendix 2)

Table 6.3 The final sample

No	Sector	Number
1	Bank sector	9
2	Investment sector	36
3	Insurance sector	6
4	Real estate sector	28
5	Industrial sector	24
6	Services sector	47
7	Food sector	5
	Total	155

6.8.5 Reasons for choosing annual reports

The purpose of this section is to discuss the methodology followed to achieve the first objective of this study (1.2.1). There are many ways for companies to disclose information, including annual reports, conferences, analyst lists, investor relations, interim reports, prospectuses, press releases, the Internet, and others. The annual report is a very important official disclosure for stakeholders, but it is not enough (Hope, 2003). Despite that, financial reporting is still the main source of value information on firms (Meyer, 2007). However, Adams et al. (1998) and Botosan (1997) indicated the annual report is considered the most important method used by a company to release information to stakeholders. Previous disclosure literature reported many justifications for using the annual report to examine the disclosure level: it has a high degree of credibility (Neu et al., 1998; Tilt, 1994); and it is characterized by availability, accessibility and extensive distribution (Wilmshurst and Frost, 2000).

Many previous studies have investigated the usefulness of annual report information and the relative importance of different sources of information for investment decisions, e.g. Chang and Most (1981) sent a questionnaire to individual investors, institutional investors and financial analysts in three countries, the United States, the United Kingdom and New Zealand. The findings found the annual report was considered the most important source of information. Lee and Tweedie (1981), in the UK, indicated that the annual report is very important source of information for institutional investors and stockbrokers.

There are three sources for the regulation of corporate financial reporting in Kuwait. The main resource is Commercial Company Law No. 6 of 1960, which was issued to organise the accounting profession, then was amended by Law No. 3 of 1965, to require listed companies to provide the financial report at every year end, include the comparative financial statements, the profit and loss statement and the cash flow statement. The second resource is the Practice of Auditing Profession Law No. 5 of 1981. The third resource is Law No 7 of 2010 of the Capital Markets Authority, which regulates the activity of securities. Based on these, it was decided to use the annual report in order to measure LVD of Kuwaiti listed companies to achieve the first objective of this study.

6.8.6 Measuring LVD

According to Hassan and Marston (2010), the measures of disclosure can be classified into two approaches depending on the vehicle (instrument). The first approach is proxies for disclosure without recourse to the original disclosure vehicle. The second approach is disclosure proxies based on examining the original disclosure vehicle.

- ***The first approach includes four types.***

The first type is disclosure survey (questionnaires and interviews), for example, using a disclosure survey such as the Financial Analysts Federation (FAF) / the Association for Investment Management and Research (AIMR) which have been employed as proxies for disclosure quantity and quality in a number of prior studies. The FAF/AIMR reports, which provide practices of disclosure for big publicly traded companies by a comprehensive measure and compared this practices with their industry peers.

The 2003 World Federation of Exchanges Disclosure Survey, which examines systems for disclosure of information about listed companies at fifty-two members of the World Federation of Exchanges, and other example of disclosure surveys, which provide by the Credit Lyonnais Securities Asia (CLSA), that employ financial analysts' perceptions in emerging markets about effect of GC at companies. The second type is the existence of American Depositary Receipts for proxy for

disclosure quality, dummy variable which has used in this type , will take the value of one if the company applied ADR otherwise will be zero. The third type is Attributes of analysts' forecasts (AAF), and the number of analysts following the company, which are used as proxies for the information environment. The fourth type is other proxies for disclosure, which do not depend on examining the disclosure instrument, where the level of measurement differs from a discrete to a continuous variable. For example, Clarkson and Thompson (1990) used the period of listing (continuous variable) as a proxy for firm disclosure and Bailey et al. (2006) used a dummy variable (discrete variable).

- ***The second approach includes five types.***

The first type is content analysis that used the sentences, the number of words or pages to measure the amount of information disclosed, for example (Marston and Shrives, 1991). There are two types of content analysis, conceptual content analysis and relational content analysis. The first type is a research method that employed to find out the frequency or the existence of concepts or certain key words within texts, while the second type is investigative of the relationships among concepts in a text. Content analysis can be divided into partial or comprehensive. Hussainey (2004) stated, "*In a partial content analysis, researchers identify a list of disclosure topics, they then text-search the annual report for the presence of these topics. In a holistic content, analysis researchers investigate the whole annual report to construct their disclosure index*" (p.48) Content analysis can be undertaken either manually or automatically or using both methods. The second type gives a disclosure index; it is a list of selected items that may be disclosed in the corporate report (Marston and Shrives, 1991). This list could contain mandatory or voluntary items of information. Cerf (1961) was the first to use this type of index. According prior studies explain a great difference in the construction of a disclosure index, the reasons for the difference being degree of researcher involvement in constructing the index, the number of items of information, the type of information, the measurement approach and the range of industries or countries covered by the index. Tai et al. (1990) reported there is no theory to determine the type of information or the number of items to be included in the index. The third type is management forecasts; this type is forward-looking information, which can appear voluntarily in an annual report,

interim report or elsewhere. In addition, it could be quantitative or qualitative, such as management earnings forecasts. The fourth type is disclosure of good (/bad) news; some prior studies employ earnings data for develop a measure of voluntary disclosure of good (/bad) news. For example, the company could signal the public about how well the company is doing by point or range estimates of annual earnings, whereas bad news disclosures could be qualitative (Skinner, 1994). The fifth type is disclosure frequency that means more frequent disclose lead to increased private information acquisition by investors (Buskirk, 2012).

However, Gray and Haslam (1990) stated that there is:

> *"No one single, agreed framework within which to conceptualise, articulate and collect empirical evidence about the external reporting activity of organisations"* (p.53)

In addition, they reported that to make a systematic enquiry into the contents of annual reports, they suggested the content analysis approach. However, Patton and Zelenka (1997) suggested four possible approaches to develop such theoretical concepts and an operational measure of the extent of disclosure:

- *"Evaluating the extent and quality of a company's disclosed information based on the decision usefulness of information items as determined by a normative decision model,*
- *Evaluating a company's quality of disclosure based on a group of knowledgeable analysts' evaluation of the annual report,*
- *Assessing the extent of the market reaction to the disclosure of information, and*
- *Assessing the Extent of compliance with a set of legal or GAAP requirements"* (p.606)

They mentioned the first three of these approaches are problematic; in the first approach, there is no generally accepted valuation. In the second approach, Lang and Lundholm (1993) noted that it is "*based on analysts' perceptions of disclosure rather than direct measures of actual disclosure*" (p.247); and in the third approach, "*unresolvable issues in selecting an event window for the analysis*", according to

Patton and Zelenka (1997, p.607). Therefore, they choose to adopt the fourth approach.

Gruning (2007) pointed out in content analysis one must face the problem of analysing the content of oral and written communication in measuring a firm's disclosure quality, depending on who is concerned in a content analysis approach, and indicated there are three types of who is involved in the content analysis approach. The first type is a sender approach, when managers are asked to self-evaluate for disclosure; the second type is a receiver approach, when financial analysts and other agents are asked to evaluate disclosure; and the third type is when someone who is neither addresser nor addressee is asked. The sender approach could be effective for mandatory disclosure. The examples of receiver approaches are AIMR, CIFAR analysts' and Standard & Poor's Transparency and Disclosure Rating (see Hassan and Marston, 2010), with potentially questionable data validity because of sample bias in the receiver ratings (Healy and Palepu, 2001).

However, Gruning (2007) reported the third type is the dominant method to measure the extent of corporate disclosure. However, the disclosure index methodology faced serious criticized because of limited validity (e.g. subjective criteria, subjective weighting) and reliability (e.g. subjective coding) (Marston and Shrives, 1991). Many scholars indicated that the third-party evaluation of corporate disclosure still dominates in disclosure studies. Cheng and Courtenay (2006) noted, as previously mentioned, that content analysis can be undertaken manually or automatically or using both methods: examples of using the automatic method being Hussainey (2004) and Aljifiry and Hussainey (2007), which employed the Nudist program. Gruning (2006) indicated computerized content analysis would replace both disclosure index approaches and ratings in the future, if it were to be conducted with better reliability and validity.

Therefore, LVD is defined as those items of information that are not stipulated by the Kuwaiti statutory regulations and laws. Many previous scholars adopted such a definition. Marston and Shrives (1991), Bradbury (1992) and Al-Shammari and Al-Sultan (2010) are worth noting here. This disclosure index provides an approach for measuring LVD of Kuwaiti companies listed on the Kuwait Stock Exchange, which

disclose more information voluntarily. Voluntary disclosure is considered the first and important step in solving the alleged problems of traditional financial reporting (Leadbetter, 2000).

In sum, the present study investigates LVD in the annual reports of Kuwaiti listed companies. Thus, it was decided to use a disclosure index in this study, with manual analysis, and focusing on the overall annual report (holistic content). As indicated previously, a disclosure index is considered one of the research instruments that have been used in prior disclosure studies, and extensively in research, such as Barako (2007), Rouf (2011) and Al-Shammari and Al-Sultan (2010). Coy and Dixon (2004) indicated that a disclosure index is generally employed in accounting research, especially in studies that investigate annual reports; they stated:

> *"Disclosure indices are an oft 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 organization or of particular aspects of interest covered by such reports (e. g. voluntary disclosure and environmental disclosure)"* (p.79)

The other methods as mentioned above are not suitable for the environment of Kuwait, for example, the analysts' ratings are not available in the Kuwait context. With regard to the analysis approach, Hussainey (2004) stated:

> *"One way to mitigate the inherent problems in subjective ratings is to use self-constructed disclosure indices that are based on a list of disclosure items in evaluating the quality of corporate disclosure"* (p.47)

6.8.7 Construction of the disclosure index

Actually, there is no a direct method to measure level disclosure, because financial disclosure is an abstract concept, which it difficult to measure directly (Cooke and Wallace, 1989) According to the majority of previous disclosure studies which investigated financial disclosure, they employed a predetermined list of information items (Cooke, 1989). The worth and usefulness of the disclosure index as a measure of disclosure depends on the process of selecting the items that are included in the

disclosure index, but the disclosure index involves researcher subjectivity in terms of judgement (Marston and Shrives, 1991).

According to Hussainey (2004), there are typically three stages that must be taken in the construction of a disclosure index. The first step is "selecting the preliminary list of disclosure topics"; the second step is "selecting the final list of disclosure topics"; the third step is "measuring the quality of disclosure".

Selecting the preliminary list of disclosure topics is considered the first and most important step to construct the disclosure index. However, Wallace and Nasser (1995) and Hooks et al. (2000) reported that there is no certain theory about the process to select the items for inclusion in the disclosure index. Hussainey (2004) stated, "*The selection of the preliminary list of disclosure topics is usually based on reviewing the literature and on reading a sample of corporate annual reports*" (p.48). The focus of the researcher in construction of the index plays the important role to determine the content and the number of items included in the index (Wallace and Naser, 1995). Where the disclosure index is different from one study to another, these studies depend for their selection of the content and number of items on various sources, e.g. related previous studies, rules and regulations governing the issuance of financial reporting in their country, and recommendations issued by financial analysts. Reviewing a large number of disclosure topics to establish the preliminary list will improve and enhance the process of selecting the content and items and reduce the subjectivity and bias of the researcher (Hussainey, 2004). Marston and Shrives (1991) reported that it was useful to use existing indexes in order to establish the disclosure index for their study through comparison with previous studies.

Selecting the final list of disclosure topics is considered the important and crucial step in determining the final list of disclosure index. Hussainey (2004) reported that most disclosure studies ask a particular user group in order to help to determine the final list of the disclosure index. There are different methodologies employed in the literature to select the final list, "*sending out questionnaires to the users of financial reports, conducting interviews and relating to recommendations provided by the accounting profession and accounting standards*" (p.49)

For the first two steps of construction of the disclosure index, this study follows the same structure of previous disclosure studies, such as Cooke (1989) and Meek et al. (1995), in order to develop a self-constructed voluntary disclosure index to investigate LVD in annual reports of Kuwaiti listed companies.

Firstly, review previous disclosure studies to prepare the checklist including disclosure items as the preliminary checklist, then screening the preliminary checklist to eliminate any mandatory disclosure requirements, which were mentioned by laws regulating disclosure in Kuwait, such as Law No.3 of 1965, Law No. 32 of 1970, Law No. 15 of 1981, and IFRSs and stock exchange listing requirements. Second, the screened checklist was compared with the internal mandatory checklist used by a Big Four auditing firm in order to eliminate any mandatory items. Third, the screened checklist was sent to two academics and two experienced Kuwaiti accountants who work for one of the Big Four audit firms to refine it; to achieve validity in the research method. Finally, before starting to use the final checklist in this study, the final checklist was used in a pilot study applied on 30 companies selected from different sectors to check validity of the checklist for the Kuwaiti environment. Table 6.4 shows the number of items and the percentage of each sub-category in the Index of LVD and evidence for inclusion.

Table 6.4 Index categorization of LVD

Index categorization	Items	%	Evidence for inclusion
General corporate information	10	20%	Singhvi, 1967, Ahmed & Nicholls, 1994, Wallace et al., 1994
Board of Directors and Management	11	22%	Cooke, 1989, Chau and Gray, 2002, Rodriguez & LeMaster, 2007
Specific corporate strategy	9	18 %	Haniffa and Cooke, 2002, Chau and Gray, 2002
Employee information	7	14%	Cooke, 1991, Cooke, 1992, Ghazali & Weetman, 2006
Corporate social disclosure	6	12 %	Hossain et al., 1994, Meek et al., 1995
Others	7	14 %	Firth, 1979
Total	50	100%	

Measuring disclosure is considered the final step in constructing a disclosure index. Several previous studies have used different approaches to build a scoring scheme to measure the disclosure level of annual financial reports; the first is a weighted

approach, such as in Cooke (1991, 1992), Karim (1995), Hossain et al. (1994) and Ahmed and Nicholls (1994). The second is an unweighted approach, such as Cooke (1989), Meek et al. (1995), Street and Bryant (2000), Street and Gray (2001), and Chau and Gray (2002). The third used both weighted and unweighted approaches, e.g. Chow and Wong-Boren (1987), Adhikari and Tondkar (1992) and Wallace and Naser (1995). Table 6.5 shows the previous studies and methods employed.

Table 6.5 Approaches to scoring disclosure items

Study	Year	Weighted approach	Unweighted approach	Both
Buzby	1975	Used by 144 financial analysts		
Firth	1979	Used by 46 financial analysts		
Chow & Boren	1987			Used both
Wallace	1988		dichotomous	
Cooke	1989a		dichotomous	
Cooke	1989b		dichotomous	
Cooke	1992		dichotomous	
Malone et al	1993	Used 115 financial analysts		
Ahmed &Nicholls	1994		dichotomous	
Hossain, et al	1994		dichotomous	
Wallace &Naser	1994		dichotomous	
Raffournier	1995		dichotomous	
Hossain et al	1995		dichotomous	
Zarzeski	1996			Used both
Inchausti	1997		dichotomous	
Naser	1998		dichotomous	
Owusu-Ansah	1998		dichotomous	
Abd-Elsalam	1999		dichotomous	
Hossain	2000		dichotomous	
Depoers	2000		dichotomous	
Street & Bryant	2000		dichotomous	
Ho & Wong	2001		dichotomous	
Street & Gray	2001		dichotomous	
Ferguson et al	2002		dichotomous	
Chau & Gray,	2002		dichotomous	
Haniffa & Cook	2002		dichotomous	
Naser et al	2002		dichotomous	
Nasser & Nuseibeh	2003			Used both
Al-Shiab	2003		dichotomous	
Barako etal	2006	Used by loan officers		
Hossain	2008		dichotomous	
Aljifri	2008		dichotomous	
Rouf & ALharun	2011		dichotomous	
Nandi & Ghosh	2012			Used both
Bhayani	2012		dichotomous	
Ibrahim &Jaafar	2013		dichotomous	
Al-Janadi et al	2013		dichotomous	
Soliman	2013		dichotomous	
Uyar et al	2013		dichotomous	

The weighted approach is based on the ranking the user who surveyed the annual report attaches to the information disclosure item, using a point scale methodology (for example from 1-10); this approach is advocated by Copeland and Fredericks (1968). For example, Malone et al. (1993) employed a scale of 0-2; 0 implies the item is not important, 1 implies the item is important, while 2 implies the item is very important. Under a weighted approach, weights are either given "*subjectively by the*

researcher(s) alone or by the researcher(s) using weights elicited from surveys of users' perceptions" (Wallace et al., 1994, p.42). This approach also helps to determine the quality of disclosure, and not only its extent (Botosan, 1997; Hodgdon, 2004).

In an unweighted approach, dichotomous scores are used, where zero is given if a disclosure item is not disclosed and one is given if the disclosure item is disclosed (Cooke, 1992). Cooke is the first to suggest the unweighted model. For example, Xiao et al. (2004) employed an unweighted score and each item was assigned a score of 1 if disclosed and zero if it is not disclosed. This approach assumes that each item of disclosure is equally important (Hossain et al., 1995). Ferguson et al. (2002) reported that the unweighted approach eliminates the subjectivity of the user in evaluating the relative importance of each disclosure item across all user groups. In addition, it provides a neutral assessment of items. In this approach, all disclosure items are of the same importance (Cooke, 1989; Hodgdon, 2004).

In this study, the un-weighted approach was used, which is followed by the majority of disclosure studies. The reasons for adopting this approach in this study were:

- The weighted approach is considered appropriate when the study focuses on a certain group while an unweighted approach is considered appropriate when the study does not focus on a certain group. Bonsón and Escobar (2002) stated that the use of a weighted approach, "*demands the determination of the relative importance of items to different users. Therefore, to avoid the arbitrariness inherent to this process*" (p.35), this study focuses on all users of the financial annual reports, thus, the unweighted approach is considered appropriate.
- This study is considered a longitudinal study, covering seven sectors. Hassan et al. (2006) reported that the relative importance of each item might change over time. In addition, Abd-Elsalam (1999) pointed out that the importance of each disclosure item varies from industry to industry and time to time. Thus, assigning different weights for each disclosure item in the disclosure list may be misleading.

- Usually the weighted approach was used with perceptions of investment analysts or the analysts' ratings, while an un-weighted approach is more suitable when the study focuses on stakeholders (Cooke, 1989; Wang et al., 2008).
- Through the weighted approach there is emphasis on particular items; also, it may impact the reliability of the disclosure index, and in addition it suffers from subjectivity (Chow and Wong-Boren, 1987; Marston and Shrives, 1991; Belkaoui, 1994; Abd-Elsalam and Weetman, 2007).
- From the viewpoint of some respondents, there are some items have high assigned value, because these items are not currently released by companies (Suwaidan, 1997).
- Previous disclosure studies reported substantially identical results when using both weighted and unweighted approaches (Chow and Wong-Boren, 1987; Adhikari and Tondkar, 1992; Wallace and Naser, 1995; Xiao et al., 2004).
- As shown in table 6.5, most of the previous disclosure studies employed an un-weighted approach.

Un-weighted scoring method

This current study adopts a disclosure model based upon the un-weighted approach, in addition, applying the dichotomous approach (Cooke, 1989), in which each company that disclosed an item of information that is included in the index on the annual report is scored as follows:

- A score of one (1) is awarded to the company if the disclosure item is disclosed within the annual report.
- A score of zero (0) is awarded if the disclosure item is not disclosed within the annual report.

In order to calculate LVD for each company, this study adopted the equation of Chavent et al. (2006) by dividing the actual scores for disclosure items awarded for each company by the maximum number of disclosure items. Therefore, the disclosure index (LVD) for each firm was calculated as follows:

$$LVD = Actual\ disclosure\ /\ Total\ possible\ disclosure = \sum_{i=1}^{m} di\ /\sum_{i=1}^{n} di$$

Where d = one if item *di* is disclosed and zero if item *di* is not disclosed.

m = number of items disclosed

n = maximum number of disclosure items possible.

LVD is a ratio comparing the actual level of disclosure and the possible level (ibid., p.5). The same equation is applied to compute the LVD score for each of the six sub-categories in the disclosure index.

6.8.8 Assessing the reliability and validity of the disclosure

Previous studies, such as Lang and Lundholm (1993), Marston and Shrives (1997), Botosan (1997), Ahmed and Courtis (1999), Collis and Hussey (2003) and Hussinay (2004) indicated the importance of the validity and reliability of the disclosure method. Hussinay (2004) stated:

> *"Corporate disclosures are not easy to evaluate because the construction of a disclosure index requires subjective assessments by the researcher(s). As a result, it is essential to assess the reliability and the validity of the disclosure measure".* (p.50)

Reliability refers to "*the extent to which a measuring procedure yields the same results on repeated trials*" (Carmines and Zeller, 1991, 17 as cited in Hassan and Marston, 2010, p.27). While validity refers the crucial relationship between concept and indicator, in other words; it refers to if the thing is measured by the correct approach or not, i.e. the intended concept (Sekaran, 2003). Chapter 7 discusses these concepts (reliability and validity) in more detail with different sets of analyses employed in order to assess the reliability and validity of the self-constructed disclosure index.

6.9 The Independent Variables

To achieve the third objective of this research, namely whether there are statistically significant relationships between LVD and its categories with the CG mechanisms, ownership structure and firm characteristics, it is important to measure the explanatory variables and to determine whether there are any associations between these variables and LVD. According to the theories that were discussed in chapter 3 and previous disclosure studies, discussed in chapter 4, the independent variables' data was collected for each of the four years from the different resources as mentioned in chapter 1. Table 6.6 summarizes the definition and measurement of the dependent variable and independent variables examined in this study. The next section presents the model used in this study, and in addition, the hypotheses tested for each variable.

Table 6.6 Summarizes the definition and measurement of variables

Definition Variable	Measurement
LVD	The ratio of the total of items appear in the report to total score
NEDs	Ratio of non-executive directors to the total number of directors on the board
Board Size	The total number of the members on the board
Role Duality	Coded 1 if CEO IS the chairman and 0 if otherwise.
Audit Committee	Coded 1 if board audit committee exists and 0 otherwise
Audit Firms	Coded 1 if the auditor has a partnership with one of the big four audit firm and 0 if otherwise
Ownership Structure	(Ownership concentration)An investor owned (direct or indirect) more than 20% =1 or 0= otherwise
Firm Size	Total assets
Firm Age	Measured in years
Liquidity	Current assets / Current liabilities
Leverage	Total debt / Total assets
Profitability	Net profit / Total shareholders' equity

6.9.1 Model

The following model has been employed to investigate the relationship between LVD and each of CG, ownership structure, and firm characteristics:

LVD = β0 +β1 NEDs+β2 Board Size+β3 Role Duality+β4 Audit Committee+β5 Audit Firms+β6 Ownership Structure+β7 Firm Size+β8 Firm Age+β9 Liquidity+β10 Gearing +β11 Profitability +ε

6.10 Statistical Tests

This section presents an overview of the statistical methods used in the empirical section. The statistical package STATA is used to perform the statistical analyses. It starts by assessing the reliability and validity of the disclosure index, and then analyses LVD, categories of LVD, and item-by-item (chapter 7). This chapter answers the first two research questions. Descriptive statistics of the data gathered are calculated for each of the dependent and independent variables. Several methods are used, such as Pearson and Spearman correlation coefficients, Regarding Spearman correlation coefficient, some previous studies applied Spearman's rank correlation, because they think it is still more popular and was employed in some disclosure studies (e.g. McNally et al., 1982; Abd-Elsalam, 1999). Cronbach's alpha, Descriptive statistics, Frequency, Kolmogorov-Smirnova and Shapiro-Wilk are used in chapter 8, tests for checking assumptions of OLS regression and multiple regression tests and other robust tests are used to answer the third research question. The following paragraphs provide a brief explanation of all statistical techniques that are used in this study.

6.10.1 Parametric versus non-parametric tests

Both parametric and non-parametric tests are used in this study. Field (2012) defines a parametric test as, "*one that required data from one of the large catalogue of distributions that statisticians have described and for data to be parametric certain*

assumptions must be true" (p.132), while non-parametric tests are "*a family of statistical procedures that do not rely on the restrictive assumptions of parametric tests*" (ibid., p.790). According to Collis and Hussey (2003), parametric tests are more powerful than non-parametric tests, and parametric tests can only be employed on populations that have normally distributed data. Moreover, Field (2012) mentioned other assumptions, i.e. homogeneity of variance, interval data and independence, which should be met when applying parametric tests (p.133).

Kanji (1999) said non-parametric tests are sometimes called distribution-free tests, because they do not need to meet of assumptions about normal distribution. Therefore, they are applied on data that are not normally distributed. Pallant (2001) reported parametric tests are more sensitive than non-parametric ones, because non-parametric tests detect differences between groups that actually do exist less than parametric tests; thus, he considered that is the major disadvantage of the non-parametric tests. However, many previous studies used both parametric and non-parametric tests, because both tests help: first, to minimize the possibility of incorrectly rejecting the null hypothesis; second, to check the results of parametric tests; and third, in the case of a large sample, both techniques can provide similar results (Cooke, 1989; Suwaidan, 1997; Al-Shiab, 2003).

6.10.2 Univariate and multivariate analyses

According to previous disclosure studies, such as Craswell and Taylor (1992), Hossain et al. (1994), Raffournier (1995), Ahmed and Courtis (1999), Barako et al. (2006), Uyar et al. (2013), Mathuva (2012), Soliman (2013), Dhouibi and Mamoghli (2013) and Al-Janadi et al. (2013), both univariate and multivariate analyses were used.

Univariate analysis is used to examine the relationship between LVD and each independent variable. For continuous variables (i.e. NEDs, Board size, Firm size, Firm age, Liquidity, Gearing, Profitability) correlation coefficients were used. Pearson correlation, as parametric test, was used when the normality assumption was satisfied, while Spearman rank correlation, as non-parametric tests, was used if the assumption of normality was violated. As discussed in section 6.9.1, both parametric

and non-parametric tests are used in this study. However, for nominal independent variables (i.e. Role duality, Audit committee, Audit firm, Ownership structure and Industrial type) both T-test as parametric test and Mann-Whitney U-test as non-parametric were used to examine the effect of these nominal independent variables on LVD. For further analysis, Friedman and Wilcoxon Signed Ranks tests were used to investigate whether there is significant difference between LVD scores over the period under investigation.

On the other hand, multivariate analysis is applied to several explanatory variables simultaneously. Previous disclosure studies used different statistical methods to test the relationship between level of disclosure and the independent variables. Cooke (2002) stated, "*Multiple regression is used to assess the extent to which variability in the extent of LVD is explained by the various CG, cultural and firm-specific characteristics*" (p.334). Wallace et al. (1994) reported that there is no theoretically correct method for investigating the relationship between the dependent (LVD) and the independent variables (p.47). However, Al-Mulhem (1997) argued that the majority of recent disclosure studies, starting with Chow and Wong-Boren (1987) have employed multiple regression analysis, e.g. some studies used standard multiple regression (Ordinary Least Squares method), some other studies used stepwise regression analysis, and are studies used both standard and stepwise regression. In this study, the Ordinary Least Squares method was used to investigate the relationship between LVD and each of CG mechanisms, Ownership structure and Firm characteristics. Further tests are used, such as GLS regression, Tobit regression and quantile regression; for more information for these tests see chapter 8. However, problems often arise when applying multiple regression, such as normality of residuals and linearity; in addition, heteroscedasticity and multicollinearity are discussed in the following section.

6.10.2.1 Normality of residuals and linearity

Field (2012) stated the normality is, "*a probability distribution of a random variable that is known to have certain properties. It is perfectly symmetrical (has a skew of 0) and has a kurtosis of 0*" (p.790). Normality of residuals means that errors (residuals) should be normally distributed. Statistically, several methods can be used to assess

normality, such as normality plots and normality tests. Normality plots include Q-Q plot, P-P plot, histogram, and density estimate. Field (2012) stated a Q-Q plot is "*a graph plotting the quantiles of the variable against the quantiles of the particular distribution (often a normal distribution)"* (p.792), while a P-P plot is "*a graph plotting the cumulative probability of a variable against the cumulative probability of particular distribution (often a normal distribution)"* (p.792). A histogram is a frequency distribution of the variable; it may take many forms depending on the data distribution (*ibid.*). Liu and Shell (2012) stated that density estimation *"is a technique for constructing an estimate of an unobservable underlying probability density function (p.d.f.) based on limited observations"* (p.828). The normality tests include skewness-kurtosis and Shapiro-Wilk, which are employed for both the residuals and the dependent variable. Bai and Ng (2005) stated skewness-kurtosis "*tests can be used to make inference about any conjectured coefficients of skewness and kurtosis*" (p.49). The Shapiro-Wilk test is considered one test for normality[10].

6.10.2.2 Homoscedasticity

Field (2012) stated homoscedasticity is "*an assumption in regression analysis that the residuals at each level of the predictor variables(s) have similar variance*" (p.787). It is best examined graphically (Hair et al., 1998). This study uses both graphical and numerical methods. The graphical method plots residuals and predicted values, while the numerical method uses two tests: the first is Breusch-Pagan / Cook-Weisberg and White's tests, and the second is Cameron and Trivedi's decomposition of IM (information matrix) test; both tests are conducted with STATA.

6.10.2.3 Multicollinearity

Field (2012) stated that multicollinearity is "*a situation in which two or more variables are very closely linearly related*" (p.790). Two methods are employed in this study to detect multicollinearity. The first method is the matrix of bivariate correlations coefficients; parametric (Pearson) and non-parametric (Spearman) are the common methods used in previous studies to test for multicollinearity. Multicollinearity is present when there is high correlation between all pairs of

[10] It was published in 1965 by Samuel Sanford Shapiro and Martin Wilk

explanatory variables examined. Some scholars suggest that multicollinearity will exist when the correlation coefficient between two or more explanatory variables exceeds 0.80 (Judge et al., 1985; and Tabachnick and Fidell, 1996). The second method is variance inflation factor (VIF), which is estimated by this equation:

$$VIF = 1 / (1 - R^2)$$ [11]

However, Abdul Rahman and Ali (2006) reported that there is no need to be concerned with a variance inflation factor less than 10.

6.11 Conclusion

In this chapter, the main purpose was to present the methodology methods used in this study to answer the research questions, starting by providing an overview of the research process, then an explanation of research philosophy in general. A multi-approach paradigm was thus conducted in this study that represents the interpretivist–functionalist transition zone. In addition, this study seeks to examine empirically the association between LVD and each of CG mechanisms, ownership structure and firm characteristics. The deductive approach was undertaken to developing hypotheses based on a theory. A multi-approach theoretical framework was applied to integrating a number of disclosure theories in order to explain the study results. Data was collected for the fiscal years corresponding to 2007-2010 to provide the most recent investigation; many sources were used to gather data from both primary and secondary sources, such as annual reports, textbooks, articles, journals, Kuwaiti legislation, publications and the website of the Kuwait Stock Exchange, magazines, and newspapers relevant to the Kuwaiti business environment. The final sample is 155 Kuwaiti listed companies with 620 firm–year observations.

A self-checklist of voluntary disclosure items was constructed in order to measure LVD and its categories in Kuwaiti companies' annual reports; it consisted of 50 disclosure items. Therefore, this study is considered to be a quantitative study. An unweighted approach was applied based on the previous disclosure studies. The

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[11] Where R^2 is estimated by regressing each independent variable on all other independent variables (Gujarati, 1999, p.325)

model was developed to investigate the relationships between LVD and each of CG mechanisms, ownership structure and firm characteristics. The importance of assessing the reliability and validity of the disclosure index was explained. Formulation of testable hypotheses was presented. The most appropriate statistical methods were selected for this study, such as parametric tests, non-parametric tests, univariate analysis and multivariate analysis. Assumptions of OLS regression, such as normality of residuals and linearity, homoscedasticity and multicollinearity were presented with methods of calculations for these assumptions. The next two chapters provide the empirical analysis used to answer the research questions.

Chapter 7: The First Part of the Empirical Work

7.1 Introduction

In previous disclosure studies, a disclosure index is used as a reliable measurement instrument to measure the extent of LVD and its categories, as indicated in chapter 5. Marston and Shrives (1991) reported a disclosure index is used to measure the extent of total voluntary disclosure as a reliable measurement device and has been used in previous studies of voluntary disclosure, such as Cooke (1989, 1991), Meek et al. (1995) and Al-Shammari (2008). This chapter is the first part of the empirical work; it presents the findings related to Research Questions 1and 2:

1. What is the extent of voluntary disclosure in annual reports of Kuwaiti listed corporate?
2. To what extent did voluntary disclosures of Kuwaiti listed companies change over the period 2007-2010?

To answer these questions, a self-constructed index was developed as a research instrument in order to measure LVD and its categories in Kuwaiti listed companies. In order to understand voluntary disclosure practice, the disclosure index should be divided in subgroups as mentioned in the literature review. The disclosure index used in this study consists of 50 information items divided into six groups.

By detailed analysis of the outcomes of the disclosure index, these questions are answered, starting with the credibility of the research in section 7.2. Then in section 7.3, statistical tests are used to evaluate the reliability and validity of the disclosure index used to measure LVD in Kuwaiti listed companies. Subsection 7.3.1 presents Cronbach's alpha coefficient as a measure of the internal consistency between items in each group and their total group score. Reliability and validity of the disclosure score is presented in subsection 7.3.2. In section 7.4, the extent and trend of LVD is discussed. The significant increase in LVD during 2007-2010 is presented in section 7.5. The amount of variation between LVD categories during the period of study is clarified in section 7.6. The analysis and assessment of LVD by items disclosed in

each category in company annual reports is provided in section 7.7. Finally, section 7.8 provides a concluding summary.

7.2 Credibility of the Disclosure Index

In general, all observations and measurements include error; to reduce the risk of obtaining error in answers for research questions, it is important to guarantee the credibility of the research findings of two main aspects of the research design of this study, namely, the voluntary disclosure index's reliability and validity (Saunders et al., 2007).

Reviewing the literature reveals the importance of the goodness of fit in the disclosure index as a measure. The goodness of fit of a measure could be improved by considering the reliability and validity of the results, before starting to conduct the statistical analysis. In general, reliability refers to "*the extent to which a measuring procedure yields the same results on repeated trials*" (Hassan and Marston, 2008, p.27). While validity refers to the crucial relationship between concept and indicator; in other words, it refers to if the thing is measured by the correct approach or not, i.e. the intended concept (Sekaran, 2003).

7.2.1 Assessing the reliability of the disclosure index

The **reliability** of a measure is established by testing for both stability and consistency with which the instrument measures the concept, and assists in evaluating the goodness of that instrument's measure. Stability indicates the measure's ability to give the same results if the same individuals in the same circumstances repeat it. Consistency refers to homogeneity of the items (whether they hang together as a set) to measure a concept (Sekaran, 2003).

Test–retest reliability and **parallel-form reliability** are used to examine stability. Test–retest reliability means obtaining the reliability coefficient when the same measure is repeated on a second occasion (Sekaran, 2003). That means the same people do the same test at different times. However, parallel-form reliability is gauged by two comparable tests that have the same content and same response format, but with different words and different sequence of the questions. All

observations and measurements include error, so this form of reliability focuses on the error variability resulting from phrasing and arrangement of the questions. In other words, different people do different tests at the same time.

Consistency can be examined through the inter-item consistency reliability and split–half reliability tests. Inter-item consistency is used to test the consistency of participants' answers to all items in an instrument. In other words, the same test by different people at the same time, On the other hand, split–half reliability tests are used to measure the reliability by splitting a test into two components and an individual's answers on both halves are compared. In addition, internal consistency reliability can be used to test the consistency of a measurement instrument by Cronbach's alpha correlation coefficients. Item-to-total correlation assists assessing the internal consistency reliability.

Test-retest reliability: The researcher started by reading the content of the annual report for each company in 2007 to know which voluntary items were not disclosed, and then read each again to identify the score for each company. All annual reports of all companies for each of the years 2008, 2009 and 2010 were read twice in the same way. The researcher then re-started with year 2007 and re-examined the annual reports, allowing a suitable time between the first and second examinations. This procedure was repeated for the other years. The correlation coefficients between the first and second examinations confirm the stability of the voluntary disclosure index.

Internal consistency reliability means the degree to which all items hang together and measure the same attribute. Cronbach's alpha coefficient is the most commonly used measure for reliability through correlation coefficients. Values range between zero and one; greater reliability is indicated by higher values (Pallant 2001). According to Pallant (2001), internal consistency reliability results for any variables are shown when their Cronbach's alpha is positive and has a value more than 7. See Tables 7.7 and 7.8.

7.3 Assessment of the Reliability and validity

As indicated previously, the voluntary disclosure index includes 50 items distributed over six categories. The reliability of these categories was tested statistically. According to Nielsen (2000), reliability means, “how free it is from random error” From the above discussion, test–retest reliability is used to examine stability, while internal consistency reliability is used to examine consistency in the study.

7.3.1 Item to sub-total (group score) correlations

Table 7.1 shows correlation coefficients and significances between Items and Total Group Score of (GCI). All items have significant correlation with their group score at 1% significance level, except Brief narrative history of company item, which has insignificant correlation with its subgroup: this item scored 619 from the total score of 620.

Table 7.2 shows correlation coefficients and significances between Items and Total Group Score of (BMD). All have significant correlation with their group score at 1% significance level, except Age of the directors, which has insignificant correlation with its subgroup.

All items of (SCS) have significant correlation with their group score at 1% significance level by both Pearson and Spearman tests, as can be seen from table 7.3.

Table 7.4 shows correlation coefficients and significances between Items and Total Group Score of (EI). All items have significant correlation with their group score at 1% significance level, except Identification of senior management and their functions. It has insignificant correlation with its subgroup in both Pearson and Spearman tests.

Table 7-1 Correlation Coefficients and Significances between Items and Total Group Score (GCI)

Item	X1	X2	X3	X4	X5	X6	X7	X8	X9	X10
Pearson	.061	.452**	.148**	.545**	.331**	.317**	.579**	.494**	.629**	.616**
Spearman	.065	.442**	.142**	.531**	.225**	.283**	.586**	.483**	.647**	.595**

**Correlation is significant at the 0.01 level (2-tailed).
*Correlation is significant at the 0.05 level (2-tailed).

Table 7-2 Correlation Coefficients and Significances between Items and Total Group Score (BMD)

Item	X11	X12	X13	X14	X15	X16	X17	X18	X19	X20	X21
Pearson	.343**	.022	.546**	.522**	.674**	.620**	.623**	.520**	.553**	.537**	.490**
Spearman	.386*	.035	.572**	.585**	.717**	.613**	.524**	.340**	.374**	.365**	.335**

**Correlation is significant at the 0.01 level (2-tailed).
*Correlation is significant at the 0.05 level (2-tailed).

Table 7-3 Correlation Coefficients and Significances between Items and Total Group Score (SCS)

Item	X22	X23	X24	X25	X26	X27	X28	X29	X30
Pearson.	.226**	.632**	.735**	.766**	.676**	.652**	.535**	.562**	.515**
Spearman	.273**	.588**	.832**	.768**	.664**	.646**	.364**	.363**	.297**

**Correlation is significant at the 0.01 level (2-tailed).
*Correlation is significant at the 0.05 level (2-tailed).

Table 7.5 shows correlation coefficients and significances between Items and Total Group Score of (CSD). All items of corporate social disclosure have significant correlation with their group score at 1% significance level by both Pearson and Spearman tests.

Table 7.6 shows correlation coefficients and significances between Items and Total Group Score of (O). All items of other category have significant correlation with their group score at 1% significance level, except Information on ISO certification item, which has insignificant correlation with its subgroup. This item scored 617 from the total score of 620.

Based on the foregoing, it can be seen from these tables that most items have significant correlation with their category score at 1% significance level, except some items as interpreted above. Before taking action to exclude these items, one should calculate the correlation coefficients between the total score of the voluntary disclosure index and each item. After calculating the correlation coefficients, the findings indicate most items have correlation coefficients at 1% and 5% with the total score of the voluntary disclosure index and some have no significance with the total score of the voluntary disclosure index; even so, they have correlation coefficients with their category score. As such, all items in the index have significant correlation, either with their category score or with the total score. Therefore, by the above explanation, there is no reason to exclude any item from the voluntary disclosure index, so all items are kept in the index.

Table 7-4 Correlation Coefficients and Significances between Items and Total Group Score (EI)

Item	X31	X32	X33	X34	X35	X36	X37
Pearson	.778**	.529**	.018	.686**	.300**	.616**	.770**
Spearman	.885**	.326**	.049	.518**	.248**	.379**	.672**

**Correlation is significant at the 0.01 level (2-tailed).
*Correlation is significant at the 0.05 level (2-tailed).

Table 7-5 Correlation Coefficients and Significances between Items and Total Group Score (CSD)

Item	X38	X39	X40	X41	X42	X43
Pearson	.623**	.534**	.693**	.707**	.624**	.706**
Spearman	.463**	.482**	.812**	.602**	.380**	.645**

**Correlation is significant at the 0.01 level (2-tailed).
*Correlation is significant at the 0.05 level (2-tailed).

Table 7-6 Correlation Coefficients and Significances between Items and Total Group Score (O)

Item	X44	X45	X46	X47	X48	X48	X50
Pearson	.581**	.041	.479**	.314**	.720**	.733**	.253**
Spearman	.435**	.029	.535**	.306**	.677**	.713**	.145**

**Correlation is significant at the 0.01 level (2-tailed).
*Correlation is significant at the 0.05 level (2-tailed).

7.3.2 Total reliability of the disclosure index

Hail (2000) said the assessment of financial reporting is a difficult process because it depends on a person's subjective perception for the development and application of a disclosure score. The current study is similar with previous studies because it depends on the subjective judgement of the researcher for the development and application of the disclosure index

There is a variety of approaches used to assess the reliability of the instrument measure. The first approach is Pearson correlation, which is calculated on the mean inter-correlations among the items. The correlation coefficient ranges from -1 to 1, where correlation coefficient = 1 means two coders provide the same findings, but where correlation coefficient = -1 this that means a negative relationship; however, if correlation coefficient = 0 that means different findings between the first item and the second item. The second approach is Cronbach's alpha, which refers to the degree of positive correlations among items of one set to another. The range of Cronbach's alpha coefficient is from 0 to 1, which means if Cronbach's alpha is 0, there is no consistency between items. Based on the above, before starting to use this index in the current study, the reliability of LVD categories should be tested.

Table 7.7 shows the mean inter-correlations among the items measured; the reliability of these categories was tested statistically. The findings show that all categories are correlated with LVD score. In addition, Cronbach's alpha is 0.825, which meets Pallant's (2001) criteria for variable reliability: Cronbach's alpha is both positive and greater than 0.7. This result shows LVD has a high degree of internal consistency reliability.

Table 7.7 Reliability tests – categories

Category	No of items	group-test correlation	Chronbach's Alpha	Alpha if group Deleted
GCI	10	.554		.809
BDM	11	.572		.810
SCS	9	.651		.785
EI	7	.678	0.825	.795
CSD	6	.666		.785
O	7	.627		.799

7.3.3 Assessing the validity of the disclosure index

Validity concerns the crucial relationship between concept and measuring instrument (Kerlinger, 1986), which means the research results are representative of the real situation (Collis and Hussey, 2003). There are several types of test for validity of goodness of the measuring instrument. According to Neuman (2006), four types of validity are applicable to this study.

1) Face validity: ensures whether the disclosure index appears to measure LVD for Kuwaiti listed companies; the disclosure index in this study was reviewed by academics and experienced Kuwaiti accountants who work for one of the Big Four audit firms.

2) Content validity: ensures whether the measure “voluntary disclosure index” includes all the aspects of disclosure in this study and captures all of an adequate and representative set of items that tap the concept (Sekaran, 2003). According to Nunnally (1978), content validity is not assessed by using statistical methods. Several approaches can be employed to attest content validity, such as definition of the research through the literature review and using a panel of judges. This study depended on the disclosure indices of previous studies, which were modified to suit Kuwaiti companies by comparing the items of the voluntary disclosure index with an internal mandatory checklist, issued from Kuwaiti regulations and used by a Big Four auditing firm, in order to remove any mandatory items from the voluntary disclosure index. The disclosure index was reviewed by academics and experienced Kuwaiti accountants to assess validity as mentioned above in Face validity. Therefore, LVD in this study includes all the aspects of LVD items for the Kuwaiti companies.

3) Criterion-related validity: considers if any standards or criteria were used in the disclosure index to measure voluntary disclosure. There are two kind of criterion-related validity, concurrent validity and predictive validity. Concurrent validity means ensuring whether the voluntary disclosure index agrees with pre-existing indices or not. Predictive validity means whether the voluntary disclosure index can predict future aspects related to voluntary disclosure issues in Kuwait. However, Hassan (2006) reported that in social science criterion-related validity is not often used.

4) Construct validity: means "*how well the results obtained from the use of the measure fit the theories around which the test is designed*" (Sekaran, 2003, p.207). In addition, Sekaran reported that the correlation coefficient is a way to investigate construct validity. This method is used in previous disclosure studies in order to assess the validity of disclosure scores, such as Ahmed and Courtis (1999), Botosan (1997), and Cheng and Courtenay (2006). Table 7.8 presents both Pearson and Spearman correlation coefficients, and significances between categories and LVD. The results show highly-correlated categories and LVD at the 1% significance level.

Table 7.8 Correlation analysis of LVD scores and categories

Spearman Pearson	LVD	GCI	BMD	SCS	EI	CSD	O
LVD	1	.702**	.723**	.753**	.588**	.636**	.627**
GCI	.724**	1	.357**	.357**	.310**	.406**	.360**
BMD	.750**	.404**	1	.431**	.351**	.330**	.380**
SCS	.791**	.442**	.469**	1	.524**	.396**	.426**
EI	.754**	.375**	.490**	.621**	1	.455**	.337**
CSD	.769**	.507**	.426**	.505**	.599**	1	.401**
O	.719**	.422**	.445**	.496**	.503**	.559**	1

**. Correlation is significant at the 0.01 level (2-tailed).

Where: LVD The level of voluntary disclosure Index, GCI Corporate Information Category, BDM Board of Directors and Management, SCS Specific Corporate Strategy, EI Employee Information CSD, Corporate Social Disclosure , O Others

As previously mentioned in chapter 4, firm characteristics are associated with disclosure level; and explain the variation in disclosure level. For example, Al-Shammari (1998) examined voluntary disclosure in Kuwait company annual reports.

He found size, gearing and industry type were important in determining disclosure levels regardless of a company's country. Thus, the correlation between firm characteristics and LVD is presented in the table 8.2. From this table, from the reliability tests and the validity test of LVD, the findings confirm the high degree of internal consistency reliability between categories and LVD, and also the high correlation between categories and LVD (validity).

7.4 The Extent and Trend of LVD

A voluntary disclosure index is constructed to measure and present insights about the relative sufficiency of LVD published in annual reports issued by 155 companies listed on the Kuwait Stock Exchange; 620 annual reports of 155 companies listed for the years 2007 to 2010 have been analysed using this disclosure index. This index instrument consists of 50 voluntary disclosure items segmented into six groups, containing between 6 and 11 items each.

Disclosure lists are extensive sets of selected items (Marston and Shrieves, 1991). The selection of voluntary disclosure items used in the index of voluntary disclosure is an important step. Although the selection of these items is a subjective judgment, Marston and Shrives (1991) reported the effectiveness of the disclosure index, as a measure of disclosure, depends essentially on the selection of items for disclosure inclusion.

To arrive at the operation of selecting of a list of voluntary items of information in order to construct the voluntary disclosure index in the current study, there were many steps, as mentioned in chapter 4. In short, the first step is ensuring these items reflect what Company Law No. 15, IFRSs and stock exchange listing requirements required. The second is, scanning all items to exclude any compulsory disclosure requirements of company law, IFRSs or stock exchange listing requirements. The third is, asking two academics and two experienced Kuwaiti accountants to refine the index to ensure its validity. The fourth and final is, reviewing academic literature related to studies that basically focused on voluntary disclosure in developed and developing countries.

Table 7.9 Index categorization of LVD

Index classification	Items	%
General corporate information	10	20%
Board of Directors and Management	11	22%
Specific corporate strategy	9	18%
Employee information	7	14%
Corporate social disclosure	6	12%
Others	7	14%
Total	50	100%

This section presents and discusses the descriptive statistics of LVD and its categories for each year and for all four years together, by using the research methods discussed in the methodology chapter. Table 7.10 indicates the mean of the LVD score.

This disclosure index has been used to analyse 620 annual reports of 155 companies for the years from 2007 to 2010. The dependent variable in the current research is the LVD scores over the four years; the percentage awarded disclosure score to the applicable score represents LVD and that provides the trend of LVD practice in the annual reports.

Table 7.10 Descriptive Statistics of LVD

	N	Mean	Min	Max	Std. deviation	Skewness	Kurtosis
LVD 2007	155	10.483	4	39	6.607	2.144	4.750
LVD 2008	155	10.554	3	39	7.002	2.187	4.633
LVD 2009	155	13.709	5	39	6.291	1.916	3.816
LVD 2010	155	16.864	7	40	5.9055	1.393	2.231
Pooled	620	12.90	3	40	6.977	1.473	2.190

Table 7.10 presents the descriptive statistics of the total of LVD for each year and for all four years together. In 2007, the mean was 10.48; in 2008 and 2009, the mean grew steadily to around 13.70; but in 2010, it increased dramatically to around 16.86 with a range of 7 to 40 items. Even though this suggests that there has been some improvement in LVD, still the average LVD is lower than in other studies. Alsaeed (2006) pointed out the low level of disclosure could be explained by the absence of implementation to disclose and their nature. In addition, this supports this

researcher's decision to focus in the current study on investigating which factors will enhance LVD in Kuwaiti listed companies.

While the minimum of LVD in 2008 is three items, the maximum is 40 from 50 items for 2010. The wide variation in the range of LVD can be observed also in each year of the period studied. Although the minimum level LVD increased from three items in 2008 to seven items in 2010, on the other hand, the maximum level of LVD has shown a slight increase over the years. It was 39 items for the years 2007, 2008 and 2009, but in 2010 was 40 items from 50 items. This finding indicates the presence of large variations in LVD practices in Kuwait.

Table7.11 Frequency of LVD Score

LVD	2007		2008		2009		2010		Pooled	
	NO	%	NO	%	NO	%	NO	%	NO	%
<4	5	0.032	6	0.039	0	0.000	0	0.000	11	0.018
5--9	92	0.587	93	0.600	32	0.206	5	0.032	221	0.356
10--14	31	0.200	32	0.206	79	0.510	51	0.329	193	0.311
15-19	14	0.097	8	0.052	28	0.181	63	0.406	114	0.184
20-24	4	0.026	5	0.032	2	0.013	21	0.135	32	0.052
25-29	4	0.026	6	0.039	6	0.039	6	0.039	22	0.035
30-34	3	0.019	2	0.013	6	0.039	7	0.045	18	0.029
35-39	2	0.013	3	0.019	2	0.013	1	0.006	8	0.013
>40	0	0.000	0	0.000	0	0.000	1	0.006	1	0.002
Pooled	155	100	155	100	155	100	155	100	620	100

In addition to the above, table 7.11 sheds more light on LVD in the annual reports of Kuwait listed companies. Table 7.11 displays the frequency distributions of the disclosure scores of LVD between the Kuwaiti listed companies. As can be noted from table 7.11, in 2007, 146 of 155 companies (94.19%) disclosed less than 50% of LVD, and the remaining nine companies (5.81%) disclosed more than 50%. In 2008, 144 companies (92.90%) disclosed less than 50% of LVD, and the remaining 11 companies (7.10%) disclosed more than 50%. In 2009, 141 companies (90.96%) disclosed less than 50% of LVD, and the remaining 14 companies (9.03%) disclosed more than 50%. In 2010, 140 companies (90.32%) disclosed less than 50% of LVD, and the remaining 15 companies (9.68%) disclosed more than 50%.

The above analysis shows, the number of companies that disclosed more than 50% of the voluntary index increased during the years of study, starting in 2007 with 9

companies (5.81%) and then increasing to reach 15 companies (9.68%) in 2010. In other words, there is a trend for more Kuwaiti companies to provide more voluntary disclosure.

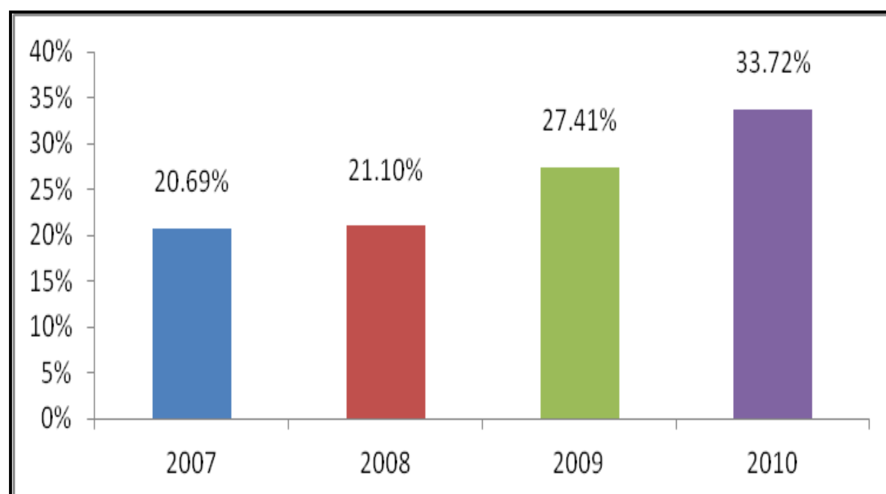

Figure 7.1 Extent of LVD 2007-2010

Although the average of LVD is low, there is an increasing extent of LVD over the period of study, as indicate in figure 7.1: 20.69% in year 2007 then 21.10% in 2008, increasing dramatically in 2009 to 27.41%, and continuing to increase dramatically also in 2010 to reach 33.72%. The average of LVD over four year is 25.80%, but comparing the average of LVD during study years with previous studies – Ho and Wong (2001) found in Hong Kong 29%, Leventis and Weetman (2004) in Greece 37%, Ghazali and Weetman (2006) in Malaysia 31% – shows that LVD by Kuwaiti listed companies is lower. However, one must pay attention to differences of economic environment, sample size, components of the index disclosure and time of the study, when making comparisons with previous studies.

In addition, figure 7.2 shows the trend of LVD over the four years. This outcome can be explained by recent developments to understanding the concept of voluntary disclosure by regulators and companies in Kuwait, because after the global financial crisis in 2008, awareness of the importance of transparency and CG was increased in many companies around the world, as well as in Kuwait.

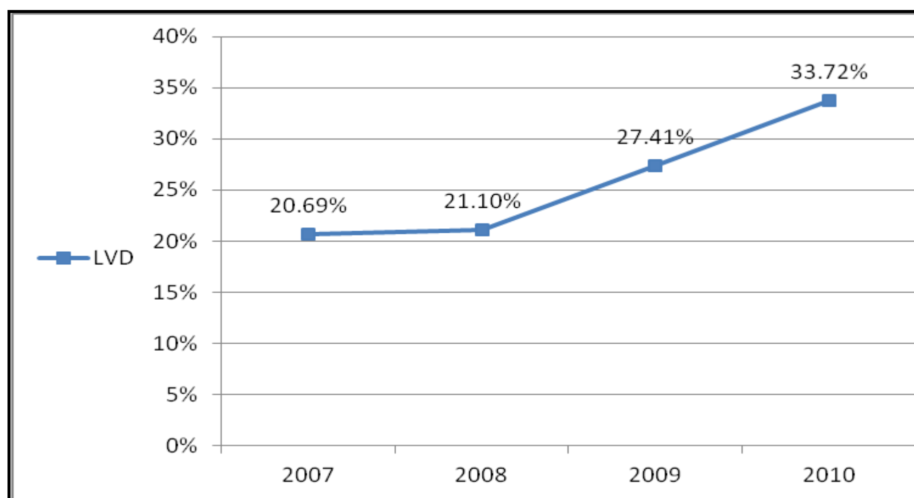

Figure 7.2 Trend of LVD 2007-2010

Recently, CG has received more focus in Kuwait generally. Many conferences and publications were organised to discuss the importance of CG and its characteristics and the need for it to be applied; hence, the Central Bank of Kuwait has made an effort to develop control and monitoring methods for banking and financial institutions in accordance with the best international standards and practices.

In 2004, the Kuwait Central Bank issued comprehensive instructions (Basel Committee) to banks and investment companies (conventional and Islamic) only to cover standards of CG and enhance accountability, transparency and integrity of the data and information in order to protect shareholders, employees, customers and the public. In addition, the Kuwait stock market's Capital Market Commission obliged all banks to apply some of the principles of CG, which would increase transparency and disclosure, such as particular instruction on disclosure of percentage of ownership of major shareholders.

Moreover, as noted from table 7.11, the number of companies that have the highest scores of LVD is small, only 49 reports from 620 reports during 2007-2010 disclosed more than 50% of LVD; particularly, 22 reports disclosed 60% of LVD, 18 reports disclosed 70% of LVD, eight reports disclosed 80% of LVD and one report disclosed 90%. However, it is expected that these companies will urge other companies – which may be called leading companies – to launch more disclosure. The next chapter discusses the motivation and characteristics of these companies.

It is better to look at the type of information, which components of LVD, indicate which type of information of these components had a significant impact on voluntary disclosure. In addition, it may be useful to look at the Industrial type of this LVD score. Section 7.4 explains these categories of information in detail, while section 7.5 explains the industrial types in detail.

Figure 7.1 illustrates the contribution of these different components of LVD to the LVD score over the period of study (2007-2010). The pie chart in figure 7.3 illustrates that the items of (GCI) have the largest contribution to LVD with average score 37.20% over the four-year period. It is without doubt that these items are deemed to be a of degree of importance to investors, because it is a key entrance to investing in listed companies. In addition, the second largest contribution comes from items of (BDM) with average score 22.40%, items about (O) with average score 15.40%. Then come in descending order each of (SCS) and (CSD) with averages scores 12.55% and 8.26% respectively. (EI) has the lowest proportion in the total voluntary index with average score 4.19%. The low level of (EI) is considered reasonable because Kuwaiti listed companies consider this information useless for investors. Although this detailed information about employees, such as geographical distribution of employee, categories of employees by gender and others mentioned in the section on employees information in voluntary disclosure is important for government agencies, it can be obtained by other means.

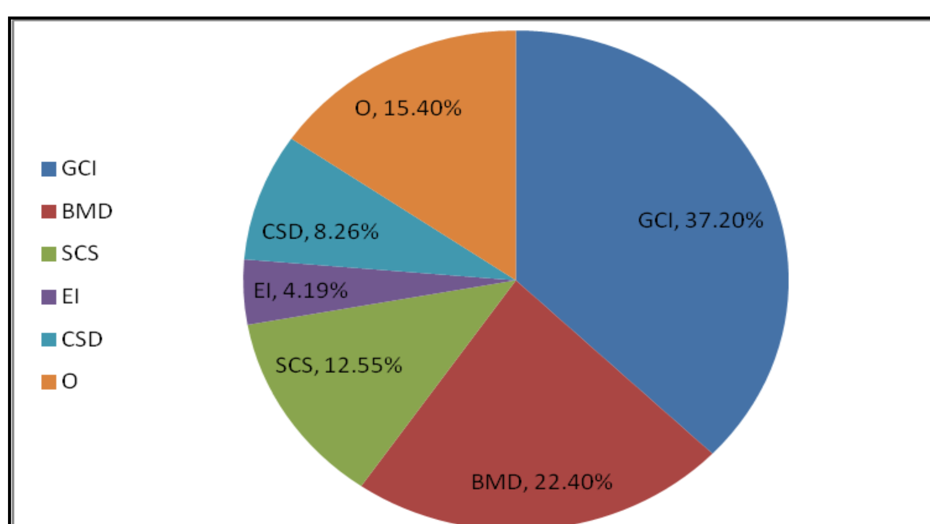

Figure 7.3 Extent of LVD categories 2007-2010

7.5 The Significant Increase in LVD during 2007-2010

The results in table 7.2 (Descriptive statistics of LVD) ,while in figure 7.1 show that there is a progressive increase in LVD over the study years (2007-2010). Secondly, there is significant increase in the number companies that release more voluntarily disclosure during this period. Finally, the average number of sub-groups of voluntary disclosure has increased during the study period, more than double in total sum between 2007 and 2010. However, it may be helpful to use the research methodology and specific research methods discussed in chapter 6, to determine whether there is a significant difference between LVD scores over the period. In addition, for the longitudinal nature of this study, surely there needs to be data for multiple periods. In summary, the examination of the number of firms disclosing voluntary information indicates that listed companies in the Kuwaiti stock market responded positively to the changed disclosure environment over the study period, when the Kuwaiti government issued regulations in order to enhance financial reporting and disclosure.

This section combines and compares between LVD for four years. In addition, it investigates whether there are significant differences between LVD scores over the four years. Table 7.10 shows descriptive statistics of LVD (dependant variable). A series of statistical tests has been conducted before starting to test whether the changes in voluntary disclosures are statistically significant or not. The Kolmogorov-Smirnov Test and the Shapiro-Wilk Test are two well-know tests of normality. In this study, the Kolmogorov-Smirnov Test is used because it is more appropriate for large sample size (> 50 samples), while the second test is more appropriate for small sample sizes (< 50 samples), but can also handle a large sample for assessing normality; in addition, skewness-kurtosis is also used.

Table7.12 Tests of Normality of LVD 2007-2010

	Kolmogorov-Smirnov[a]			**Shapiro-Wilk**		
	Statistic	df	Sig.	Statistic	df	Sig.
LVD 2007	.215	155	.000	.750	155	.000
LVD 2008	.241	155	.000	.727	155	.000
LVD 2009	.216	155	.000	.796	155	.000
LVD 2010	.149	155	.000	.889	155	.000

Table 7.12 clearly show the results of the Kolmogorov-Smirnov and Shapiro-Wilk statistics used to assess the normality of the distribution of LVD over four years; results of both tests indicate that there is non-significant difference between LVD over the four years. (sig. value is .000) suggesting violation of the assumption of normality. In addition, an analysis of the statistics on the skewness and kurtosis normality test for normality, assumption of normality when the skewness value is ± 1.96 and the kurtosis value is within ± 3 (Haniffa and Hudaib, 2006), suggests results, as in table 7.10, that the assumptions of normality were not met for LVD 2007, LVD 2008, LVD 2009 or LVD 2010.

Determination of the type of test to be used (parametric or non-parametric tests) depends on testing for normality of variables. Accordingly, the results show that LVD scores are not normally distributed, so it is appropriate to use non-parametric test techniques when as there is violation of the assumption of normality. Friedman and Wilcoxon Signed Ranks tests are used to investigate whether there is significant difference between LVD scores over the period under investigation.

Table 7.13 Wilcoxon Signed Ranks tests of LVD 2007-2010

Ranks		**N**	**Mean**	**Rank Sum of Ranks**	**Z**	**Sig.(2-tailed)**
LVD 2007 – LVD 2008	Negative Ranks	63	63.40	3386.5	-0.88	0.424
	Positive Ranks	58	58.39	3386.5		
LVD 2008 – LVD 2009	Negative Ranks	21	45.43	954	-8.471	0.000
	Positive Ranks	122	76.57	9342		
LVD 2009 – LVD 2010	Negative Ranks	18	38.42	691.5	-8.635	0.000
	Positive Ranks	118	73.09	8624.5		

As shown in the results in table 7.13, there is no statistically significant difference between LVD 2007 and LVD 2008 (p = .424). This means no change in voluntary disclosures scores between LVD 2007 and LVD 2008. On the other hand, there is a statistically significant difference between LVD 2008 and LVD 2009, and also between LVD 2009 and LVD 2010 (p = .000 for each), this means change in

voluntary disclosures scores between LVD 2008 and L VD 2009, and also between LVD 2009 and LVD 2010. These results investigate differences between each pair of years. Additionally, the Friedman test was employed in order to examine whether there are significant differences between LVD scores over the four years. Table 7.14 shows there are statistically significant difference scores over the four years.

Table 7.14 Friedman test of LVD 2007-2010

Ranks	Mean Rank
LVD 2007	1.72
LVD 2008	1.73
LVD 2009	2.85
LVD 2010	3.71
N	155
Chi-Square	273.572
df	3
Asymp. Sig.	0.000

In sum, although there was increasing in LVD during the four years (2007-2010), as is clear from the results of both Wilcoxon Signed Ranks and Friedman tests, this increase was not sufficient to ensure that these are statistically significant. In order to explain further these statistically significant difference scores over four years, the next section shows descriptive analysis of the level and the trend of each category of LVD over the four years.

7.6 LVD and its Categories over Four Years

Table 7.15 shows the mean scores of each category in each year over the period of four years, to clarify the amount of variation between categories during the period of study, in order to analyse the extent and trend of each category. This analysis is useful to understand disclosure policy and the changes that Kuwaiti listed companies prefer to disclose under this policy.

Table 7.15 Extent of LVD and its categories

Year	2007	2008	2009	2010	Pooled
GCI	41.48	39.10	48.32	63.10	48.00
BDM	22.7	21.94	25.81	34.66	26.28
SCS	13.33	14.48	19.5	24.66	17.99
EI	6.45	6.64	8.76	9.03	7.72
CSD	8.71	11.61	24.41	26.34	17.77
O	23.78	25.25	31.52	33.00	28.39
LVD	20.96	21.10	27.41	33.72	25.80

Therefore, as illustrated in table7.15, there are changes in the mean scores of each of the six groups. The changes differ among the categories, some of them positively and some negatively. The category of (GCI) was 41.48% in 2007, but in 2008, there was a decrease to 39.10%. In 2009 the (GCI) increased until it exceeded what it was in 2007 to 48.32% with rate equals 6.84%, in 2010 the rate increased dramatically by 14.78% over 2009 year. In addition, the category of Board of Directors and Management (BMD) decreased in 2008 but with small rate (0.76%), the change increased from 21.94% in 2008 to 25.81% in 2009. In 2010, this percentage increased dramatically to 34.66%. While the category of (SCS) did not have any decrease through the study period, the rate increased by 1.15% from 2007 to 2008, but with high increase of 5.02% from 2008 to 2009; also, there is high increase in rate from 2009 to 2010 by 5.16%. The increasing rate in (EI) was little changed in the year 2008 by 0.19%, but in 2009, there was an acceptable increase by 2.12%; but there was a slight increase by 0.27% in 2010. The (CSD) category was 8.17% in 2007 and the rate increased by 2.9% in 2008, dramatically increasing in 2009 by 12.8%, but in 2010, the increase was a slight 1.93%. The (O) category was 23.78% in 2007 and increased by rate 1.47% in 2008, dramatically increasing in 2009 by 6.27%, but for the year 2010, the change was 1.48%.

As seen in figure 7.4, the bar chart of the six categories over the study period indicates continuous increase in LVD during the period, especially after the year 2008. From table 7.10, which illustrates descriptive statistics of LVD, the mean is 12.90 with standard deviation equal 6.977, maximum score 40, minimum score 3, which indicates there is significant variation between the Kuwaiti listed companies during the study period (2007-2010). In addition, the average increase from 10.48 in

year 2007 to 16.86 in year 2010 is clear evidence that managements in Kuwaiti companies are seeking to further voluntary disclosure, in addition to their commitment to mandatory disclosure.

However, figure 7.4 indicates all categories of the index increased during the study years, except GCI and BDM, which decreased, though only slightly, in 2008. Also noted from the chart, disclosure by type of information varies considerably, for example (GCI) was 63.10% in 2010, whereas (EI) was 9.03% in the same year. In general, the chart suggests a trend toward more voluntary disclosure and transparency by Kuwaiti companies, because voluntary disclosure is useful for different stakeholders, and provides different types of information to them. In addition, investors may use voluntary disclosure to understand Kuwaiti listed companies better.

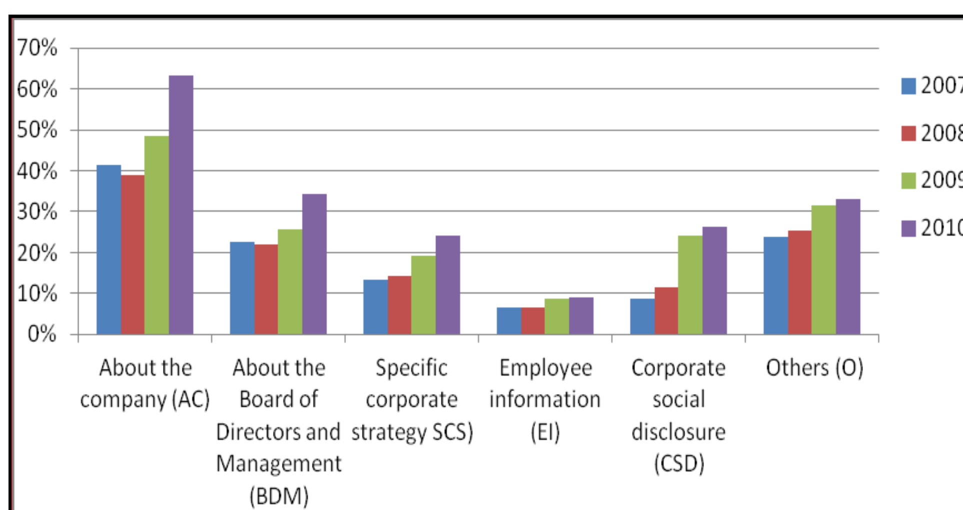

Figure 7.4 Extent of LVD categories 2007-2010

In summary, explaining and interpreting these findings should be undertaken with caution. This is because of the disclosure index not fully including the comprehensiveness of LVD, because the process of selecting items took into account the privacy of the Kuwaiti environment. These findings are both of interest and value to all interested parties. It may encourage them, in the Kuwait stock market, to provide relevant incentives to help listed companies to adopt best practices to increase the confidence of existing investors, because they need more voluntary disclosure. The purpose of the index is to satisfy the needs of stakeholders for more

information. It is necessary to analyse the index according to the components of each category; the next section presents and discusses the results of each item in the different categories of LVD.

7.7 The Extent and Trend of LVD Categories 2007-2010

This section analyses and assesses the voluntary disclosure index by items disclosed in each category in company annual reports. It also provides an opportunity to investigate why some items have been disclosed more than others by Kuwaiti listed companies. As indicated before, the voluntary disclosure index composed of 50 information items categorized into six groups. The following paragraphs analyse descriptive statistics for the items disclosed in each category of the voluntary disclosure index.

7.7.1 General Corporate Information (GCI)

The (GCI) is the first category of the voluntary disclosure index. It contains ten voluntary information items. Table 7.16 shows the disclosure extent of this category and presents descriptive statistics of each item in the category. The average of (GCI) is 48%. It can be observed from the table that the mean of the (GCI) category in 2008 decreased by 2.38%, then in 2009 increased to 48.32%, and in 2010 increased to 63.1%. Note the extent of fluctuation over the four years.

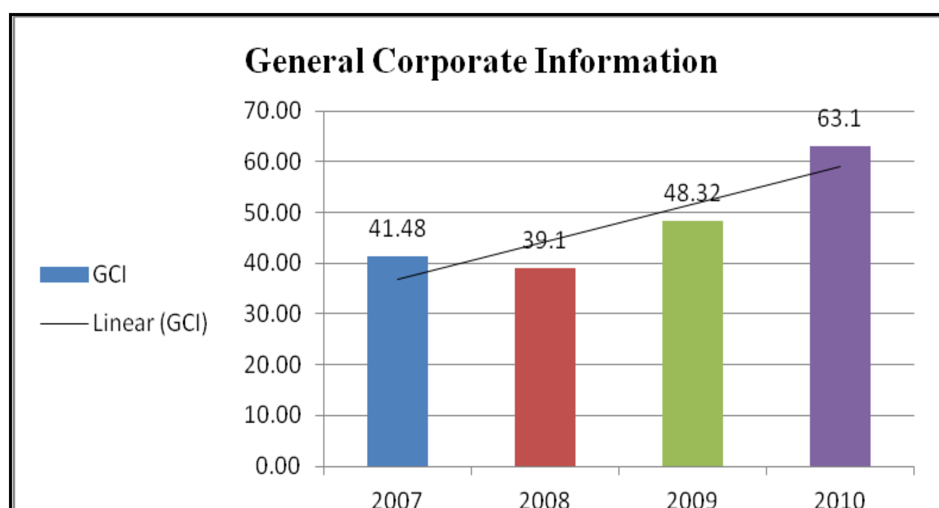

Figure 7.5 Extent and trend of GCI category 2007-2010

Table 7.16 shows the frequency of each item disclosed in the (GCI) category. It can be noted from the table that both the item Brief narrative history of company and the item Description of organisational structure overall, have the highest averages, 99.84% and 92.26%, respectively. This implies that Kuwaiti listed companies are providing a brief about outline of the nature of their business, as well as describing the organisational structure for current and potential investors, which means they have provided an abbreviated way for investors to know the nature and organisational structure of their business.

The second highest scores were Official address/ registered address/ address for correspondence and Date of establishment of the company. The averages of these items are 50.97% and 49.35%, respectively. The reasons for disclosing the item Official address/ registered address/ address for correspondence are to increase investor confidence. That means giving intimation to investors that they have a good history and heritage in the market and they continue in business. According to the first percentage, 50.97% (about 79 of 155) of companies investigated in this study included this item in their annual reports over the four years. Date of establishment of the company item may be believed as a signal to stakeholders about the willingness of the company to continue and grow in the future. According to the second percentage, 49.35% (about 77 of 155) of companies investigated in the present study included this item in the annual reports over the four years.

About 40% of companies investigated in the present study disclose Information about products (services), General descriptions of business activities and Dividend policies. This is a good average, compared with the lower ones of other variables, implying the soul of competition is weak between Kuwaiti listed companies, so if managers promoting goods and services would create a kind of competition within their sectors, thereby they help to attract potential investors. Although Dividend policies have a fairly good average, it still does not meet user needs for information about dividend policies. This can be attributed to the existence of other sources for this kind of information such as, financial analyses published in newspapers, announcements of dividend issued by the Kuwait stock market, and Internet sites specializing in the analysis of the Kuwait stock market. Managers may believe these sources are sufficient resources to meet user needs and they do not want to repeat this

published information in the annual report, which leaves room to report other information that may be useful to users.

Web address of the company/ email address is second from bottom at 29.52%; this finding reveals a large number of companies do not rely on the Internet in the definition of themselves for shareholders, and as well is not used in correspondence inasmuch that the users of the financial statements lack of awareness of the Internet. However, the lowest score relates to Majority shareholders information at 1.77% (about 11 of 620) of annual reports investigated in the present study that include this item over the four years. The reason for the low disclosure of this item may be attributed to unwillingness of detection of large owners. .

Table 7.16 Frequencies of GCI category

NO	Items	2007		2008		2009		2010		Pooled	
		sum	**average**	**sum**	**average**	**sum**	**average**	**sum**	**average**	**sum**	**average**
1	Brief narrative history of company	155	100%	154	99.35%	155	100%	155	100%	619	99.84%
2	Date of establishment of the company	79	50.97%	60	38.71%	74	47.74%	93	60.00%	306	49.35%
3	Description of organisational structure	153	98.71%	147	94.84%	132	85.16%	140	90.32%	572	92.26%
4	General descriptions of business activities	54	34.84%	46	29.68%	53	34.19%	97	62.58%	250	40.32%
5	Majority shareholders information	3	1.94%	3	1.94%	3	1.94%	2	1.29%	11	1.77%
6	Information about products (services)	83	53.55%	79	50.97%	41	26.45%	43	27.74%	246	39.68%
7	Dividend policies	27	17.42%	30	19.35%	73	47.10%	113	72.90%	243	39.19%
8	Statement of corporate general objective	52	33.55%	43	27.74%	63	40.65%	72	46.45%	230	37.10%
9	Official address/registered address/address for correspondence	26	16.77%	33	21.29%	108	69.68%	149	96.13%	316	50.97%
10	Web address of the company/email address	11	7.10%	11	7.10%	47	30.32%	114	73.55%	183	29.52%
	Total	**643**	**41.48%**	**606**	**39.10%**	**749**	**48.32%**	**978**	**63.10%**	**2976**	**48.00%**

7.7.2 Board of Directors and Management (BDM)

The category of (BDM) contains eleven voluntary information items;, one can call this category as CG items because it contains most of the terms of CG. Companies listed in the Kuwaiti stock market are not enforced to disclose about CG; as indicated before, Kuwait has not had a CG code until now for all companies, only comprehensive instructions (Basel Committee) for bank (conventional and Islamic) and financial companies.

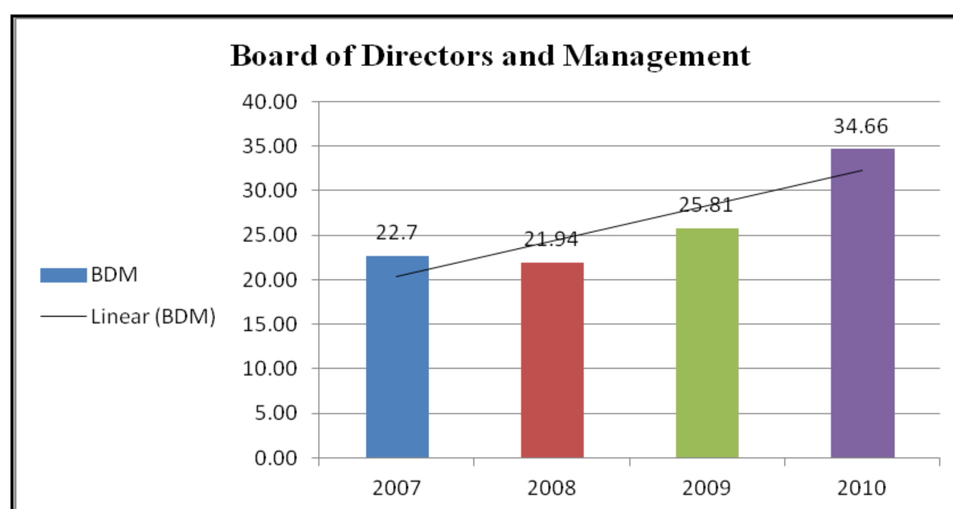

Figure 7.6 Extent and trend of BDM category 2007-2010

The average of this category over four years is 26.28%, although there was gradual rise in average over the study period, the average decreased in 2008 by about 0.76% from the 2007average. Overall, the average of this category increased about 11.96% over the four years. The reason for the low level of this percentage may be due to lack of understanding and cognition of Kuwaiti companies of the concept of governance; also, there is no code issued by the government, and therefore there is no enforcement to follow it. Table 7.17 provides a closer analysis of the frequencies of disclosure items under this category.

The average of Name of the directors has fluctuated during the four years; in 2007, the average was about 97%, the highest score item in category (BDM), and then decreased to about 67% in 2008, but in 2010 increased to 79.35%. The item Picture of all directors/board of directors has the second highest score over the four years.

The average score is 59.19%; there was gradual rise of the average over the four years. There is significant variance of this item during the study period; in 2007, the average was about 38%, which then increased significantly to 85.81% in 2010. Some conclusions can be drawn directly from the dramatically increase in the Picture of all directors/board of directors average over four years: the administration's desire to strengthen their managerial reputation and promote an atmosphere of familiarity between them and the investors. However, the Picture of all directors/board of directors' average does not exceed the average of Name of the directors during the period, because it is not normal to put a person's picture in the report without mentioning his/her name.

However, the third rank in this category is for Picture of chairperson that has mean 46.77%. The average of Picture of chairperson increased gradually in 2007, the average was 36.77%, then increased about 5% in 2008, and continued to increase until reaching 57.42% in 2010. This supports the researcher's interpretation about Picture of all directors/board of directors, which Kuwaiti listed companies try to break barriers between investors and themselves, to promote an atmosphere of familiarity and to reassure investors about their investment. Also, note the average of Picture of chairperson does not exceed the average of Picture of all directors/board of directors over the four years, because some companies suffice to put only pictures of managers.

As shown in table 7.17, the average of each of item List of senior managers (not on the board of directors)/senior management structure and item Composition of board of directors was 35.16% and 34.68%, respectively. The average of each of these items gradually increased; the results imply that managers started to understand and recognise the CG code.

The item Number of BOD meetings held and date averaged over the four years is 16.13%; despite its low percentage, the item kept steadily increasing during the study period. Starting from 9.68% in 2007, it reached 25.16% in 2010; perhaps the reason for the low percentage is due to Kuwaiti companies seeing that information such as this is of non-value to stakeholders, because what matters are the annual results and profits.

As for these items, Educational qualifications (academic and professional), Background information about members of the audit committees and Directors' remuneration[12] have averages 6.13%, 6.13% and 6.94%, respectively, which are considered components of CG; the average of all these items keeps approximately the same percentage over the four years. The reason for these low percentages may be, as mentioned before, due to lack of awareness of the users of the financial statements of the CG concept, as well the management who also lack knowledge of the benefits of such information.

Information about the board of directors has an average 4.35% over the four years; this average is a small percentage compared to the rest of the voluntary disclosure items. About 7 companies of 155 companies investigated in the present study included this item in the annual reports over the four years. This result is similar with previous items demonstrated in the preceding paragraph, but here is a different justification for this low average. As is well known, competition to attract qualified people is present in the business environment. As such, this item may be considered as a way to discover the qualifications by other companies. The company may fear losing these qualifications, so do not disclosed them in the annual report. as Also, they may be considered private and confidential, so there is no need to include them in the annual report.

Interestingly, the item Age of the directors has 0.16% average during the four years. This result may be attributed to the company's fear of the reaction of some investors when they know the age of directors, and link that age with company performance; with the knowledge that the passage of time hones experience, or some investors may believe that young managers are inexperienced. However, in fact, it may be that young directors have significant qualifications to manage the company.

[12] Paragraph(E) of the seven rule of principle (2-2) of corporate governance rules that issued in 2013 refer to " Prepare an annual report detailing for all remuneration granted to members of the Board of Directors and Executive Management... then displays on Annual General Meeting for approval"

Table 7.17 Frequencies of BDM category

NO	Items	2007		2008		2009		2010		Pooled	
		sum	average	sum	average	sum	average	sum	average	sum	average
11	Name of the directors	151	97.42%	104	67.10%	77	49.68%	123	79.35%	455	73.39%
12	Age of the directors	0	0.00%	0	0.00%	1	0.65%	0	0.00%	1	0.16%
13	Picture of chairman	57	36.77%	65	41.94%	79	50.97%	89	57.42%	290	46.77%
14	Picture of all directors/board of directors	59	38.06%	72	46.45%	103	66.45%	133	85.81%	367	59.19%
15	List of senior managers (not on the board of directors)/senior management structure	41	26.45%	41	26.45%	49	31.61%	87	56.13%	218	35.16%
16	Composition of Board of Directors	36	23.23%	39	25.16%	62	40.00%	78	50.32%	215	34.68%
17	Number of BOD meetings held and date	15	9.68%	18	11.61%	28	18.06%	39	25.16%	100	16.13%
18	Information about board of directors	4	2.58%	5	3.23%	7	4.52%	11	7.10%	27	4.35%
19	Educational qualifications (academic and professional)	9	5.81%	10	6.45%	10	6.45%	9	5.81%	38	6.13%
20	Background Information about member of the audit committees	7	4.52%	10	6.45%	11	7.10%	10	6.45%	38	6.13%
21	Directors' remuneration	8	5.16%	10	6.45%	13	8.39%	12	7.74%	43	6.94%
	Total	**387**	**22.70%**	**374**	**21.94%**	**440**	**25.81%**	**591**	**34.66%**	**1792**	**26.28%**

7.7.3 Specific Corporate Strategy (SCS)

Under the category of (SCS), which one can call Forward-looking Information items because most items in this category indicate information about will happen in the future, nine voluntary information items are identified. As shown in table 7.18, the average of this category of the voluntary disclosure index is about 18%. The mean score of this information ranges from 13.33% in 2007 to 24.66% in 2010. This category was ranked fourth in the voluntary disclosure index. The extent and trend of the category of (SCS) is shown in Figure 7.7. The mean gradually increased during the four years, although the findings indicate a low level of disclosure related to this type of information. To understand more of this type of disclosure, table 7.18 gives the frequency of (SCS) items disclosed by investigated companies over the study period.

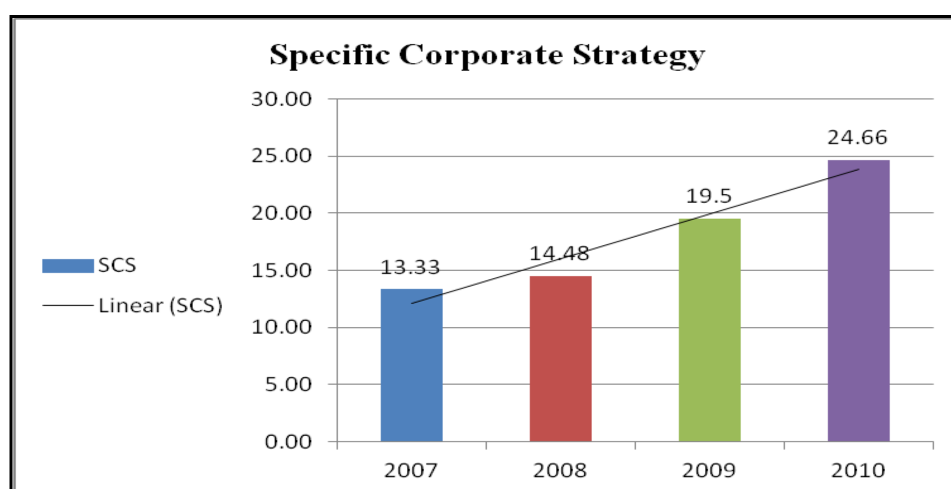

Figure 7.7 Extent and trend of SCS category 2007-2010

The findings indicate that the item Impact of strategy on future results disclosed ranks first amongst the category's items, with average 46.94%. This means, 72 companies from 155 companies over the four years applied this item. As seen from table 7.18, the average started at 39.35% in 2007 and increased continuously during the four years to 56.77% in 2010. Also, the item New products (services) development ranks second amongst the category's items. About 31% of investigated companies include in their annual reports a statement about new products (services)

development; the extent of application being 15 companies in 2010 compared to 10 in 2007.

Whereas these two items above are types of information about the future which may be useful for investors, conversely, general information which does not refer to the future financial position of the company can be easy to acquire. As an increasing number of companies reveals these items in their annual reports over the four years, that may mean that managers are willing to disclose more information about the impact of strategy on future results and new products (services) development. It may be attributed to the manager's desire to signal about the company's ability to produce new products, meaning that there is possibility to continue and grow in the future, in addition to the current ability of company.

The third rank in this group is for Forecast of sales (revenues) which has average about 25%. It can be seen from table 7.18 that the average of this item has gradually increased; it was about 19% in 2007 but in 2010 was 43.87%. That refers to sincerity of previous forecast of sales that allows managers to increase such forecast in annual reports to provide evidence for investors about ability of the company to increase sales. Also, it may be interpreted for strength of the Kuwaiti economy.

The fourth highest score was Impact of strategy on current results. The average of this item is 21.77%. 34 companies of 155 companies' observations disclose information about the Impact of strategy on current results over the four years. Table 7.18 shows the average of this item decreased to 15.48% in 2008 from 16.77% in 2007, but in 2010 reached 30.97%. Here, the fluctuating average may be noted during the study period, especially in 2008, which implies Kuwait's economy was affected by the global crisis in 2008. It is obvious that those managers of Kuwaiti listed companies took into account effects of that crisis when they issued their annual reports.

The item Specific statement of strategy and objectives (financial – marketing – social) averages 15.97%. The average increased in 2008 to 15.48% from 1.94% in 2007, and then increased to 23.23% in 2010. In general, the average was low over the four years, possibly because there are frequently some Specific statement of strategy

and objectives that management does not want disclosed to financial analysts, shareholders or other users. It may be considered as secret information by the management of some companies.

However, the item Forecast of profits, the item Forecast of cash flow and the item Forecast earnings per share have averages 7.74%, 5.81% and 4.84%, respectively. The findings indicate a low level of disclosure related to these types of information; these items are useful for the needs of several stakeholders in order to build their future expectations about the continuity of the company. According to signalling theory, this information is considered as a signal to the many stakeholders about the future and the possibility to continue in their business, and prosperously.

The last rank in this category relates to Discussion of competitive position of the company; this item has average 2.90% during the study period. The low average of this item is expected result. The finding indicates managers want to avoid competitive disadvantage; also, the manager wants to avoid exaggeration of expectations that may have adverse effects on stakeholder confidence, in case that expectations are unfulfilled.

Table 7.18 Frequencies of SCS category

NO	Items	2007		2008		2009		2010		Pooled	
		sum	**average**	**sum**	**average**	**sum**	**average**	**sum**	**average**	**sum**	**average**
22	Specific statement of strategy and objectives (financial – marketing – social)	3	1.94%	24	15.48%	36	23.23%	36	23.23%	99	15.97%
23	Impact of strategy on current results	26	16.77%	24	15.48%	37	23.87%	48	30.97%	135	21.77%
24	Impact of strategy on future results	61	39.35%	61	39.35%	81	52.26%	88	56.77%	291	46.94%
25	New products (services) development	39	25.16%	40	25.81%	51	32.90%	60	38.71%	190	30.65%
26	Forecast of sales (revenues)	30	19.35%	24	15.48%	35	22.58%	68	43.87%	157	25.32%
27	Forecast of profits	11	7.10%	11	7.10%	11	7.10%	15	9.68%	48	7.74%
28	Forecast of cash flow	7	4.52%	8	5.16%	9	5.81%	12	7.74%	36	5.81%
29	Forecast earnings per share	6	3.87%	6	3.87%	8	5.16%	10	6.45%	30	4.84%
30	Discussion of competitive position of the company	3	1.94%	4	2.58%	4	2.58%	7	4.52%	18	2.90%
	Total	**186**	**13.33%**	**202**	**14.48%**	**272**	**19.50%**	**344**	**24.66%**	**1004**	**17.99%**

7.7.4 Employee Information (EI)

As indicated before, the category of (EI) has the lowest average over the period of study, 7.72%. It also scored the lowest mean in each of the years of study, 6.45%, 6.64%, 8.76% and 9.03% in the years 2007, 2008, 2009 and 2010, respectively. As can be seen in figure 7.8, which shows the extent and the trend of employee information disclosed in the annual reports over the four years, the results indicate a gradual increase over the study period. To further explanation such type of disclosure, table 7.19 shows the frequency of (EI) items disclosed by the companies investigated.

As shown in table 7.19, the findings indicate that the item Geographical distributions of employees disclosed ranks first over the category items, with average 25.16% during the four years. 156 annual reports of 620 annual reports investigated in this study disclosed this item in the annual reports. However, it should be noted the second highest score was the item Recruitment policy, average 13.06%. Obviously, there is a significant difference in average between the first and second ranked. Disclosing such an item, Geographical distributions of employees, may reflect a manager's desire in Kuwaiti companies to signal for geographic expansion for work. In other words, Kuwaiti companies have enough employees to cover a large part of the state. Disclosure of recruitment policy may be attributable to policy, for the company to attract potential employees who have higher qualifications, because employees with high qualifications will add value for business success.

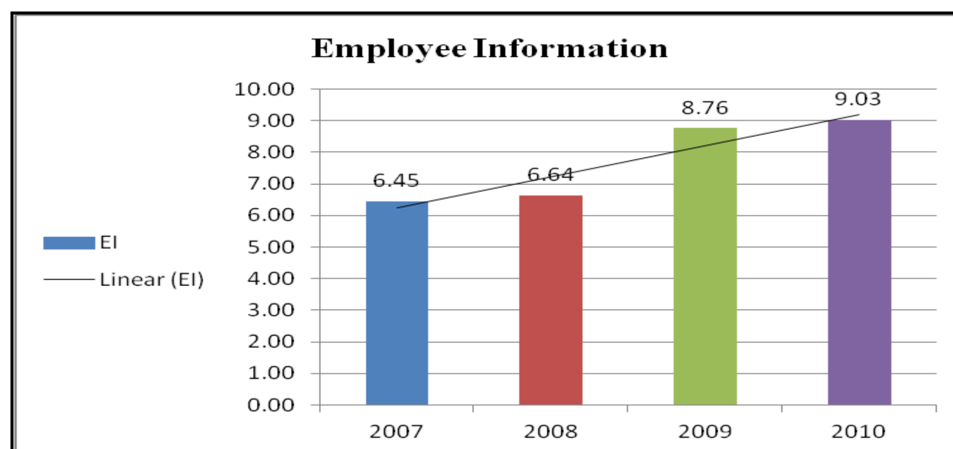

Figure 7.8 Extent and trend of EI category 2007-2010

However, the third rank in this category is for Names and salaries of senior management with mean 7.26%. Remarkably, no company disclosed senior management's salary, just their names. This means managers may be willing to disclose names of senior management, only without mention of their salaries. Although this item has a low average in general, findings indicate a reasonable increase in the extent of Names of senior management disclosure over the examined period compared with other items remaining in this category.

The item Policy of training and number of employees trained has average 3.55% during the four years. It may be noted the average dropped to half in 2008 to 2.58% from 5.81% in 2007, and then the average continued at the same percentage for the next two years. economic crisis in 2008 impacted on the policy of training for employees in Kuwait listed companies, Aljored (2010) reported the economic crisis in 2008 has affected on the training and development in a companies. This kind of information enhances corporate image and shows that companies have a clear policy and plan of training, and then reflects positively in stakeholder's confidence about a qualified workforce in companies. In this case, companies should disclose more about this item in order to increase the confidence of stakeholders and appear obligation for training their staff according modern methods.

The fifth ranked in this category is item Categories of employees by gender, with mean 3.06%. This is followed by item Number or percentage of Kuwaiti employees, with mean 1.77%. The last ranked in this category is for item Identification of senior management and their functions; this item has average 0.16% during the four years, meaning almost no company disclosed information about for Identification of senior management and their functions. This result is the same as item Age of the directors in the (BDM) category. From this result, it seems that corporate management has chosen to maintain silence in annual reports of any information regarding senior management and their functions.

Table 7.19 Frequencies of EI category

NO	Items	2007		2008		2009		2010		Pooled	
		sum	average	sum	average	sum	average	sum	average	sum	average
31	Geographical distributions of employees	31	20.00%	32	20.65%	45	29.03%	48	30.97%	156	25.16%
32	Categories of employees by gender	4	2.58%	4	2.58%	6	3.87%	5	3.23%	19	3.06%
33	Identification of senior management and their functions	0	0.00%	0	0.00%	1	0.65%	0	0.00%	1	0.16%
34	Names and salaries of senior management	8	5.16%	11	7.10%	14	9.03%	12	7.74%	45	7.26%
35	Number or percentage of Kuwaiti employees	1	0.65%	2	1.29%	4	2.58%	4	2.58%	11	1.77%
36	Policy of training and number of employees trained	9	5.81%	4	2.58%	5	3.23%	4	2.58%	22	3.55%
37	Recruitment policy	17	10.97%	19	12.26%	20	12.90%	25	16.13%	81	13.06%
	Total	**70**	**6.45%**	**72**	**6.64%**	**95**	**8.76%**	**98**	**9.03%**	**335**	**7.72%**

7.7.5 Corporate Social Disclosure (CSD)

As indicated before, the category of (CSD) ranks fifth in the voluntary disclosure index. With regard to the category of (CSD), six items are included under this type of information. As shown in table 7.20, the average in this category of disclosure is about 18%. The average of such information ranges from 8.71% in 2007 to about 26% in 2010. As can be seen from figure 7.9, which shows the extent and trend of (CSD) disclosed in the annual reports over the four years, the results indicate a gradual increase over the study period. To obtain further explanation of this type of disclosure, table 7.20 shows the frequency of corporate social disclosure items disclosed by the companies investigated.

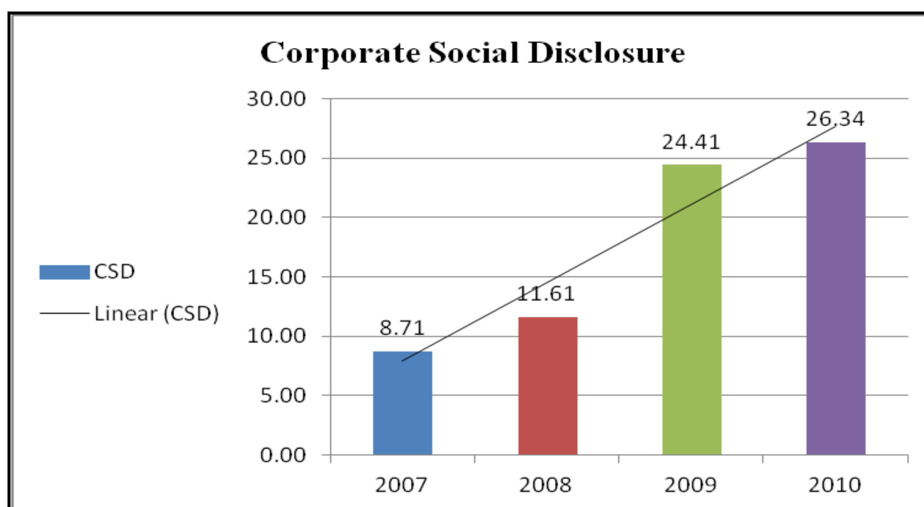

Figure 7.9 Extent and trend of CSD category 2007-2010

Community programmes (general) scored the highest average of disclosure under this category, 42.10%. Table 7.20 indicates a considerable increase in the disclosure extent in this item; the average was 14.19% in 2007, and then increased significantly until reaching about 70% in 2010. This result may be attributed to managers being more willing to disclose community programmes in general rather than the specific, as explained shortly. Interestingly, 261 Kuwaiti-listed companies from 620 companies comply with social information disclosure recently.

The second highest average was for item sponsoring educational conferences, seminars or art exhibits, 19.84%, which scored about 20% over the study period. It

can be seen from table 7.20 that the average was about 8% in 2007 and then gradually increased to 30.97% in 2010. The reason for disclosing such item may be attributed to the manager's desire to improve the company's image and to support educational conferences, seminars or art exhibits to demonstrate to the public that it bears part of the support for social activities according their social responsibility.

Student employment was ranked third in this category, with average 16.61%. 26 companies complied with the laws that were issued by the Government Manpower and Restructuring Program (GMRP). This program was established in 1997, based on the decision of the Council of Ministers No. 767 of 1997, in order to correct the imbalances in the local labour market and change employment paths among citizens from the government sector to the private sector. One of the goals of this program is to create students in schools, colleges and universities to enter the world of the private sector and build the skills and capabilities of their core business.

The disclosure average of item Information on donations to charitable organisations is 14.19%.The mean of this item ranges from 4.52% in 2007 to 22.58% in 2010. The reason for this increase in average may refer to company compliance with Zakat law. Zakat Law No. 46 of 2006, which amended by No. 58 of 2007 under this law any Kuwaiti shareholding company, is deducted to 1% Zakat of net annual profits and pay to the Ministry of Finance (MOF). In addition, this law allows Kuwaiti companies the right to expense disburse this amount through charitable organisations.

The fifth ranked in this category was item Information on environmental protection programme, with average 9.03%, comprising just 56 annual reports from 620 annual reports investigated during the four years. It can be seen from table 7.20 the average was stable over the study years. It is an unsurprising result to get a low average for this item, because there are no laws organising environmental disclose. This may be an indicator that managers in companies investigated during four years have a tendency to disclose information about environmental protection programmes to give shareholders a clear picture of the company's commitment to protecting the environment.

The last rank in this category relates to item Sponsoring public health, sporting and recreational projects, with average 4.84%. It can be seen from table 7.20 the average decreased from 6.45% in 2009 to 3.87% in 2010. Given the results above, one might attribute the low average of this item to management desire to pay attention to items other than this one. In general, Kuwaiti listed companies have tendencies to increase (CSD).

Table 7.20 Frequencies of CSD category

NO	Items	2007		2008		2009		2010		Pooled	
		sum	**average**	**sum**	**average**	**sum**	**average**	**sum**	**average**	**sum**	**average**
38	Information on environmental protection programme	13	8.39%	14	9.03%	14	9.03%	15	9.68%	56	9.03%
39	Information on donations to charitable organisations	7	4.52%	11	7.10%	35	22.58%	35	22.58%	88	14.19%
40	Community programmes (general)	22	14.19%	34	21.94%	96	61.94%	109	70.32%	261	42.10%
41	Student employment	20	12.90%	18	11.61%	33	21.29%	32	20.65%	103	16.61%
42	Sponsoring public health, sporting and recreational projects	6	3.87%	8	5.16%	10	6.45%	6	3.87%	30	4.84%
43	Sponsoring educational conferences, seminars or art exhibits	13	8.39%	23	14.84%	39	25.16%	48	30.97%	123	19.84%
	Total	**81**	**8.71%**	**108**	**11.61%**	**227**	**24.41%**	**245**	**26.34%**	**661**	**17.77%**

7.7.6 Others (O)

The last category in the voluntary disclosure index is the Others (O) category. As indicated before, the (O) category ranks second in the voluntary disclosure index. Under the category of Others, seven voluntary disclosure items are identified. As shown in table 7.21, the average of this disclosure category is 23.78%, 25.25%, 31.52%, and 33% in the years 2007, 2008, 2009 and 2010, respectively. Figure 7.10 explains the extent and trend of this type of information over the four years. It can be seen from the figure that the average has increased from 23.78% in 2007 to about 33% in 2010. To obtain further understanding of this type of category disclosure, table 7.21 gives the frequency about (O) items disclosed by Kuwaiti listed companies during the study period.

It can be seen from the table that the highest mean relates to item Information on ISO certification. Overall, the mean over the study period is 99.52%; 617 annual reports of 620 annual reports investigated in the current study include this item in the annual reports. The International Organisation issues this certification for Standardization; any company can obtain ISO certification for many goals, such as to meet client preferences, to help motivate employees, for contractual or regulatory obligations, and so on. In addition, there are many types of ISO certification, such as ISO 9000 - Quality management, ISO 14000 - Environmental management, ISO 26000 - Social responsibility, etc. The reason for the high disclosure of this item may be attributed to the manager’s desire to disclose applied standards according to ISO certification type, which have been granted to the company to enhance corporate image and increase stakeholders’ confidence about the company.

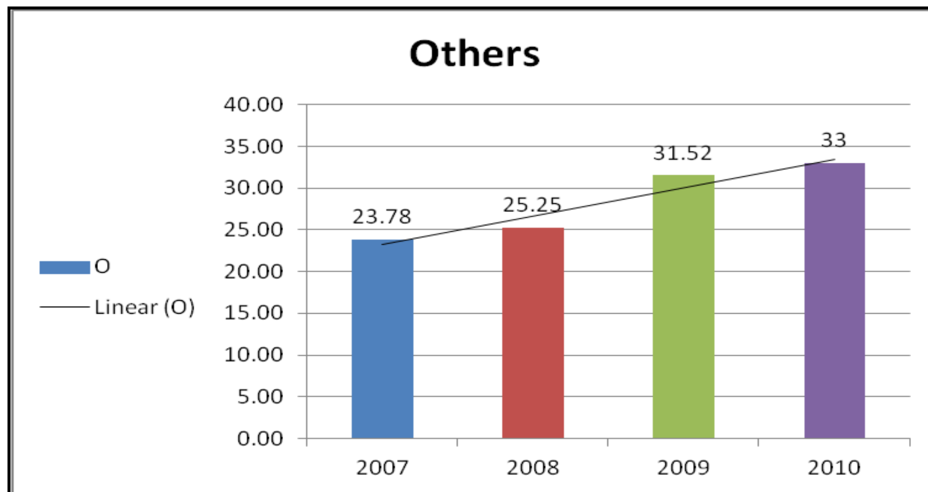

Figure 7.10 Extent and trend of O category 2007-2010

The second highest score was for item Year of listing at KES. The average of this item is 31.61%; 196 annual reports of 620 annual reports investigated in the current study included this item. As can be seen from table 7.21, the average of this item has increased gradually over the four years. It was 12.26%, 12.90%, 41.29% and 60 % in 2007, 2008, 2009 and 2010, respectively. The reason for disclosing such information may be the manager's desire to give an image for stakeholders that the company is one of the oldest companies, even dating to the founding of the stock market; especially, the oldest companies disclosed this item in the current study.

The average of item Shareholders owned 5%+ of shares is 28.39% over the four years. The average increased from 25.16% in 2007 to 30.32% in 2010. The disclosed item will lead to more transparency, "*transparency is essential for sound and effective CG*" (Basel Committee, 2010, p.29), in the annual reports. However, item Volume of shares traded trend averaged about 24% during the four years; 146 annual of 620 annual reports investigated in the current study included. This implies that managements of Kuwaiti listed companies are willing to inform stakeholders about the Volume of shares traded trend, because this information is important to stakeholders to study the share of company that they are or will be investing in.

The fifth ranked in this category is for item Chairman's/MD's report which has mean 7.74%; it was 6.45% in 2007, and then increased to reach 7.74% in 2010. The Chairman's/MD's report is important for stakeholders because it presents a general

idea of the previous year of operations, performance and how the business was in that time period. In addition, it provides future goals, a plan of company and new projects.

Moreover, table 7.21 shows that 7.26% of reports investigated in the current study discloses about item Share price at the year-end. It can be seen from the table that the average of this item increased from 5.81% in 2007 to 8.39% in 2010. The reason to disclose such information is to provide stakeholders at a glance the direction of the price at the year-end; also, it is important for them to research possible investment opportunities.

The last rank in this category is for item Type of shareholders (for example, institutions, individuals) which scored about 0.65% over the four years. The average was low during the entire period investigated. The importance of this item is to know who controls a company, in case of distracting ownership among shareholders, the company will be weak in face of aggressive takeover attempts.

Table 7.21 Frequencies of O category

NO	Items	2007		2008		2009		2010		Pooled	
		sum	**average**	**sum**	**average**	**sum**	**average**	**sum**	**average**	**sum**	**average**
44	Chairman's/MD's report/directors report	10	6.45%	13	8.39%	13	8.39%	12	7.74%	48	7.74%
45	Information on ISO certification	154	99.35%	155	100.00%	155	100.00%	153	98.71%	617	99.52%
46	Year of listing at KES	19	12.26%	20	12.90%	64	41.29%	93	60.00%	196	31.61%
47	Share price at the year-end	9	5.81%	10	6.45%	13	8.39%	13	8.39%	45	7.26%
48	Volume of shares traded trend	26	16.77%	34	21.94%	47	30.32%	39	25.16%	146	23.55%
49	Shareholders owned – 5 % + of shares	39	25.16%	41	26.45%	49	31.61%	47	30.32%	176	28.39%
50	Type of shareholders (for example, institutions, individuals)	1	0.65%	1	0.65%	1	0.65%	1	0.65%	4	0.65%
	Total	**258**	**23.78%**	**274**	**25.25%**	**342**	**31.52%**	**358**	**33.00%**	**1232**	**28.39%**

Based on the foregoing, this chapter ends with table 7.22 which shows ranks of all voluntary disclosure items based on their mean scores. As illustrated through the extent and trend of LVD Items during the four years (2007-2010), the top five items are Brief narrative history of company, Information on ISO certification, Description of organisational structure, Name of the directors and Picture of all directors/board of directors, which scored averages 99.84%, 99.52%, 92.26%, 73.39% and 59.19%, respectively. The lowest five items are Identification of senior management and their functions, Age of the directors, Type of shareholders (for example, institutions and individuals), Majority shareholders information and Number or percentage of Kuwaiti employees, which scored averages 0.16%, 0.16%, 0.65%, 1.77% and 1.77%, respectively.

Table 7·22 Total Voluntary disclosure by item				
No	**Information item**	**N Items**	**Average**	**Rank**
1	Brief narrative history of company	619	99.84%	1
2	Date of establishment of the company	306	49.35%	7
3	Description of organisational structure	572	92.26%	3
4	General descriptions of business activities	250	40.32%	11
5	Majority shareholders information	11	1.77%	47
6	Information about products (services)	246	39.68%	12
7	Dividend policies	243	39.19%	13
8	Statement of corporate general objective	230	37.10%	14
9	Official address/registered address/address for correspondence	316	50.97%	6
10	Web address of the bank/email address	183	29.52%	19
11	Name of the directors	455	73.39%	4
12	Age of the directors	1	0.16%	49
13	Picture of chairman	290	46.77%	9
14	Picture of all directors/board of directors	367	59.19%	5
15	List of senior managers (not on the board of directors)/senior management structure	218	35.16%	15
16	Composition of Board of Directors	215	34.68%	16
17	Number of BOD meetings held and date	100	16.13%	27
18	Information about board of directors	27	4.35%	42
19	Educational qualifications (academic and professional)	38	6.13%	38
20	Background Information about member of the audit committees	38	6.13%	37
21	Directors ’ remuneration	43	6.94%	36
22	Specific statement of strategy and objectives (financial – marketing – social)	99	15.97%	28
23	Impact of strategy on current results	135	21.77%	24
24	Impact of strategy on future results	291	46.94%	8
25	New products (services) development	190	30.65%	18
26	Forecast of sales (revenues)	157	25.32%	21
27	Forecast of profits	48	7.74%	33
28	Forecast of cash flow	36	5.81%	39
29	Forecast earnings per share	30	4.84%	40
30	Discussion of competitive position of the company	18	2.90%	45
31	Geographical distributions of employees	156	25.16%	2
32	Categories of employees by gender	19	3.06%	44
33	Identification of senior management and their functions	1	0.16%	50
34	Names and salaries of senior management	45	7.26%	34
35	Number or percentage of Kuwaiti employees	11	1.77%	46
36	Policy of training and number of employees trained	22	3.55%	43
37	Recruitment policy	81	13.06%	30

37	Recruitment policy	81	13.06%	30
38	information on environmental protection programme	56	9.03%	31
39	Information on donations to charitable organisations	88	14.19%	29
40	Community programmes (general)	261	42.10%	10
41	Student employment	103	16.61%	26
42	Sponsoring public health, sporting and recreational projects	30	4.84%	41
43	Sponsoring educational conferences, seminars or art exhibits	123	19.84%	25
44	Chairman's/MD's report/directors report	48	7.74%	32
45	Information on ISO certification	617	99.52%	2
46	Year of listing at KES	196	31.61%	17
47	Share price at the year-end	45	7.26%	35
48	Volume of shares traded trend	146	23.55%	23
49	Shareholders owned – 5 % + of shares	176	28.39%	20
50	Type of shareholders (for example, institutions, individuals)	4	0.65%	48

7.8 Conclusion

This chapter examines LVD in Kuwaiti listed corporations evolving over time to provide answers for the first two research questions through a detailed analysis of the results of the voluntary disclosure index by employing a self-constructed index, starting with the total LVD, passing through its categories and then to information items (hierarchical analysis).

The credibility of the disclosure index is presented to reduce the risk of obtaining error answers for the research questions. Statistical tests were used to evaluate reliability and validity of the disclosure index, such as correlation coefficients and significances between items and each total category score to measure reliability; Cronbach’s alpha coefficient was .825. Correlation analysis of disclosure scores was used to measure validity.

The extent and trend of LVD in Kuwaiti listed companies was measured, and the results indicate there is a gradual increase in LVD and its categories over the period, but the average was low compared with previous studies. Wilcoxon Signed Ranks tests were employed to test if there any change of LDV among the period study (2007-2010). The results indicate there is no statistically significant difference

between LDV 2007 and LDV 2008. On the other hand; there are statistically significant differences between LDV 2008 and LDV 2009, and between LDV 2009 and LDV 2010. In addition, Friedman test was employed in order to examine whether there are significant differences between total voluntary disclosure scores over the four years: the result show that there are.

The extent of categories of LVD was examined: category General corporate information (GCI) has the highest mean over the four years; its average is 48%. Category Employee information (EI) has the lowest mean over the four years; its average is 7.72%. All items based on their mean scores were ranked to show which items have the highest score. The results indicate the top five items are Brief narrative history of company, Information on ISO certification, Description of organisational structure, Name of the directors and Picture of all directors/board of directors. Conversely, the lowest five items are Identification of senior management and their functions, Age of the directors, Type of shareholders (for example, institutions and individuals), Majority shareholders information and Number or percentage of Kuwaiti employees.

The next chapter discusses the second part of the empirical work for the current study to answer the third and fourth research questions, apply multivariate analysis between all factors with LVD and appropriateness of regression to check the assumptions of multiple regression, and then a regression diagnostic. It also presents the statistical results of the multivariate analysis.

Chapter 8: The Second Part of the Empirical Work

8.1 Introduction

The previous chapter answered the first two research questions of the present study: the first research question is: what is LVD in Kuwaiti listed companies? The second research question is: how do voluntary disclosure practices in the annual reports of Kuwaiti listed companies develop over time? This chapter presents the empirical analysis for the study, to answer the third, fourth, fifth research questions, related to what extent do CG mechanisms, ownership structure, and corporate characteristics affect LVD. Particularly, the research hypotheses are tested for relationships with these factors. It starts with descriptive analysis of the continuous independent variables included in the study in section 8.2, and then applies bivariate analysis which investigates the relationship between each factor with LVD in Kuwaiti listed companies in section 8.3, including continuous independent variables, nominal independent variables and categorical independent variables. In section 8.4, multivariate analysis is applied between all factors and LVD, including appropriateness of regression by checking the assumptions of multiple regression in section 8.4.1, and the regression diagnostic summary in section 8.4.2. In section 8.4.3, transformation of data is discussed. In section 8.5, the statistical results of multivariate analysis (regression analyses) are presented. Section 8.6 summarizes the different models used in this study. Section 8.7 summarizes the regression results related to the categories of voluntary disclosure. The chapter concludes in section 8.8.

8.2 Description of Continuous Independent Variables

Table 8.1 shows the descriptive statistics for the continuous independent variables in the current study. As indicated in the table, the average of the proportion of NEDs over the four years is about 78%, the minimum was 0.70 in 2007 and the maximum was 0.88 in 2010, which ranges from 28.5% to 100%. According to the higher average here, this shows the interest of Kuwaiti listed companies to place NEDs on their board. The mean Board size over the four years is about 6.30 members, with minimum 3 and maximum 11 members; in general, whereas some studies have

concluded that the average board size was small and yet others found a large size, in this study, the size was in middle, which gives a wider field for comparison with previous studies.

Table 8.1 Descriptive Continuous Variables

	Mean	Min	Max	S.D	Skewness	Kurtosis
NEDs	0.781	.285	1	0.1708	-0.635	-0.239
Board size	6.30	3	11	1.454	0.375	0.005
Firm Size (million KD)	496.157	3.109	12907.26	1536.832	5.694	36.65
Firm Age	23.45	1	58	13.208	0.285	-0.979
Liquidity	1.877	.018	14.01	2.2137	2.610	7.799
Gearing	0.473	.011	4.325	0.2969	3.815	45.78
Profitability	0.0161	-.822	53.20	0.1854	-1.325	3.037

Firm size ranges widely from 3.109 (million) Kuwaiti Dinar to 12,907.26 (million) Kuwaiti Dinar with the average 496.157 (million) Kuwaiti Dinar over the four years. Firm age ranges from 1 year to 58 years, with an average 23.45 years; about 50% of the companies have been listed for 24 years. Liquidity ranges from .018% to 14.01%, with average 1.87%. Gearing ranges from 0.011% to 4.325%, with average 0.473% over the four years. Profitability has mean 1.61% and ranges from -82.2% to 53.2%. As is clear from table 8.1, most continuous independent variables were not normally distributed, because most variables have highly skewness, except NEDs, Board size and Firm age. The high skewness is considered a violation of one of the assumptions of OLS, according to Cook (1998). Thus, section 8.4 discusses the issue of violations and how to treatment, such as different types of transformations to correct both kurtosis and skewness.

8.3 Bivariate Analysis

To begin the analysis, bivariate analysis is used to illustrate the nature, direction and significance of the bivariate relationships of LVD and each continuous independent variable and categorical independent variable in this current study.

8.3.1 Continuous independent variables

As mentioned in section 7.6, Pearson correlation coefficient, as a parametric test, and Spearman's rank correlation, as a non-parametric test, are applied in order to measure the association between voluntary disclosure and the continuous independent variables. Table 8.2 provides the correlation coefficients calculated based on the actual data.

Table 8-2: Correlation coefficients between LVD and continuous independent variables

Variable	Pearson	Spearman
NEDs	.506**	.610**
Board size	.276**	.211**
Firm Size(million KD)	.601**	.322**
Firm Age	.260**	.245**
Liquidity	-.147**	-.199**
Gearing	.297**	.244**
Profitability	-0.019	-0.035

** Significant at 1%

According to the Pearson correlation coefficients (r), all continuous independent variables are significantly associated with LVD in the annual reports of the companies investigated at the 0.01 level (2-tailed), except Profitability. Both NEDs and Board size as CG mechanisms are positively associated with LVD, for NEDs r = 0.506, and for Board size r = 0.276. As for firm characteristics, all factors are positively associated with LVD, except Liquidity, which is negatively associated. The results indicate a positive significant correlation between LVD and Firm size r = 0.601 p (two-tailed) < 0.01. Also Firm age is also positively significantly correlated with LVD r = 0.26 p (two-tailed) < 0.01; Gearing is positively significantly correlated with LVD r = 0.297 p (two-tailed) < 0.01. However, Liquidity is negatively significantly correlated with LVD r = -0.147 p (two-tailed) < 0.01.

Profitability is the only variable that is not significantly correlated to LVD. The Spearman's rank order correlation coefficients support the results of the Pearson correlation coefficients. While Firm size is found to be significant at the 1% level under the Pearson test r = 0.601, it was to be significantly associated with total voluntary disclosure under Spearman's rho = 0.322 p (two-tailed) < 0.01. Profitability in both Pearson and Spearman's tests is not significantly correlated to voluntary disclosure.

Overall, these correlation results provide initial support for the majority of the hypotheses.

8.3.2 Nominal independent variables

Two statistical tests have been used to test the relationship between LVD as the dependent variable and the binominal variables in the current research. These are T-test (parametric test) and Mann-Whitney test (non-parametric test). Table 8.3 shows the results of both tests on LVD and the independent variables (dummy). The results show important differences (at the 1% level) in the mean of LVD between groups in each of the binominal independent variables. Both the T-test and Mann-Whitney tests gave the same result.

Table 8-3 T test and Mann Whitney test for binominal independent variables

Variable	T test					Mann Whitney test		
	N	Mean	S.D	t-Value	P	Mean	Z-value	P
Role duality				-13.97	0.000		-14.53	0.000
Duality	368	.201	.108			224.16		
No Duality	252	.340	.138			436.85		
Audit Committee				8.155	0.000		8.717	0.000
YES	315	.300	.150			372.09		
No	305	21.3	.111			246.90		
Audit firm				18.450	0.000		15.39	0.000
Yes 4 big	232	.365	.152			453.41		
No 4 big	388	.193	.0791			225.05		
Ownership				-5.292	0.000		-5.205	0.000
Diffusion	131	.202	0.088			238.29		
Concentrated	489	.273	1.467			329.84		

From table 8.3, it may be noted that 368 companies have role duality. As mentioned in the literature review, there are two points of view about what the best situation is in order to launch more disclosure, recalling that role duality is where the roles of chairman and CEO are held by one person. The first viewpoint said it could play an important role in the improvement and enhances the individual power of the chairman, giving the chairman more freedom and control to exercise more disclosure (e.g. Jensen and Meckling, 1976; Fama and Jensen, 1983). The second viewpoint said role duality may led to weakening the role and control of the board, thus adversely affecting disclosure. Some previous studies find a negative relationship between role duality and level of corporate disclosure (e.g. Forker, 1992; Haniffa and Cooke, 2002; Gul and Leung, 2004)

With regard to Audit committee, 79 companies have one and 155 do not. The presence of an audit committee is related to a confident financial statement. Rouf (2011) indicated that the presence of an audit committee will reduce the rate of errors, irregularities, and external financial reporting has a confirmation function also (Ho and Wong, 2001; Bliss and Balachandran, 2003). However, Abbott et al. (2004) found a negative relation between audit committee independence and the financial reporting statement. Forker (1992) also found no significant relationship between the existence of an audit committee and disclosure. Akhtaruddin et al. (2009, p.15) found "*the percentage of audit committee members to total members on the board has proven to be not unrelated to voluntary disclosure*".

As for the Audit firm variable table 8.3, shows 388 companies have not been audited by a big four audit firm. Also here there are contradictory viewpoints. Some studies indicate that a company audited by a big international audit firm will release more information. They also mitigate the conflict between directors and shareholders. Consequently, this reduces agency conflict, as, for example, in Hossain et al. (1994), Wallace and Naser (1995), Ahmed (1996), Suwaidan (1997), Patton and Zelenka (1997), Inchausti (1997), Naser et al. (2002). Nevertheless, some researchers found no association between disclosure level and audit firm size, e.g. Barako et al. (2006), Owusu-Ansah (1998), Ahmed and Courtis (1999). In contrast, Wallace and Naser (1995) found a negative relationship between audit firm and disclosure level.

As noted in table 8.3, for Role duality, Audit committee and Audit firm the binominal variables (CG mechanisms) have significant difference between the mean of LVD of Kuwaiti listed companies, as is clear from the T-test. This result is supported by the non-parametric test (Mann-Whitney test). The significant correlated of Role duality providing strong evidence that the Kuwaiti companies listed sought to separate the functions of chairman and chief executive officer, because they found benefits from this. As well the significant correlated of audit committee indicate the importance of audit committee in Kuwaiti listed companies over 50% from Kuwaiti listed companies established audit committee in board. Although the audit firm has significantly correlated with LVD but 37.41% of the Kuwait listed companies deals with Big Four Audit firm.

Regarding ownership structure, Ownership structure was tested by two tests. There are 122 companies with ownership concentration and the remaining ones with ownership diffusion. The results of both tests; parametric and non-parametric, for ownership, show there is a significant relationship between LVD of Kuwaiti listed companies.

Many previous studies have looked at the effect of several types of ownership on LVD, such as Suwaidan (1997), Naser et al. (2002), Arcay and Vázquez (2005), Barako (2007), Laidroo (2009), Bokpin and Isshaq (2009), Hashim and Devi (2008). Some of them concluded that there is a significant relationship of ownership structure with level of disclosure, whether positive or negative, yet others did not find any relationship. In short, the findings from prior studies are mixed. For example, Laidroo (2009) and Rouf (2011) found ownership concentration was negatively related with disclosure, but Tsamenyi et al. (2007) found ownership structure positively related with disclosure, yet further, Donnelly and Mulcahy (2008), Bozzolan et al. (2006) and Woodcock and Whiting (2009) did not find any relationship of ownership structure with disclosure. According to Klein et al. (2005), each ownership type has pros and cons; no ownership type is better than another kind.

8.3.3 Distribution of Industrial type

The Kuwaiti stock market consists of seven Kuwaiti sectors, non-Kuwaiti companies, and investment funds; this study is limited to only the seven Kuwaiti sectors.

Table 8-4 Industrial type * ownership Cross tabulation

	Total	Non-Financial type	Financial type
Diffusion ownership	33	26	7
Concentrated ownership	122	78	44
Total	155	104	51

The study sample includes 155 companies, shown in table 8.4,. The first type is non-financial companies; it consisted of 104 companies, 26 of them belong to diffusion ownership and 78 to concentrated ownership. The second type is financial companies; it consisted of 51 companies, 7 of them belong to diffusion ownership and 44 to concentrated ownership. From table 8.4, the concentrated ownership represents about 78% of the study sample. This result was very close to that found by AL-Deehani and Al-saad (2007), who found around 74%. The Kuwait stock market could classify to concentrated ownership market, this percent (78%) include the government (agencies), dominant families and institutional investors, which have substantial equity ownership in companies listed in the Kuwait Stock market.

8.4 Multivariate Analysis

Multivariate regression analysis considered as one of the most common and widely applied techniques, especially in the disclosure literature (Cooke, 1998). It requires the simultaneous analysis of data with three or more variables (multivariate) (Bryman, 2004). It is used in this research because the data in this study is composed from observations on several variables for many individuals or objects. Afifi et al. (2004) reported that, in general, without multivariate analysis one could not obtain the findings for data with multiple variables. It is commonly used in cases where there are one or more independent variables that could affect one or more dependent variables. In this study, multivariate analysis is used to test the impact of CG mechanism, Ownership structure and Firm characteristics as independent variables

on the LVD index as dependent variables. For that reason, a multiple regression is assumed relevant for the current study.

The relationships between the dependant and independent variables were measured using different statistical methods, and the relationships' result may take many shapes. These shapes may be linear or non-linear relationships. As indicated before, a multiple regression is assumed relevant for this research because the current study has one dependent variable and more independent variables (both dummy and continuous variables); in the case where the analysis includes both dummy and continuous variables, the Ordinary Least Squares (OLS) regression estimators are considered to be a suitable method. Hutcheson and Sofroniou (1999) argued that:

> *"...OLS regression is one of the most popular statistical techniques used in the social sciences. It is used to predict values of a continuous response variable using one or more explanatory variables and can also identify the strength of the relationship between these variables"* (, p.55)

They also stated that:

> *"OLS regression is a powerful technique for modelling continuous data, particularly when it is used in conjunction with dummy variables coding and data transformation."* (, p.56)

However, before applying the OLS approach, some assumptions must be fulfilled, i.e. normality, linearity, homoscedasticity, independence of error terms and multicollinearity. The following sections address the multiple regression model suggested in the present study, followed by checking the assumptions of multiple regression to select the related statistical technique to analyse the collected data in the present study.

A linear model is a description of the expected value of the outcome of the dependent variables depending on the known states of the independent predictor variables. The results may be misleading if the data's fulfilment of the assumptions of OLS regression are not verified.

A multiple linear regression model is an extension of a simple linear regression model; it is used when incorporating two or more explanatory variables in order to form a prediction equation for a response variable.

Simple regression: $Yi = \beta o+ \beta 1x$

Multiple regressions: $Yi = \beta o+ \beta 1f1\ (Xi1) +\beta 2f2\ (Xi2) +.......+ \beta k\ fk(Xik)+\varepsilon\ i\ (i= 1,2,..,n)$

Where:

Y:	dependent variable
X1..... Xk :	independent (explanatory) variables
βo........ βk :	regression model coefficients (parameters).
f1....... fk :	functions (transformations) of independent variables
ε :	random error.

8.4.1 Appropriateness of regression

OLS, random effects and fixed effects are used as options in the panel data in most previous studies. Generally, OLS is more suitable and dependable for more accurate estimates if all assumptions are met, in particular, when all variables used in the analysis are measured on an interval scale (Judge et al., 1985). The data used in this study are a combination of time series (2007-2010) and cross-sectional data. The impact of non-normal distribution problems in disclosure studies should be assessed by highlighting detailed data screening (Cooke, 1998). Before running the analysis of multiple regressions in this study, many tests were used to assess the data compatibility with assumptions of the regression model.

Gujarati (2003) reported these assumptions are: the relationship between dependent and independent variables should follow a normal distribution (normality); the relationship between both the dependent and independent variables should be linear (linearity); no relationship exists among independent variables (no multicollinearity); and the variance of the errors for each observation is constant over all values of *Xi* (homoscedasticity). However, autocorrelation means "*correlation between members*

of observations ordered in time (as in time series data) or space (as in cross sectional data)" (Gujarati, 1995, p.378), i.e. there is no variable that affects others in their relationship with LVD.

The following paragraphs examine these assumptions based on the data, any violation of one of these assumptions, the findings of regression model may be misleading, useless or acutely biased. For that, any violation should be removed before dealing with the regression model. The following sections present how these violations are tested and how their treatment.

8.4.1.1 Normality

Normal distribution is an assumption which should exist in each variable and all linear combinations of the variables (Field, 2012). The process of studying all linear combinations of all variables needs a large number of tests, so this process is not always considered practical (Hutcheson and Sofroniou, 1999). In addition, the error (residuals) of LVD (dependent variable) should be normally distributed. It is possible to test the linearity and variances of variables together with the residuals, instead of examining each variable alone. Residuals may provide further information about the normality assumption via combinations of explanatory variables.

Hair et al. (1998) reported the linearity of the relationship among (dependent and independent) variables means the degree to which the change in the dependent variable should be linearly related with the independent variable. By residual plots, one can examined the linearity of residuals. Normality can be investigated by several methods; Hutcheson and Sofroniou (1999) reported among these methods, the graphical method and numerical methods. The most common methods from the graphical method are Q-Q plot, P-P plot and frequency histogram, while the most common methods to examine the degree of symmetry of the variable are numerical methods, including the Kolmogorov-Smirnov D statistic, Shapiro-Wilk W statistic, and skewness and kurtosis test.

The Kolmogorov-Smirnov D (K–S test) is a non-parametric test for the equality of continuity, which can be used to compare a sample with a reference probability distribution or to compare two samples. It is said the K–S test tends to suggest

accepting the null hypothesis for a small sample and rejecting when the sample size is large. The Shapiro-Wilk W statistic suggests having a good power especially in a wide range of non-normal distributions; the data may not have normal distribution when the value of P is small. Both the graphical method and Shapiro-Wilk W statistic as numerical method test have been employed to investigate the linearity and normality for LVD (dependent variable) and residuals in the present study.

Graphical methods

P-P Plot of LVD (dependent variable) and P-P Plot of residuals

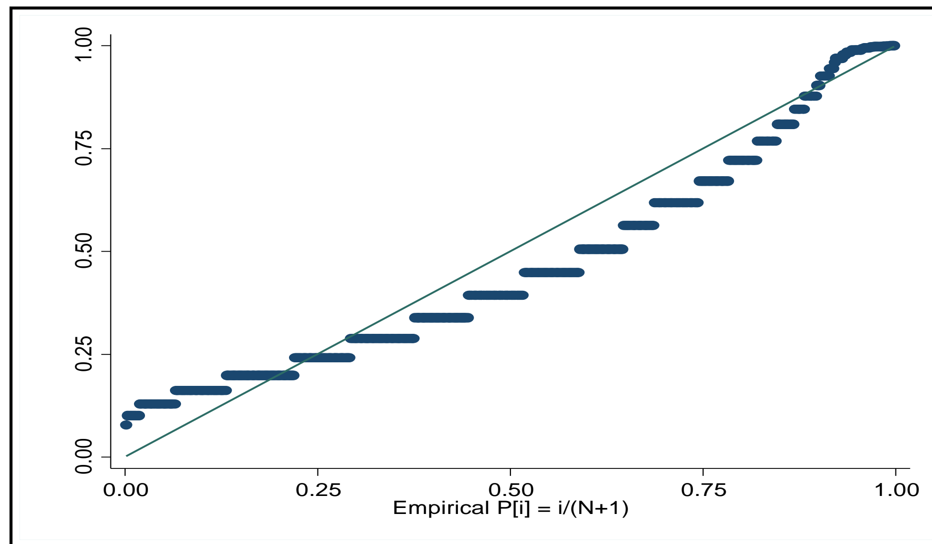

Figure 8.1 P-P Plot of LVD

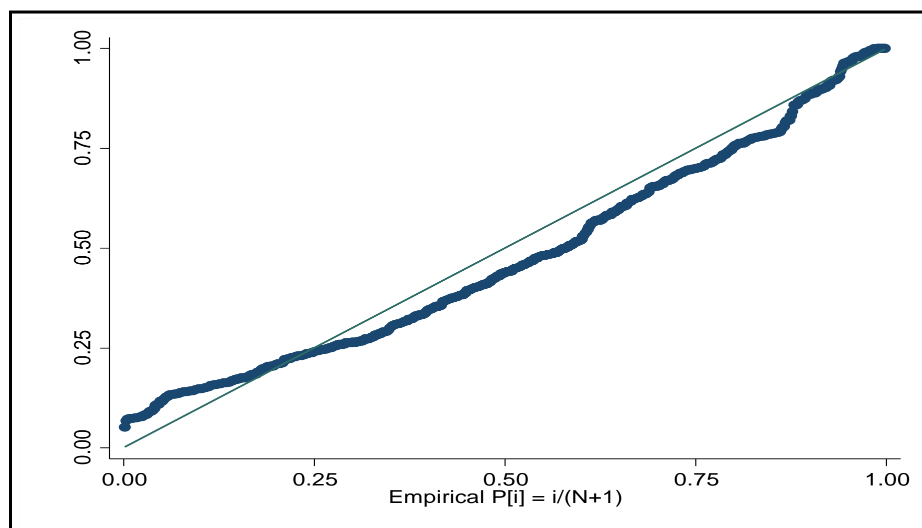

Figure 8.2 P-P Plot of residuals

Q-Q plot of LVD (dependent variable) and Q-Q plot of Residual.

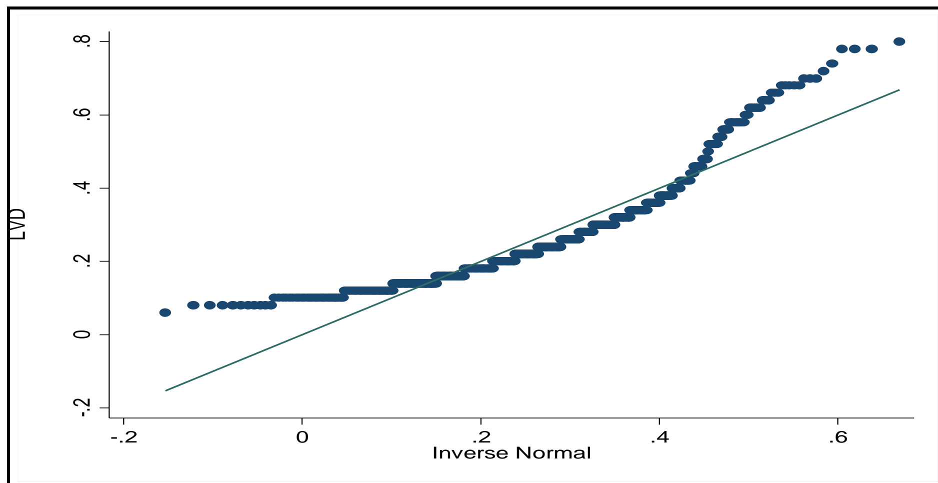

Figure 8.3 Q-Q Plot of LVD

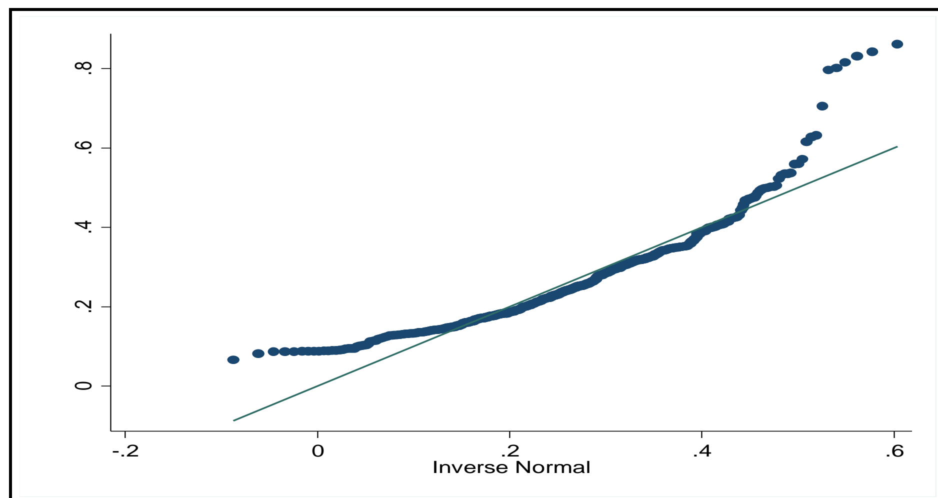

Figure 8.4 Q-Q Plot of residuals

The frequency histogram of LVD (dependent variable) and of Residual

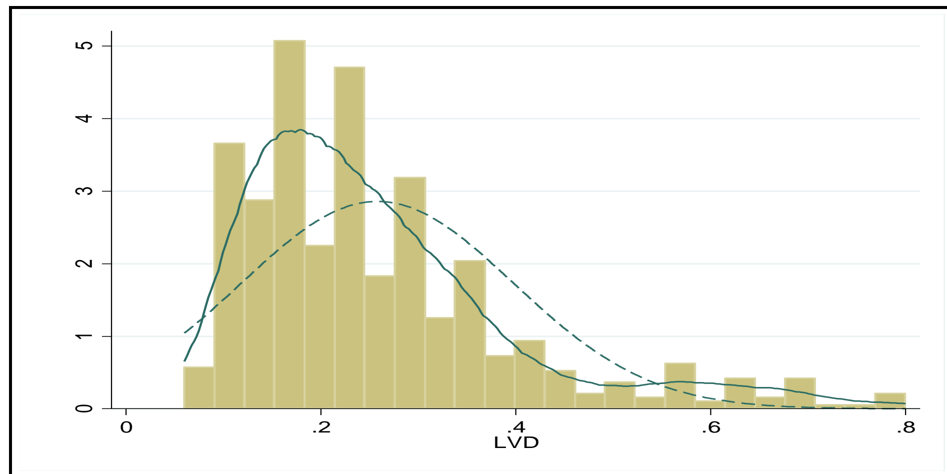

Figure 8.5 Histogram of LVD

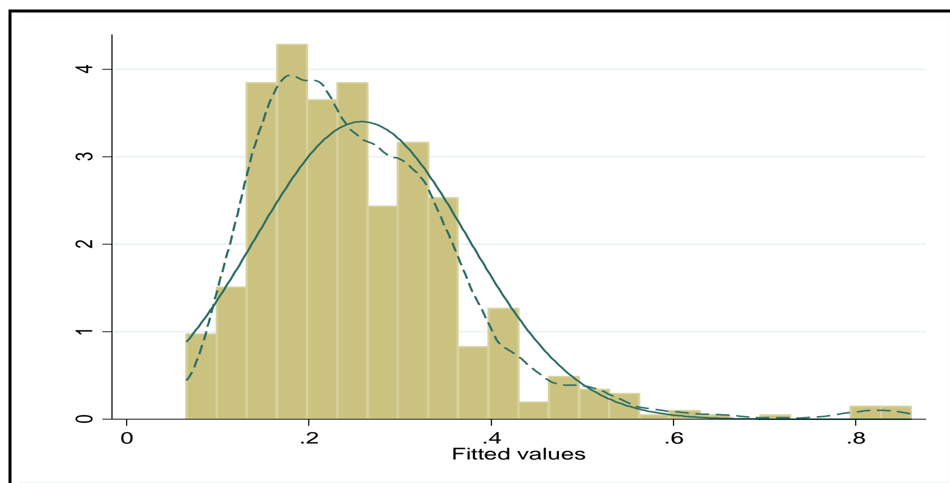

Figure 8.6 Histogram of residuals

Numerical methods of normality testing of LVD (dependent variable) and of residuals

Table 8.5 Tests of Normality

	Kolmogorov-Smirnov[a]			**Shapiro-Wilk**		
	Statistic	df	Sig.	Statistic	df	Sig.
LVD	.142	620	.000	.868	620	.000
r	.081	620	.000	.895	620	.000

From figures 8.1 and 8.2 of P-P plots of LVD and residuals, respectively, and from figures 8.3 and 8.4 of Q-Q plots of LVD and residuals, respectively, it be seen from previous figures that LVD and residual are not normally distributed. These are the inevitable result of a variable such as LVD, because it is a non-negative variable, the mean of LVD (dependent variable) is located between zero in the case of non-disclosure to 50 in the case of full disclosure. Therefore, skewness of the distribution will exist in this case.

Figures 8.5 and 8.6 show the histograms of LVD and residuals, respectively. The histogram of LVD is a right-skewed distribution (positively skewed); as previously mentioned, LVD cannot have a negative value. However, the histogram of residuals was apparently close to the normal distribution. On the other hand, table 8.11 shows the result of the tests of normality; Kolmogorov-Smirnova is recommended for large sample and Shapiro-Wilk W test, as known in research Shapiro-Wilk is recommended for small and medium sample, if Sigis insignificant ($p > 0.05$) the variable's distribution is not different from normal, and vice versa. The result suggests LVD and residuals are not distributed normally.

8.4.1.2 Checking homoscedasticity of residuals

Homoscedasticity, sometimes-called homogeneity of variance, is an assumption of OLS regression models: homoscedasticity refers to the assumption that the outcome variable (dependent variable) exhibits similar values of variance across the range of amounts for input variables (independent variable). In other words, the variance of the distribution of the outcome variable must be the same for all values of the input variables. OLS assumed all variables have the same variance in order to run the

linear regression function or the problem of heteroscedasticity will exist if the error variance is heterogeneous.

There are two methods to assess whether homoscedasticity exists or not. The first method is graphical and the second numerical. The graphical plot (i.e. rvfplot) provides a picture of residuals versus predicted values and assesses where heteroscedasticity exists.

Graphical tests of heteroscedasticity

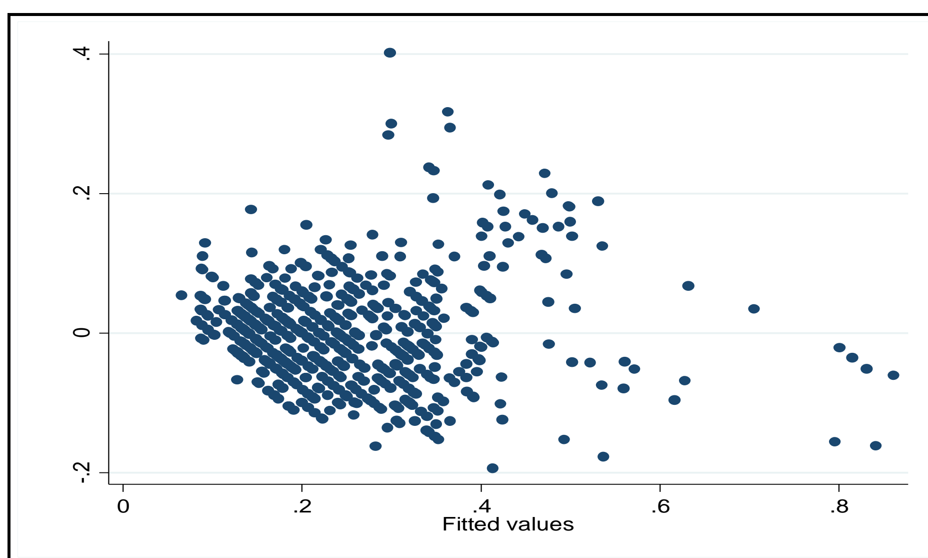

Figure 8.7 The relationship between residuals and predicted values

Numerical tests of heteroscedasticity

Numerically, two tests were used to assess homoscedasticity. The first test is Breusch-Pagan / Cook-Weisberg and White's tests. Breusch-Pagan / Cook-Weisberg, which tests whether the estimated variance of the residuals from a regression is dependent on the values of the independent variables; a and a special case of the Breusch-Pagan test, White's tests, which test whether the residual variance of a variable in a regression model is constant: this tests an estimate for homoscedasticity consistent standard errors (White, 1980). The second test is Cameron and Trivedi's decomposition of IM (information matrix) test. These tests were conducted with the STATA programme.

Table 8.6 Breusch-Pagan / Cook-Weisberg and White's tests for Heteroscedasticity

Test	Chi-square	Prob>chi2
Breusch-Pagan / Cook-Weisberg	104.93	0.000
White's	185.44	0.000

Table 8.7 Cameron & Trivedi's decomposition of 1M test for Heteroscedasticity

Source	Chi-square	df	Prob>chi2
Heteroskedasticity	185.44	85	0.000
Skewness	25.56	12	0.0105
Kurtosis	4.33	1	0.0375
Total	215.33	98	0.000

As shown by both the graphical and numerical tests, both results indicate that errors have non-constant variance. All chi-squared test statistics are significant at the 1% confidence level, so the null hypothesis that there was no heteroscedasticity is rejected; i.e. there are problems with heteroscedasticity in the current dataset. Then the assumption of homogeneity of variance between variables had rejected, The OLS estimators will not have the minimum variance of all unbiased estimators that means the variances are not constant. In light of above results, the dataset of this study suffers from problems of heteroscedasticity.

8.4.1.3 Checking for multicollinearity

Multicollinearity is an assumption of OLS regression models; the presence of multicollinearity will cause problems in interpreting the results of multiple regression analysis. Multicollinearity means that there is strong correlation between two or more independent variables; because of multicollinearity, it will be difficult to differentiate among the individual effects of explanatory variables on the dependent variable. It may be that problems will appear when estimating the coefficients of regression and estimators may be biased (Murray, 2006) Moreover, in the case of strong linear relationship between the selected explanatory variables, it is very difficult to compute the estimates for a regression model correctly and uniquely.

Field (2012) reported the existence of multicollinearity and its threat to multiple regression, for the following reasons: first, the variance of regression coefficients will be increased which results in unstable equations. Second, the overall variance which is a result of two highly-related independent variables is little more than if one independent variable is used. Third, it is difficult to know which independent variable has a more important effect on the dependent variable, especially if there are highly related independent variables. Finally, type II error will exist, which means the incorrect rejection of a true null hypothesis will occur.Statistically, the possible presence of multicollinearity between independent variables is tested by two common methods, which have been used widely in the disclosure literature: the first method is variance inflation factors (VIF) with tolerance values, and second method is correlation coefficients. Both methods are employed in the present study, to test whether the independent variables or the model might have suffered from multicollinearity.

Table 8.8 VIF test result

Variable	VIF	Tolerance (1/VIF)
NEDs	1.442	.693
Board size	1.301	.768
Role duality	1.504	.665
Audit committee	1.207	.828
Audit firms	1.485	.673
Ownership	1.093	.915
Firm size	1.305	.766
Firm age	1.223	.817
Liquidity	1.333	.750
Gearing	1.405	.712
Profitability	1.070	.935
Mean VIF	**1.306**	

As shown in table 8.15, the maximum VIF is 1.504, the minimum VIF is 1.07, and the mean VIF is 1.306. Both Gujarati (2003) and Abdul Rahman and Ali (2006) reported that there is no need to be concerned with a variance inflation factor less than 10. Therefore, multicollinearity between the independent variables in this regression analysis is considered non-harmful. Based on the results in table 8.15, there is no unacceptable level of multicollinearity in the present study.

8.4.1.4 Autocorrelation

Table 8.16 shows the correlation coefficients matrix (Pearson and Spearman) among independent variables. Dancey and Reidy (2002) mentioned that it is important to develop a correlation matrix before running the multiple regression. Although the correlation matrix is considered as one of the powerful tools to investigate whether there is any a relationship among predictors, there was no full agreement among researchers on the minimum correlation percentage acceptable (Alsaeed, 2006). As mentioned by Dancey and Reidy (2002), if the variables have correlations of 0.8 and above, that means they are highly correlated with each other. However, Tabachnick and Fidell (1996) suggest 0.7 as minimum correlation percentage acceptable. From table 8.16, the correlations (Pearson and Spearman) are less than 0.7, thus this data does not face a serious Autocorrelation problem.

Table 8.9 Pearson Correlation between independent variables

	NEDs	Board size	Firm size	Firm age	Liquidity	Gearing	Profitability
NEDs	1						
Board size	0.2229**	1					
Firm size	0.1659**	0.3210**	1				
Firm age	0.1680**	0.3635**	0.3053**	1			
Liquidity	-0.0183	-0.2139**	-0.1713**	-0.1000*	1		
Gearing	0.0721	0.1736**	0.2881**	0.1060**	-0.4511**	1	
Profitability	-0.0072	0.0313	0. 1205	0.0635	0.1123**	-0.0376*	1

Table 8.10 Spearman Correlation between independent variables

	NEDs	Board size	Firm size	Firm age	Liquidity	Gearing	Profitability
NEDs	1						
Board size	0.2775**	1					
Firm size	0.1947**	0.4357**	1				
Firm age	0.2261**	0.3524**	0.2916**	1			
Liquidity	-0.0397	-0.2569**	-0.5711**	-0.1486**	1		
Gearing	0.1337**	0.2212**	0.5835**	0.1347**	-0.5564**	1	
Profitability	-0.0018	0.0603	0.0482	0.0477	0.1207**	-0.0192	1

8.4.1.5 The effects of outliers

Outliers are values far from the average, such as by three or four standard deviations, and are thus significantly higher or lower than other values in the data set (inconsistent with other values.) These outliers may have a noteworthy influence on the correlation coefficient especially in small samples (Pallant, 2001, p.111). Outliers are considered sensitive for multiple regressions because some outliers' points will have more influence on the regression than others, creating under- or over-estimation of the value of the correlation coefficient (*r*). Unusual observations should be checked to see how they different, in order to identify possible errors in data entry. Types of unusual observation are regression outliers. An observation that is unusual unconditionally in either its Y or X value is called a univariate outlier (it is not necessarily a regression outlier).

There are several statistical ways to examine a data set for unusual outliers; one of them is leverage (called hate values): it is an easy and fast way, "*which gauges the influence of the observed value of the outcome variable over the predicted values*" (Miles and Field, 2010, p.191). Cases may have leverage when the observation has an unusual X value – i.e., it is far from the mean of X, but regression coefficients may be not influenced by high leverage. Influential observations, in the case where they have high leverage and are outliers in terms of Y-value, will significantly influence the regression line, and if removed, would significantly change the estimated coefficients (Jacoby, 2005). In STATA, leverage can be calculated by using the Ivr2plot command.

The Stata12 manual says, "*The lines on the chart show the average values of leverage and the (normalized) residuals squared. Points above the horizontal line have higher-than-average leverage; points to the right of the vertical line have larger-than-average residuals*" (p.17) as shown in figure 8.8, the horizontal line indicates the mean for the leverage, while the vertical line indicates the mean for the normalized residual squared. It is worth noting that there are a few clearly extreme points. It is usual in this case, as known, that the outliers have more influence if the sample size is small, as well as if the statistic examined is less robust (Cousineau and Sylvain, 2010).

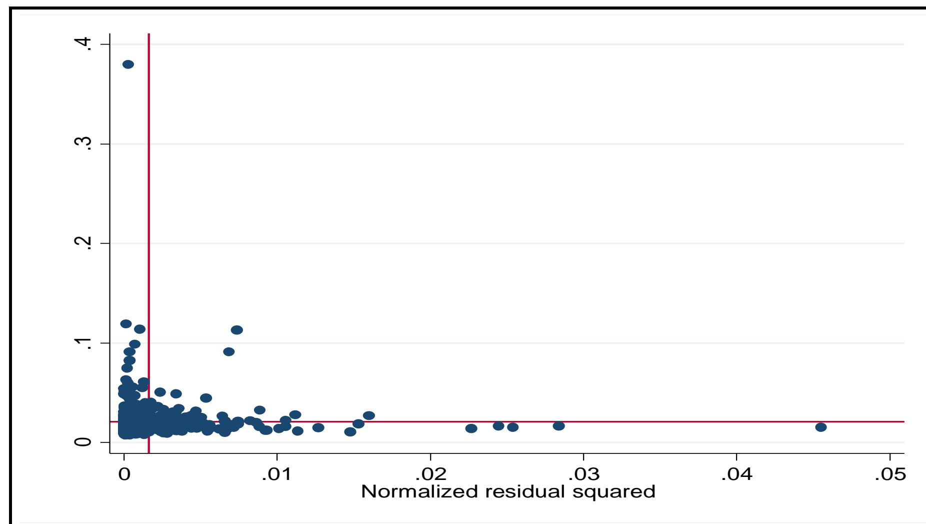

Figure 8.8 Leverage vs. residuals scatter plot

The key point to stress here is: should these observations be dropped or not. One more point should be mentioned here: the elimination of data points can be hazardous. Although elimination will always improve the "fit" of regression, it may end up destroying some of the most significant information in data. In addition, Afifi et al. (2004) reported differing opinions among statisticians for dealing with these points; some of them said to eliminate these outliers; some said that it is unethical to eliminate outliers because it may end up having bias or produce undesirable results; and others said they should be kept.

8.4.2 Regression diagnostic summary

The intention of using regression analysis is to fit equations to observe which independent variables have significant effect on the dependent variable, but in the case of existence of outliers, these may have caused a dangerous threat to standard OLS analysis and the results may be not an expression of fact (Rousseeuw, 1987). According to the findings of the above graphical and numerical methods, assumptions of multiple regression were not met. The dependent variable and residuals were non-linear, and for independent variables the problem of heteroscedasticity existed. In addition, there was a problem of outliers, but the findings of VIF and correlations coefficients confirm that there is not an unacceptable level of multicollinearity in the present study.

To solve these violations of OLS assumptions, Draper (1988), as cited in Cooke (1998, p.209), "*identified four approaches to deal with the violations of OLS:*

> *The do-nothing approach.*
>
> *The data-analytic approach investigates influential observations and transformations.*
>
> *The model expansion approach focuses on departures from assumptions once found and departures are modelled directly on the raw data scale by broadening the parametric model.*
>
> *The robust approach, which uses non-classical techniques so that deviations from the classical assumptions are not crucial, e.g. M - , R - , L – estimators"*

The first approach may be considered unethical because it may end up having bias or producing undesirable results. The second approach (the data analytic approach) is commonly used within the context of linear regression. The transformation considers the most widely used tools to deal with violations of assumptions of regression analysis. Cooke (1998, p.210) reported that data transformation is beneficial if there any violations of assumptions of OLS, such as linearity, normality, homoscedasticity problems and non-independence of the error of variance.

The third approach (the model expansion approach) is that "*in which the data are examined as in approach 1, to describe the ways in which they depart from the standard off-the-shelf model, the difference being that when departures are found they are modelled directly on the original data scale through a broadening of the parametric model*" (Draper, 1988, p.240). The fourth approach is the robust approach, that uses non-classical techniques, which should be sufficiently sensitive to any violations of the assumptions of classic regression, and data may be analysed on the raw scale without any additional modelling or any modification modelling. Robust regression could be used instead of OLS regression when data suffer from outliers or influential observations; also, it may be used usefully to detect influential observations (See: UCLA)[13].

[13] http://www.ats.ucla.edu/stat/sas/dae/rreg.htm

Based on the foregoing, this study follows the approaches of Draper (1988), but without the first approach. As the study data is very important, it was decided to keep all data and employ transformation to deal with the problems of non-linearity of the dependent variable and residuals, as well as also the problem of heteroscedasticity. Robust analysis other than OLS regression is employed, namely, GLS, Tobit and Quantile regression to avoid the violation of OLS regression assumptions.

8.4.3 Transformation of data

It is important to screen data to evaluate the impact of distribution problems of skewness and kurtosis and problems of outliers and non-linearity, as well as for any violation of OLS regression assumptions, because significantly non-normal data can distort the findings of regression technique (Cooke, 1998; Tabachnick and Fidell, 2001). Scholars in many disclosure studies face these problems. Transformation of data is used to deal with such problems (Cooke, 1998, p.209). Transformation of data is useful in the case of violation of OLS regression assumptions, OLS is undesirable for statistical analyses when there is non-normality of distribution of most dependent and independent variables as well as for any violation of OLS regression assumptions (Cooke, 1998, p.210). However, Cooke (1998) uses Rank Regression instead of conventional OLS, which is a recent development for dealing with such problems in a number of accounting disclosure studies. According to the rank regression approach, data is transformed based on its ranking from the smallest one to the largest one (Iman and Conover, 1979), which means data is transformed into ranks and then the regression technique is used. Examples of previous disclosure studies that used rank transformation include Lang and Lundholm (1993, 1996), Wallace et al. (1994), Wallace and Naser (1995), Cooke (1998), Owusu-Ansah (1998), Abd-Elsalam (1999) and Abd-Elsalam and Weetman.

Rank transformation is beneficial for these reasons. Firstly, it provides distribution-free test statistics (Cooke, 1998). Second, is relatively insensitive to outliers (Cheng et al., 1992). Third, it mitigates the effect of measurement errors, heteroscedasticity, outliers and residuals on the results of regression (Wallace et al., 1994). Fourth, it disperses the concentration when there is non-linearity (Cooke, 1998) fifth, its findings are like those obtained from ordinal transformation (Wallace et al., 1994)

finally it can be applied to develop tests of serial correlation and heteroscedasticity (Cheng et al., 1992; Cooke, 1998).

Beside all the advantages of rank regression, Cooke (1998) reported rank regression has weaknesses, for example: the regression coefficients (βj) are difficult to interpret for most values; it is difficult to interpret the significance of the F-test and T-test; the structure of errors cannot be normal; and the transformed data are ordinal which means the tests are non-parametric. It is certainly weaker than parametric tests.

Cooke (1998) suggested using normal scores rather than ranks as an extension of the rank approach for the following reason: normal scores is done by distribution by dividing the distribution into the number of observations plus one region on the basis that each region has equal probability. Cooke pointed out that replacing the ranks by normal scores is beneficial for the following reasons. It removes some of the weaknesses of the rank transformation approach, but also keeps the advantages, such as significance levels are meaningful and has more power than when using the rank transformation, because significance levels can be determined; also, the F-test and t-test are powerful and meaningful and may be used. The coefficients of regression derived using normal scores are meaningful, and normally distributed dependent variables have the same property for the distribution of the errors. Examples of previous disclosure studies that employed normal score transformation include Haniffa and Cooke (2002), and Abd-Elsalam (1999).

From the above discussion, different transformations have been used with both dependent and independent variables, which suffer from the problem of assumption violations. For the regression model, used in the study, according to what is mentioned for advantages and disadvantages above of both approaches, rank approach and normal scores, it has been decided to employ the normal scores to deal with the problem of assumption violations in the current study. According to what was reported by Cooke (1998), use of normal scores instead of the rank approach removes some of the weaknesses of the rank transformation approach and keeps the advantages. In addition, to avoid disturbing the relationship between the dependent variable and the independent variables and changing the error distribution, all

independent variables should be transformed similarly when transforming the dependent variable (Cooke, 1998).

8.5 Regression Analyses

8.5.1 OLS regression model and normal scores model

Table 8.18 shows the results of OLS regression and normal scores models. The independent variables explained around 59.88% of the OLS regression of LVD, measured by adjusted R-squared with an F-ratio of 85, which is significant $p < .001$. The independent variables explained around 59.88% of the normal scores regression of LVD, measured by adjusted R-squared with an F-ratio of 83.61, which is significant with a probability less than .001. The value of R-squared of the second model (normal score) is lower than prior studies: 65% by Depoers (2000); 86.3% by Hassan et al. (2006); and 0.695 by Dhouibi and Mamoghli (2013). However, it was higher than these were: 55.9% by Akhtaruddin et al. (2009); 47.9% by Haniffa and Cooke (2002); 42% by Ho and Wong (2001); 36% by Leventis and Weetman (2004); and 36% by Ghazali and Weetman (2006); 34% by Ferguson et al. (2002); 33% by Meek et al. (1995); or 20% by Eng and Mak (2003).

The coefficients of the independent variables illustrate the nature, direction and significance of the relationship with the dependent variable (LVD). From table 8.18, The CG mechanisms, based on results of the first model (OLS regression), indicate all independent variables were found to be positively significant associated at the 1% level, except Role duality that was found to be negatively significant associated at 1% levels and Board size was found to be negatively insignificant associated with the dependent variable. On the other hand, results of the second model (normal scoring) indicate all independent variables were found to be positively significant associated with LVD at the 1% level, except Board size duality that was found to be negatively significant associated at 1% levels and Board size was found to be negatively insignificant associated with the dependent variable. The OLS model and normal score model have the same results.

Table 8 .11 Results of regression analyses

	OLS		Normal score	
Variable	**Coef**	**p>t**	**Coef**	**p>t**
NEDs	.1497421	0.000	.3011183	0.000
Board Size	-.3246163	0.147	-0.05112	0.12
Role Duality	-.0425706	0.000	-0.46563	0.000
Audit Committee	.0196739	0.000	.214554	0.000
Audit Firm	.0578993	0.000	.608016	0.000
Ownership	.0080914	0.168	.079961	0.214
Firm size	.1189364	0.000	.175024	0.000
Firm Age	.000198	0.302	.054904	0.050
Liquidity	.0773387	0.029	.079831	0.016
Gearing	.0565295	0.283	.020799	0.545
Profitability	-.0128292	0.262	-.034362	0.192
Constant	2.045021	0.004	.550374	0.011
F	85		83.61	
Prob. > F	0.000		0.000	
R-squared	0.6060		0.6020	
Adjusted R-squared	0.5988		0.5948	

Based on results of the first model (OLS regression), Ownership structure was found to be insignificant associated with LVD; also, the result of the second model (normal scoring) was insignificant associated.

However, with regard to the Firm characteristics there are mixed results: in the first model (OLS), some independent variables were found to be significant associated at the 1% and 5% levels. Firm size was found to be positively significant associated with LVD at the 1% level, while Liquidity was found to be positively significant associated with LVD at the 5% level. Firm age and Gearing were found to be insignificant with the dependent variable. However, Profitability was found to be negatively insignificant associated with LVD. While the results in the second model (normal score) were found to be different from the results of the first model (OLS). Firm size was found to be positively significant associated with LVD at the 1% level, while Liquidity was found to be positively significant associated with LVD at the 5% level. Firm age was found to be positively significant associated with LVD at the 5%. However, Profitability was found to be negatively insignificant associated with LVD.

8.5.2 Generalised Least Squares (GLS)

Through what was discussed in section 8.2 checking the assumptions of multiple regression, especially in the checking homoscedasticity of residuals and autocorrelation sub-sections, it became clear that the current dataset for the current study suffers from homoscedasticity and serial correlation between independent variables. Homoscedasticity means the variance of the error term should be constant; if the error terms do not have constant variance, they are said to be heteroscedastic. In this case, it is advisable to assign less weight for population observations with greater variability than the weight given to population observations with smaller variability; the OLS model does not allow for this because OLS appoints equal weight to each observation, so it cannot use the information contained in the unequal variability of the dependent variable. Generalised Least Squares (GLS) is as OLS with transformed variables; it transforms the variables with a company weight that fits the standard least-squares assumptions. It is simply the same method using transformed data, in case of a non-linear dataset, to fit the assumptions of OLS, but here uses transformed data with weights to help heteroscedastic data meet the assumptions of OLS. See Gujarati (2005), and Clarkson et al (2005) Shan (2009).

In other words, the OLS model minimizes the sum of the squared errors, while the GLS model minimizes a weighted sum of the residual squares. Therefore, the GLS estimator is more precise than the OLS estimator is. Generalised Least Squares (GLS) is used to correct for autocorrelation and heteroscedasticity in regression (Gujarati, 1995, 2003), GLS is adopted in this study to correct for autocorrelation and homoscedasticity in the current dataset. The GLS model was employed in many previous disclosure studies, such as Clarkson and Walker (2005).

As seen in table 8.18, the results of GLS indicate all independent variables of the CG mechanisms were found to be significant associated at 1% with LVD, except Board size was found to be insignificant associated with LVD. NEDs, Audit firm and Audit committee were found to be positively significant associated with LVD at the 1% level. However, Role duality was found to be negatively significant associated with LVD at the 1% level.

Table 8 .12 Results of GLS regression analyses

Number of observation 620	Wald chi2(11)		953.45
Number of groups 37	**Prob. > chi2**		**0.000**
LVD	**Coef**	**z**	**P>z**
NEDs	.149742	9.34	0.000
Board Size	-.32462	-1.47	0.143
Role Duality	-.04257	-7.5	0.000
Audit Committee	.019674	3.94	0.000
Audit Firm	.057899	10.14	0.000
Ownership	.008091	1.4	0.163
Firm size	.118936	5.65	0.000
Firm Age	.000198	1.04	0.297
Liquidity	.077339	2.2	0.028
Gearing	.05653	1.09	0.278
Profitability	-.01283	-1.13	0.257
Constant	2.04502	2.94	0.003

With regard to the ownership structure, it was found to be insignificant with LVD However, the results of the GLS model for the Firm characteristics had mixed as found in all regression models, two independent variables were found to be significant associated at the 1% and 5% levels respectively. Firm size was found to be positively significant associated with LVD at the 1% level, while Liquidity was found to be positively significant associated with LVD at the 5% level. However, Firm age and Gearing were found to be positively insignificant associated with LVD, while Profitability is the only variable from Firm characteristics found to be negatively insignificant associated with LVD.

8.5.3 Tobit regression

The Tobit model is a statistical model suggested by James Tobin (1958). To explain the relationship between a non-negative dependent variable and an independent variable, the Tobit model assumes that there is a latent variable (unobservable) and this variable linearly depends on the independent variable via a parameter (beta); this beta determines the relationship between the independent variable and the latent variable. Verbeek (2004) reported Tobit regression is suitable in the case when the dependent variable is continuous but its range is constrained. The dependent variable of the current study, namely LVD in Kuwaiti listed companies, is a positive variable.

All results of LVD have non-negative values. That means the dependent variable is limited, the range of these values is between 0.075 and 0.8 (censored sample), and none of the companies sampled has score zero. In addition, the assumption of normality may be violated, so the findings of OLS estimates may be inefficient and inconsistent.

In the case of variables limited as in this study, there may be bias in the findings when using OSL regression even after transformation variables, especially when there are outliers. Cooke (1998) reported on using generalised maximum likelihood estimators, M–estimators (See: Wikipedia)[14], to place less emphasis on outliers. The Tobit model is used here because it is usually estimated using maximum likelihood estimators; M and coefficients have dual interpretations (Verbeek, 2004). The Tobit model provides pseudo- R-squared, which is like R-squared in regression, but in Tobit regression produces a model which predicts an outcome variable to be within a certain range (See:UCLA)[15].

The Tobit model was used in previous studies, such as Trabelsi et al. (2008) and Hussainey and Al-Najjar (2011). However, pseudo R-squared can be computed by many formulas, such as Efron, McFadden, Cox and Snell, and Count. STATA software provides pseudo R-squared based on McFadden's formula, so that is used here. When using the Tobit model estimates, the results are expected to be robust.

Table 8.19 shows the results of Tobit regression. All independent variables of the CG mechanisms were found to be significant associated at 1% levels with LVD, except Role duality that was found to be negatively significant associated at 1% levels and Board size was found to be negatively insignificant associated with the dependent variable. The results of Tobit model regarding the CG mechanisms supported the results for both OLS model and normal score models.

[14] http://en.wikipedia.org/wiki/M-estimator

[15] For more details see http://www.ats.ucla.edu/stat/multpkg/faq/general/PsuedoRSquareds.htm

Table 8 .13 Results of Tobit regression analyses

Tobit regression Number of obs = 620		Pseudo R2 = -0.4762	
LR chi2(12) = 576.31	Log likelihood= 893.23803 Prob > chi2 = 0.000		
LVD	Coef.	t	P>t
NEDs	.149649	9.31	0.000
Board Size	-.32262	-1.45	0.147
Role Duality	-.04268	-7.5	0.000
Audit Committee	.019737	3.94	0.000
Audit Firm	.057913	10.12	0.000
Ownership	.008039	1.38	0.167
Firm size	.119582	5.67	0.000
Firm Age	.000205	1.08	0.282
Liquidity	.077029	2.19	0.029
Gearing	.056324	1.08	0.281
Profitability	-.01301	-1.15	0.252
Constant	2.038271	2.92	0.004
/sigma	.0567555		
Obs. summary: 1 left-censored observation at LVD< = **1.4239255** 618 uncensored observations 1 right-censored observation at LVD > = **1.9086028**			

With regard to Ownership structure, it was found to be positively insignificant associated with LVD. Ownership structure has the same result during all regression models employed in this study.

However, the Tobit regression results for Firm characteristics were mixed, as found in the OLS, normal scoring and GLS models; some independent variables were found to be significant associated at the 1% and 5% levels. Firm size and Liquidity were found to be positively significant associated with LVD at the 1% and 5% level respectively, while Firm age and Gearing were found to be positively insignificant associated with LVD. However, Profitability was found to be negatively insignificant associated with LVD. Almost results are same as found in the OLS and GLS models.

8.5.4 Quantile regression

The Quantile model is a type of regression analysis which is considered useful; it is widely used in empirical work by previous studies. As is well known, the classical linear regression is used to estimate the average value of a dependent variable for the given level of the explanatory variables. In other words, classical linear regression is looking to minimize the sum of squared residuals while the quantile model is looking to estimate the relationship of explanatory variables at different points (i.e. quantiles) in conditional distribution of the dependent variables. In other words, the quantile model is designed to look to minimize the sum of the absolute residuals (Koenker and Hallock, 2001). That means the quantile model has more power than classical linear regression, because the quantile model creates separate estimates for all conditional quantiles of a response variable's distribution (Ramdani and Witteloostuijn, 2010). Koenker and Bassett (1978) are considered the first to have used quantile regression. Quantile regression is a useful method to explore predictive relationships among variables when there is a weak relationship or no relationship among the averages of such variables (Cade and Noor, 2003).

According to Koenker and Hallock (2001),

> "*Just as we can define the sample mean as the solution to the problem of minimizing a sum of squared residuals, we can define the median as the solution to the problem of minimizing a sum of absolute residuals. The symmetry of the piece wise linear absolute value function implies that the minimization of the sum of absolute residuals must equate the number of positive and negative residuals, thus assuring that there are the same numbers of observations above and below the median*" (p.145).

That means all the classical regressions techniques and M estimators for analysing longitudinal data, like the dataset of the current study, use the average as the measure of centrality, while the quantile regression uses the median. Quantile regression is more robust against the existence of outliers, skewed tails and unequal variance (heteroscedasticity) because it provides a way to investigate sources of heterogeneity in the response that are related with the covariates (Koenker, 2005, p.25).

Therefore, it appears that the quantile model is suitable method for the dataset (longitudinal data) of the current study because it will help to obtain a more comprehensive analysis of the relationships among variables. In addition, it is appropriate to deal with a dataset, which suffers from outliers, skewed tails and unequal variance (heteroscedasticity), such as the dataset of the current study.

In order to investigate the relationship between LVD and explanatory variables (CG mechanisms, Ownership structure and Firm characteristics) further, LVD is subjected to testing of 0.25, 0.50 and 0.75 quantiles in this study.

25% Quantiles model

Table 8.20 shows the results of the 25% quantile regression. Some independent variables of the CG mechanisms were found to be positively significant associated with LVD and others were found to be negatively significant associated with LVD, except Board size that was not associated with LVD. The two variables NEDs and Audit firm were found be positively associated significant with LVD at the 1% level, while Role duality was found be negatively significant associated with LVD at the 1% level. However, Audit committee were found be positively associated significant with LVD at the 5% level.

Table 8 .14 Results of 25% Quantile regression analyses

Raw sum of deviations = 35.808 (about 1.6359) No of Obs.620
Pseudo R2= 0.3790 Min sum of deviations = 22.23891

LVD	Coef.	t	P>t
NEDs	**.150636**	**7.96**	**0.000**
Board Size	**-.225711**	**-0.84**	**0.399**
Role Duality	**-.054445**	**-8.04**	**0.000**
Audit Committee	**.013363**	**2.21**	**0.028**
Audit Firm	**.060812**	**9.21**	**0.000**
Ownership	**.016252**	**2.35**	**0.019**
Firm size	**.119397**	**5.03**	**0.000**
Firm Age	**.000186**	**0.8**	**0.421**
Liquidity	**.040745**	**1.01**	**0.313**
Gearing	**.117552**	**2.09**	**0.037**
Profitability	**-.007034**	**-0.51**	**0.607**
Constant	**1.687086**	**2**	**0.046**

Regarding Ownership structure, it was found to be positively significant associated with LVD at the 5% level. However, with respect to Firm characteristics all independent variables were mixed, as found in all regression models used in this study. Firm size and was found to be positively significant associated with LVD at the 1% level, while Gearing was found to be positively significant associated with LVD at the 5% level. Other variables, Firm age, Liquidity and Profitability were found to be insignificant associated with LVD, Firm age, Liquidity were found to be positively insignificant associated with LVD, while Profitability was found to be negatively insignificant associated with LVD.

50% Quantiles model (median regression)

Table 8.21 shows the results of median regression. It be noted that the CG mechanisms were found to be significant with LVD at the 1% and 10% levels, except Audit committee was found to be positively insignificant associated with LVD. NEDs and Audit firm were found be positively significant associated with LVD at the 1% level, while Board size and Role duality were found be negatively associated significant with LVD at the 10% and 1% levels respectively.

Table 8 .15 Results of 50% Quantile regression analyses

Raw sum of deviations = 44.9874 (about 1.6961) No. of Obs=620			
Pseudo R2= 0.3764	Min sum of deviations = 28.05628		
LVD	Coef.	t	P>t
NEDs	**.155912**	**7.52**	**0.000**
Board Size	**-.477169**	**-1.67**	**0.095**
Role Duality	**-.042904**	**-5.84**	**0.000**
Audit Committee	**.009992**	**1.54**	**0.124**
Audit Firm	**.054642**	**7.41**	**0.000**
Ownership	**.007963**	**1.06**	**0.289**
Firm size	**.12828**	**4.71**	**0.000**
Firm Age	**.000302**	**1.23**	**0.219**
Liquidity	**.092587**	**2.03**	**0.043**
Gearing	**.115978**	**1.71**	**0.088**
Profitability	**-.00484**	**-0.33**	**0.743**
Constant	**2.379857**	**2.66**	**0.008**

However, Ownership structure was found to be positively insignificant associated with LVD. Regarding Firm characteristics, all independent variables were mixed. Firm size was found to be positively significant associated with LVD at the 1% level, while Liquidity and Gearing were found to be positively significant associated with LVD at the 5% level. On other hand, Firm age and Profitability were found to be insignificant associated with LVD.

75% Quantiles model

Table 8.22 shows the results of the 75% quantile regression. Based on the statistical results, the CG mechanisms were found to be significant with LVD at the 1%, except board size was found to be insignificant with LVD. However, NEDs, Audit committee and Audit firm were found be positively associated significant with LVD at the 1% level, while Role duality was found be negatively associated significant with LVD at the 1% level.

As indicated in table 8.22, Ownership structure was found to be positively insignificant associated with LVD. Concerning Firm characteristics, all independent variables were found mixed. Firm size and Liquidity were found to be positively significant associated with LVD at the 1%, and 5% levels respectively, while Profitability was found to be negatively significant associated with LVD at the 1% level. However, Firm age and Gearing were found to be positively insignificant associated with LVD.

Table 8 .16 Results of 75% Quantile regression analyses

Raw sum of deviations 35.5375 (about 1.7625) No of Obs=620
Pseudo R2= 0.3933 Min sum of deviations=21.55898

LVD	Coef.	t	P>t
NEDs	**.180138**	**9.82**	**0.000**
Board Size	**-.003187**	**-0.01**	**0.990**
Role Duality	**-.034797**	**-5.23**	**0.000**
Audit Committee	**.018658**	**3.34**	**0.001**
Audit Firm	**.051392**	**7.97**	**0.000**
Ownership	**.008463**	**1.31**	**0.191**
Firm size	**.082608**	**3.03**	**0.003**
Firm Age	**.000143**	**0.65**	**0.515**
Liquidity	**.105887**	**2.5**	**0.013**
Gearing	**.038641**	**0.58**	**0.564**
Profitability	**-.037448**	**-2.85**	**0.004**
Constant	**1.195337**	**1.49**	**0.137**

Summary of the results of quantile model

Table 8.17 shows summary of the results of the quantiles model, which employed 25%, 50% and 75% quantiles in this study. The results of CG mechanisms were in disagreement with LVD in the quantiles models. NEDs was found to be positively significant associated with LVD at the 1% level in all quantile models (25%, 50% and 75%); thus, based on the finding of all quantile models, NEDs was positively associated with LVD at the 1% level. Board size was found to be negatively insignificant associated with LVD in the 25% and 75% quantile models, while it was found to be negatively associated with LVD at 10% in median quantile models. Based on previous results, Board size was found to be negatively insignificant associated with LVD. There is agreement between the results of all quantile models about the relationship of Role duality and LVD; it was found to be negatively significant associated with LVD at the 1% level in all quantile models. There is disagreement between the results of all quantile models about the relationship of Audit committee and LVD; it was found to be positively significant associated with LVD at the 5% and 1% level in 25% quantile model and 75% quantile model respectively, while it was positive insignificant in the median quantile model. Thus, based on the results of all quantile models, Audit committee was found to be positive significant with LVD at the 5% level. Audit firm was found to be positively significant associated with LVD at the 1% level in all quantile models.

Concerning Ownership structure, it was found to be positively significant associated with LVD at the 5% level in the 25% quantile model, while it was found to be positively insignificant associated in the 50% and 75% quantile models. Thus, based on the results, Ownership structure was found to be positively insignificant associated with LVD.

However, with regard to Firm characteristics, there are mixed results, Firm size was found to be positively significant associated with LVD at the 1% level in the all quantile models, Thus, based on these results Firm size was found to be positive significant associated with LVD at the 1% level. Firm age was found to be positively insignificant associated with LVD in all quantile models. So based on these results Firm age was found to be positively insignificant associated with LVD. Liquidity was found to be positively significant associated with LVD at the 5% level in the 50% and 75 % quantile models, while it was positive insignificant with LVD in 25% quantile model. Thus, based on the finding of all quantile models, Liquidity was found to be positively significant associated with LVD at the 5% level. Gearing was found to be positively significant associated with LVD at the level 5% and 10% in the 25% and 50 % quantile models respectively, while it was found to be positively insignificant associated with LVD in 75% quantile model. Thus, based on the finding of all quantile models, Gearing was found to be positively significant associated with LVD at the level 10%. Profitability was found to be negatively insignificant with LVD in the 25% and 50% quantile models, while it was negatively significant with LVD at the level 1% in the 75% quantile model. Thus, based on the results of all quantile models, Profitability was found negative significant associated at the 10% level with LVD.

Table 8 .17 summary of Quantiles model

LVD	25	50	75	cumulative results
NEDs	+***	+***	+***	+***
Board Size	-	-*	-	-
Role Duality	-***	-***	-***	-***
Audit Committee	+**	+	+***	+**
Audit Firm	+***	+***	+***	+***
Ownership	+**	+	+	+
Firm size	+***	+***	+***	+***
Firm Age	+	+	+	+
Liquidity	+	+**	+**	+**
Gearing	+**	+*	+	+*
Profitability	-	-	-***	-*

8.5.5 Summary of the results of all regression models

From the results of the different regression models, it can be noticed that there is some agreement between the results of the different regression models about the significant variables related to LVD in Kuwaiti listed companies.

It can be noted from the results of the CG mechanisms, almost variables are consistent in level of significance through all regression models. NEDs and Audit firm which were found to be positively significant associated with LVD at the 1% level in all regression models, while Role duality was found to be negatively significant associated with LVD at the 1% level in all regression models. However, Audit committee was found to be positively significant associated with LVD at the 1% level in all regression models, except in the quantile models; the cumulative result of the quantile models indicate Audit committee was found to be positively significant associated at the 5% level. Board size was found to be negatively insignificant associated with LVD in all regression models.

Regarding Ownership structure, it was found to be positively insignificant associated with LVD in all regression models, In respect of Firm characteristics, the results were found to be different through all regression models. Firm size was found to be positively significant associated with LVD at the 1% level in all regression models. Firm age was found to be positively insignificant associated with LVD in all regression models, except in normal score model it was found to be positively significant associated with LVD at 5% level. Regarding Liquidity, there was

agreement among the results in all regression models, where it was found to be positive significant at the 5% level. Gearing was found was found to be positively insignificant associated with LVD in all regression models, except the cumulative results of the quantile models it was found to be positively insignificant associated with LVD at 10%. For Profitability, there was agreement among the results in all regression models, except the quantile model. Profitability was found to be negatively insignificant associated with LVD all regression models, except the cumulative results of the quantile models it was found to be negatively insignificant associated with LVD at 10%.

In the light of above discussion, it be noticed that, after following the fourth approach of Draper (1988), the results of the different regression models employed in the present study (GLS model, Tobit model and Quantile model) support almost all of the results of the OLS model (transformation) for the significant variables related to the CG mechanisms and Ownership structure. They also support almost all the significant variables related to the Firm characteristics variables. The normal score model support all results of the OLS model.

8.6 Summary of the Regression Results related to the Categories of LVD

As previously mentioned in chapter 4, many scholars started to analyse the categories of index disclosure based on the model developed by Meek et al. (1995), who examined factors influencing voluntary disclosure of three types of information (strategic, non-financial, financial) contained in the annual reports of MNCs from the US, UK and continental Europe. Ferguson et al. (2002), examined the impact of international capital market pressures on voluntary disclosure of three types of information (strategic, financial, and non-financial) in the annual reports of Republic of China (PRC) enterprises, listed on the Stock Exchange of Hong Kong (SEHK). Adjusted R-squareds of the different categories ranged from 14.7% for the non-financial information category to 33% for the financial information category. Leventis and Weetman (2004) divided voluntary disclosure of companies listed on the Athens Stock Exchange (ASE) into three categories, namely, corporate environment, social responsibility and finance-related disclosures. Adjusted R-

squareds of the different categories ranged from 15.4% for the social responsibility category to 29.3% for the financial information category. Lim et al. (2007) examined the association between board composition and voluntary disclosure in the annual reports of Australian companies by dividing voluntary disclosure into four categories, namely, forward looking quantitative, strategic, non-financial and historical financial; they found the adjusted R-squareds were 20.69%, 6.01%, 21.25% and 34.37%, respectively.

Al-Shammari (2008), in Kuwait, divided voluntary disclosure into three categories (corporate environment, social responsibility, and financial information). The adjusted R-squareds of the different categories were 39.5% for the corporate environment category, 12.1% for the social responsibility category and 11.5% for the financial information category. From previous studies, one can obtain more information about the categories and the extent of their impact on the overall LVD. The OLS model was employed to investigate the relation between each category of voluntary disclosure and the independent variables. In this study, LVD is categorised into six main categories, i.e. (GCI), (BDM), (SCS), (EI), (CSD) and (O) categories (see table 4.3). Therefore, six models were employed for OLS regression and GLS regression as well.

Table 8.24 presents the results of the OLS regression between each category of voluntary disclosure and the independent variables. The first ranked adjusted R-squared was the (CGI) category at 39.75%, and the last ranked adjusted R-squared was for the (O) category at 24.23%. The second ranked adjusted R-squared was the (CSD) category at 37.57%, followed by the (SCS), (EI) and (BDM) categories at 32.41%, 27.21% and 26.94%, respectively.

Regarding CG mechanisms, the findings of all models show that NEDs was found to be significant associated at the 1% level with all categories; it was positively associated with the (SCS), (EI), (CSD) and (O) categories, while it was negatively associated with other categories. Board size was found to be negatively significant associated with just the (SCS) at the 5% level. Role duality was found to be positively significant associated with just the (GCI) and (BDM) categories at the 1% level, while it was negatively positively significant associated with the (SCS) and

(CSD) categories at the 1% level. Audit committee was found to be negatively significant associated at the 1% level just with the (CGI) category, while it was positively significant with the (CSD) and (o) categories. Audit firm was found to be negatively significant associated at the 1% level just with the (CGI) and (BMD) categories at the 1% level, while it was positively significant with the others categories at the 1% level.

Concerning Ownership structure, it was found to be positively significant associated at the 5% level with the (O) category, while it was insignificant with other categories. In respect of Firm characteristics, Firm size was found to be positively significant associated at the 1% level with the (SCS), (EI), (CSD) and (O) categories, while it was found to be negatively significant associated at the 1% level with the (BMD) category. Firm age was found to be positively significant associated with the (EI) category at the 10% level. However, Liquidity was found to be positively significant associated at the 1% level with the (O) category. Gearing was found to be insignificant associated with all categories. Profitability was found to be positively significant associated at the 5% level with the (BDM) category, while it was found to be positively significant associated at the 10% level with the (CGI) category.

Table 8 .18 Results of regression analyses related to the categories

Variable	CGI		BMD		SCS		EI		CSD		O	
LVD	**Coef**	**p>t**	**Coef**	**p>t**	**Cof.**	**p>t**	**Cof.**	**p>t**	**Cof.**	**p>t**	**Cof.**	**p>t**
NEDs	-.16010	0.000	-.0684	0.000	.26678	0.000	.710349	0.004	.878253	0.005	.19094	0.000
Board Size	-.217057	0.577	.09783	0.638	-1.4968	0.033	-3.9097	0.252	5.39862	0.209	-.84466	0.205
Role Duality	.063499	0.000	028325	0.000	-.05557	0.002	-.03231	0.712	-.47533	0.000	.00156	0.927
Audit Committee	-.0219264	0.013	-.00095	0.839	.01720	0.277	.054265	0.481	.33350	0.001	.05450	0.000
Audit Firm	-.0683395	0.000	-.0209	0.000	.11414	0.000	.56576	0.000	.541617	0.000	.09685	0.000
Ownership	-.0078204	0.443	-.00521	0.339	-0.0199	0.276	.081436	0.362	-.02513	0.823	0.0441	0.012
Firm size	-.0503693	0.174	-.05228	0.008	.426373	0.000	1.93365	0.000	2.9792	0.000	.19007	0.003
Firm Age	-.0000676	0.839	-.00016	0.379	-.00017	0.780	.005717	0.051	.00581	0.114	-.00547	0.990
Liquidity	-.0602802	0.329	-.02973	0.367	.111875	0.314	-.57206	0.290	.459228	0.499	.31019	0.003
Gearing	.0255581	0.780	.017368	0.722	.221136	0.180	-.62247	0.438	1.25651	0.213	.18211	0.245
Profitability	.0356427	0.074	.021491	0.043	-.04570	0.202	-.11247	0.519	-.16777	0.444	.015466	0.650
Constant	2.182357	0.074	2.23374	0.001	4.31817	0.050	9.98976	0.351	-5.9627	0.054	1.56686	0.454
Adjusted R- squared	**0.3975**		**0.2694**		**0.3241**		**0.2721**		**0.3757**		**0.2423**	

8.7 Summary of the Regression Results of LVD related to Industrial Type

As mentioned in section 8.3.3, with regard to the variable Industrial type, there are 51 financial companies and 104 non-financial companies. The results of both parametric and non-parametric tests for Industrial type show there is a significant relationship between LVD of Kuwaiti listed companies.

Industrial type has been addressed in several previous studies to investigate whether it has an impact on disclosure. While some studies found significant relationship between voluntary disclosure and industry type (Wallace et al., 1994; Patton and Zelenka, 1997; Al-Janadi et al., 2013), other studies found insignificant relationship between them (Abu-Nassar and Rutherford, 1995; Wallace and Naser, 1995; Camfferman and Cooke, 2002; Akhtaruddin, 2005). However, Craig and Diga (1998) found a negative relationship between industry membership and voluntary disclosure.

Table 8.24 shows the results of OLS regression for financial companies. The independent variables explained around 69.58% of the OLS regression of LVD measured with adjusted R-squared with an F-ratio of 43.22. This is significant with a probability less than .001. All independent variables of the CG mechanisms were found to be significant associated at the 1% and 5% levels with LVD, except Board size that was found to be insignificant associated with LVD. NEDs and Audit firm were found be positively significant associated with LVD at the 1% level, while Audit committee was found be positively significant associated with LVD at the 10% level. On the other hand, Role duality was found be negatively significant associated with LVD at the 1% level.

Table 8 .19 Results OLS regression of LVD by financial type

LVD	Coef.	t	P>t
NEDs	.2316499	7.81	0.000
Board Size	-.3833384	-0.91	0.366
Role Duality	-.0257697	-2.85	0.005
Audit Committee	.0173543	1.97	0.050
Audit Firm	.047171	4.63	0.000
Ownership	-.0018446	-0.15	0.877
Firm size	.1216161	3.36	0.001
Firm Age	.0001919	0.62	0.539
Liquidity	.1042378	1.99	0.048
Gearing	-.0354898	-0.47	0.638
Profitability	-.0361922	-2.16	0.032
Constant	2.262101	1.71	0.088
F		43.22	
Prob. > F		0.000	
R- squared		0.7123	
Adjusted R- squared		0.6958	

As indicated in table 8.24, Ownership structure was found to be negatively insignificant associated with LVD. Concerning Firm characteristics, all independent variables were found mixed. Firm size was found to be positively significant associated with LVD at the 1% level, while Liquidity was found to be positively significant associated with LVD at the 5% level. On the other hand, Profitability was found to be negatively significant associated with LVD at the 5% level, while Firm age and Gearing were found to be insignificant associated with LVD.

Table 8.25 shows the results of OLS regression for non-financial companies. The independent variables explained around 54.46% of the OLS regression of LVD, measured by adjusted R-squared with an F-ratio of 46.13, which is significant with a probability less than .001. All independent variables of the CG mechanisms were found to be significant associated at the 1% and 5% levels with LVD, except Board size that was found to be insignificant associated with LVD. NEDs and Audit firm were found be positively significant associated with LVD at the 1% level, while Audit committee was found be positively significant associated with LVD at the 5% level. On the other hand, Role duality was found be negatively significant associated with LVD at the 1% level.

Table 8 .20 Results OLS regression of LVD by Non-financial type

LVD	Coef.	t	P>t
NEDs	.1445774	7.68	0.000
Board Size	-.3915204	-1.57	0.118
Role Duality	-.0563903	-8.41	0.000
Audit Committee	.0132533	2.30	0.022
Audit Firm	.0428427	6.25	0.000
Ownership	.0028889	0.45	0.651
Firm size	.0625219	2.50	0.013
Firm Age	.0002173	0.95	0.340
Liquidity	.0303918	0.67	0.502
Gearing	.1380967	2.08	0.038
Profitability	-.0017765	-0.12	0.902
Constant	2.389883	3.05	0.002
F		46.13	
Prob. > F		0.000	
R- squared		0.5567	
Adjusted R- squared		0.5446	

As indicated in table 8.25, Ownership structure was found to be positively insignificant associated with LVD. Concerning Firm characteristics, all independent variables were found mixed. Firm size and Gearing were found to be positively significant associated with LVD at the 5% level, while Firm age, Liquidity and Profitability were found to be insignificant associated with LVD.

As seen in the results of tables 8.24 and 8.25, there are disagreements in results between financial companies and non-financial companies regarding the relationship between the dependent variable (LVD) and independent variables of the present study. Concerning the CG mechanisms, NEDs, Board size, Role duality and Audit firm have same result in both Industrial types, while Audit committee was found to be positive significant at the 10% level in the financial type and at the 5% level in the non-financial type. Regarding ownership structure, it was negative insignificant in the financial type, while it was found to be positive insignificant in the non-financial type.

In respect of Firm characteristics, the results were found to be different in the two regression models. Firm size was found to be positive significant at the 1% level in the financial type, while it was found to be positive significant at the 5% level in the

non-financial type. Firm age has the same result in both types. Liquidity was found to be positive significant at the 5% level in the financial type, while it was found to be insignificant in the non-financial type. Gearing was found to be negative insignificant in the financial type, but it was found to be positively significant associated with LVD at the 5% level in the non-financial type. Profitability was found to be negatively significant associated with LVD at the 5% level in the financial type, while it was negatively insignificant in the non-financial type.

8.8 Conclusion

This chapter is the second part of the empirical work; the purpose of this chapter is to identify the determinants of LVD practices in the annual reports of Kuwaiti listed companies. It starts with a description of the continuous independent variables, then quantitatively investigates the relationship between LVD as dependent variable and the independent variables (CG mechanisms, Ownership structure and Firm characteristics) over the four years.

A variety of statistical tests and analyses were employed to analyse the dataset in the current study, including two types of analysis, bivariate and multivariate. In the bivariate analysis, five different tests were employed: Pearson and Spearman correlation coefficients, as parametric and non-parametric tests, were used to examine the correlation between LVD and each of the continuous variables, i.e. NEDs, Board size, Firm size, Firm age, Liquidity, Gearing and Profitability. Mann-Whitney tests and T-tests, as parametric and non-parametric tests, were employed to test the correlation between LVD and each of the nominal independent variables, i.e. Role duality, Audit committee, Audit firm, Ownership structure and Industrial type. The results of the bivariate analysis of LVD in the annual reports of Kuwaiti listed companies were reported for 155 companies in the Kuwait Stock Exchange; these results revealed a significant association between the dependent variable, LVD, and some of the independent variables.

In the multivariate analysis, a regression analysis was undertaken in order to examine the research hypotheses in this study. Deciding on an appropriate statistical method, the data was checked to validate the assumptions of the Ordinary Least Squares

Regression; the results showed the assumptions for the Ordinary Least Squares Regression were violated by the data in the current study. Several approaches to deal with this violation were therefore used.

Transformation was undertaken in order to meet the assumptions of the Ordinary Least Squares Regression; normal scores was therefore used. Sensitivity analysis to check the robustness of the regression analysis was run using the GLS regression, Tobit regression and Quantile regression models. The results of all regression models analyses of the association between the dependant variable, LVD, and independent variables were presented.

The OLS model (transformed) was used to investigate the relation between each category of LVD and the independent variables; also, the OLS model (transformed) was used to investigate LVD based on the different Industrial types. Therefore, the following chapter (chapter 9) discusses the results from this chapter, and analyses them in terms of the theoretical framework adopted and linked with previous studies.

Chapter 9: Findings

9.1 Introduction

The purpose of this chapter is to report the results of the level of voluntary disclosure and its categories for Kuwaiti companies listed in the Kuwait stock market. Also, report the effect of corporate governance mechanisms, ownership structures and firm characteristics in determining the level of voluntary disclosure. In this study, many statistical analyses were employed, such as Univariate and Multivariate Analysis. Univariate analysis is used to assess the association between LVD and each independent variable. For continuous variables (i.e. NEDs, Board size, Firm size, Firm age, Liquidity, Gearing, Profitability) correlation coefficients were used. Pearson correlation, as parametric test, was used when the normality assumption was satisfied, while Spearman rank correlation, as non-parametric tests, was used if the assumption of normality was violated. On the other hand, multivariate analysis is applied to several explanatory variables simultaneously.

This chapter is organised as follows: evaluation of the disclosure index in section 9.1: the results of hypotheses related to the CG mechanisms in section 9.2; Non-executive directors in subsection 9.2.1; Board size in subsection 9.2.2; Role duality in subsection 9.2.3; Audit committee in subsection 9.2.4; and Audit firm in subsection 9.2.5. The result of the hypothesis related to Ownership structure is in section 9.3. The results of the hypotheses related to Firm characteristics is in section 9.4; Firm size in subsection 9.4.1; Firm age in subsection 9.4.2; Liquidity in subsection 9.4.3; Gearing in subsection 9.4.4; Profitability in subsection 9.4.5. Finally, the summary is presented in section 9.5.

9.1 Evaluation of the disclosure index

Kuwaiti companies show a low overall level of voluntary disclosure. The average of LVD over four years is 25.80%. In 2007, the mean was 10.48; in 2008 and 2009, the mean grew steadily to around 13.70; but in 2010, it increased dramatically to around 16.86 with a range of 7 to 40 items. Even though this suggests that there has been some improvement in LVD, still the average LVD is lower than in other studies. In

addition, this supports this researcher's decision to focus in the current study on investigating which factors will enhance LVD in Kuwaiti listed companies.

Although the average of LVD is low, there is an increasing extent of LVD over the period of study, as indicated in Figure 7.1: 20.69% in year 2007 then 21.10% in 2008, increasing dramatically in 2009 to 27.41%, and continuing to increase dramatically also in 2010 to reach 33.72%. The average of LVD over four year is 25.80%. There is a wide distinction in the level of voluntary disclosure between different empirical studies. Despite this it would be especially interesting to compare disclosure scores among many studies.

Suwaidan (1997) states an average of 39% score for voluntary disclosure by listed Jordanian companies (measured by a 75-item disclosure index). In Hong Kong, Ho and Wong (2001) report an average of 29% score for voluntary disclosure. Leventis and Weetman (2004) state an average of 39% score for voluntary disclosure by listed Greek companies (measured by a 72-item disclosure index divided into four categories). Ghazali and Weetman (2006) find an average of 31.4% score for voluntary disclosure by listed Malaysia companies (measured by a 53-item disclosure index). This shows that the LVD by Kuwaiti listed companies is low. However, one must pay attention to differences of economic environment, sample size, components of the index disclosure and the time of the study when making comparisons with previous studies.

Regarding the contribution of the different components of LVD to the LVD score over the period of study (2007-2010), the items of (GCI) have the largest contribution to LVD with average score 37.20% over the four-year period. It is without doubt that these items are deemed to be of a degree of importance to investors because it is a principal entrance to investing in listed companies. In addition, the second largest contribution comes from items of (BDM) with average score 22.40%, items about (O) with average score 15.40%. Then come in descending order each of (SCS) and (CSD) with averages scores 12.55% and 8.26%, respectively. (EI) has the lowest proportion in the total voluntary index with average score 4.19%. The low level of (EI) is considered reasonable because Kuwaiti listed companies consider this information useless for investors. Although this detailed information about employees, such as geographical distribution of employee,

categories of employees by gender, and others mentioned in the section on employee information in voluntary disclosure is necessary for government agencies, it can be obtained by other means.

9.2 Results for Corporate Governance Mechanisms

Five variables related to CG mechanisms, namely, Non-executive Directors, Board size, Role duality, Audit Committee and Audit firm, have been investigated in the present study. Using bivariate and multivariate analyses (five models), Table 9.1 shows the results of the different statistical analyses. These findings are analysed and discussed based on the theoretical framework and conclusions are drawn from the statistical results.

Table 9.1 Corporate Governance Mechanisms: results summary

CG Mechanisms	Bivariate	OLS 1	OLS 2	GLS	Tobit	Cumulative of Quantile
NEDs	+**	+***	+***	+***	+***	+***
Board Size	+**	-	-	-	-	-
Role Duality	-**	-***	-***	-***	-***	-***
Audit Committee	+**	+***	+***	+***	+***	+**
Audit Firm	+**	+***	+***	+***	+***	+***

9.2.1 NEDs

As indicated in Table 9.1, the findings of the bivariate analysis and the multivariate analysis agreed about the positively significant association of Non-executive directors with LVD in the annual reports of Kuwaiti listed companies. The findings of this variable were found to be significant at the 1% level in all the different statistical methods employed in the present study. This result is consistent with the findings of previous studies, e.g. Chen and Jaggi (2000), Leung and Horwitz (2004), Cheng and Courtenay (2006), Lim et al. (2007), Donnelly and Mulcahy (2008), Akhtaruddin et al. (2009), Al-Janadi et al. (2013) and Uyar et al. (2013). They found a positively significant relation between Non-executive directors of the board and LVD. However, this is in contrast to the findings of Eng and Mak (2003), Barako et

al. (2006), Rouf (2011), and Damagum and Chima (2013), who provide evidence of negatively significant association of Non-executive directors of the board and voluntary disclosure in Singapore, Kenya, Bangladesh and Nigeria, respectively. This is also in contrast with Mohamad and Sulong, (2010), in Malaysia, who found no association; Haniffa and Cooke (2002), in Malaysia, who found negative association between Non-executive directors of the board and voluntary disclosure but it was insignificant association. Hasan et al. (2013), in Bangladesh, did not find any significant association between board independence and level of disclosure. In addition, Dhouibi and Mamoghli (2013) examined the determinants of voluntary disclosures of listed banks in Tunisia, but they did not find any significant association between board independence and the level of disclosure of banks in Tunisia. Note that they have different results due to the difference in the role played by non-executive directors in accordance with their countries' different cultures.

As mentioned in Chapter 8, from Table 8.1, the average of Non-executive directors was 0.7810, while Al-Shammari and Al-Sultan (2010) found the average of non-executive directors was 0.82, but their sample was 170 companies. That percentage shows that the Kuwaiti companies listed are interested in appointing non-executive directors on their boards of directors, which finding is in line with the evidence from previous studies that non-executive directors increasingly affect LVD. Therefore, shareholders and investors will expect to have more disclosure and transparency from companies that have non-executive directors on their boards of directors. This suggests that companies with a larger proportion of non-executive directors disclose more information voluntarily in their annual reports and it will be to minimising of managerial opportunism. Based on the findings of the present study, **we accept hypothesis H1**: *There is a positive association between the non-executive directors and the level of voluntary disclosure in annual reports of the Kuwaiti companies.*

9.2.2 Board size

There is a significant relationship between the board size and LVD in parametric and non-parametric tests in the bivariate analysis. But in all statistical methods employed in the multivariate analysis there is an insignificant relationship between the board size and LVD. From Table 9.1, the results of Board size indicate there is a positively

significant relationship between Board size and LVD in the annual reports of the Kuwaiti companies LVD in parametric and non-parametric tests in the bivariate analysis. All in all, the multivariate analysis found a negatively insignificant association between the board size and LVD.

However, the results of the multivariate analysis are consistent with previous empirical findings, which found insignificant association between board size and LVD (Arcay and Vazquez, 2005; Cheng and Courtenay, 2006; Donnelly and Mulcahy, 2008; Abeysekera, 2010; Hasan et al., 2013; and Uyar et al., 2013). In addition, some others found negative association, such as Parsa et al. (2007), Dhouibi and Mamoghli (2013) and Damagum and Chima (2013), while some studies found a positive association between board size and voluntary disclosure, for example, Hussainey and Al-Najjar (2011), Al-Janadi et al. (2013) and Zaheer (2013).

However, from descriptive continuous variables in Table 8.1, the mean Board size over the four years is about 6.30 members, with minimum 3 and maximum 11 members. Board size is different from country to country, which depends on laws and legislation specific to each country. It can be seen from Table 9.1 that board size has a negative insignificant association with LVD Thus, **we reject hypothesis H2**: *There is a negative association between the board size and the level of voluntary disclosure in the annual reports of Kuwaiti companies.*

9.2.3 Role duality

This variable is considered one of the strongest variables to explain LVD in the annual reports of Kuwait listed companies. The findings of all the statistical methods employed in the multivariate analysis confirm the results of the bivariate analysis. Role duality was found to be negatively associated with the total of voluntary disclosure at the 1% level; the result of this variable is consistent with the result of the first variable (NEDs), but it was positively significant.

This result is consistent with previous studies, such as Forker (1992), Haniffa and Cooke (2002), Gul and Leung (2004), Xiao and Yuan (2007), Donnelly and Mulcahy (2008), Laksmana (2008), Al-Shammari and Al-Sultan (2010), and Al-Janadi et al. (2013), who provide evidence of the negatively significant association of Role

duality and voluntary disclosure. However, it contradicts the evidence presented by Abed et al. (2011) and Rouf (2011) who found that the extent of forecast disclosures is positively significant related to dual leadership structure, while some studies indicate that there is no significant association of Role duality with LVD, for example, Arcay and Vazquez (2005), Barako et al. (2006), Ghazali and Weetman (2006), Cheng and Courtenay (2006), Zaheer (2013), Hasan et al. (2013) and Dhouibi and Mamoghli (2013). From Table 8.3, it may be noted that 368 companies have role duality. As mentioned in the literature review, there are two points of view about what the best situation is to launch more disclosure. Recalling that the role duality is where one person holds the roles of chairman and CEO. Based on the empirical results from Table 9.1, **we reject hypothesis H3**: *There is a positive association between the role duality and the level of voluntary disclosure in the annual reports of Kuwaiti companies.*

9.2.4 Audit committee

It can be seen from Table 9.1 that both bivariate and multivariate analyses provided identical results about the direction and the significance of Audit committee and LVD in the annual reports of Kuwaiti listed companies. Audit committee was found to have positively significant association at the 1% level in all multivariate analyses, while in the quantile model it was positively significant at the 5% level with LVD. From Table 8.3 there are 79 companies from 155 companies that have an audit committee. The role of the audit committee is to deal with external auditors who review financial statements and internal control, and thus ensure the provision of high quality financial information to stakeholders. The presence of an audit committee is related with confident financial statements, for example, reduced rate of errors, irregularities and the confirmation function of external financial reporting (Rouf، 2011). The findings here on Audit committee are consistent with previous studies, such as Wright (1996), McMullen (1996), Ho and Wong (2001), Bliss and Balachandran (2003), Arcay and Vazquez (2005), Barako et al. (2006), Kent and Stewart (2008), Wang et al. (2008), Samah (2010) and Rouf (2011). On the other hand, some studies found no significant relation between the Audit committee and LVD, such as Forker (1992) and Akhtaruddin et al. (2009), while Abbott et al. (2004) found a negative relation between audit committee independence on the board

and financial reporting statements. Based on the statistical results, **we accept hypothesis H4**: *There is a positive association between the Audit committee and the level of voluntary disclosure in the annual reports of Kuwaiti companies.*

9.2.5 Audit firm

The findings in Table 9.1 show agreement between the bivariate analysis and the multivariate analysis about the positively significant association of Audit firm with LVD in the annual reports of the investigated companies. The findings of the bivariate analysis indicate that it was found to be positively significant associated at the 1% level; also, the different statistical techniques employed in the multivariate analysis show the positively significant association of Audit firm with LVD in the annual reports at a 1% level.

58 companies out of 155 companies were audited by one of the Big Four audit firms during 2007-2010. The result here is consistent with previous studies, which found a positively significant association between audit firms and LVD. For example, Craswell and Taylor (1992), Raffournier (1995), Inchausti (1997), Patton and Zelenka (1997), Bonsón and Escobar (2006), Bassett et al. (2007), Uyar (2011), Al-Janadi et al. (2013), Uyar et al. (2013) and Hasan et al. (2013). However, other studies found insignificant association, such as Malone et al. (1993), Wallace et al. (1994) Hossain et al. (1995), Al-Saeed (2006), Huafang and Jianguo (2007), Chau and Gray (2010), Soliman (2013) and Dhouibi and Mamoghli (2013). Based on the statistical results of bivariate and multivariate analyses, **we accept hypothesis H5**: *There is a positive association between the audit firm and the level of voluntary disclosure in the annual reports of Kuwaiti companies.*

9.3 Results for Ownership Structure

Table 9.2 shows the results related to Ownership structure investigated in the present study. As can be seen from the table, the results indicate a weak association between Ownership structure and LVD.

Table 9.2: Ownership structure results summary

	Bivariate	OLS		GLS	Tobit	Quantile
		1	**2**			
Ownership structure	+	+	+	+	+	+

It can be seen from Table 9.2 that both bivariate and multivariate analyses provided identical results about the direction and the significance of Ownership structure and LVD in the annual reports of Kuwaiti listed companies. Ownership structure was found to have a positively insignificant association in bivariate tests and in all multivariate analyses.

The approach of La Porta et al. (1999) was adopted in this study to determine the ownership structure: if an investor owns (directly or indirectly) more than 20% of the company's shares, the company has concentrated ownership. As indicated in the previous chapter, Table 8.3 shows 122 companies belong to ownership concentration, and the rest belong to ownership diffusion.

Hasan et al. (2013), who examined the relationship between concentrated ownership and LVD in Bangladesh, found concentrated ownership has the power to influence LVD, while White et al. (2007) found insignificant association between disclosure practice and ownership concentration in Australian biotechnology companies. In addition, Bozzolan et al. (2006) and Woodcock and Whiting (2009) failed to find any proof of ownership concentration affecting LVD. On the other hand, Haniffa and Cooke (2002) found that ownership diffusion is positively significant associated with LVD. In addition, Gelb (2000) reported there was positively significant association between the quality of annual reports and ownership diffusion. **We reject hypothesis H6***: There is a positive association between the ownership concentration and the level of voluntary disclosure in annual the reports of Kuwaiti companies.*

9.4 Results for Firm Characteristics

As indicated in Chapter 2, firm characteristics represent the main investigated determinants of voluntary disclosure in the previous studies. This section discusses the results of the bivariate and multivariate analyses related to the Firm characteristics variables. Table 8.17 summarises the statistical results of all statistical methods employed in the current study on Firm characteristics.

Table 9.3 Firm Characteristics: results summary

Firm Characteristics	Bivariate	OLS		GLS	Tobit	Quantile
		1	2			
Firm size	+**	+***	+***	+***	+***	+***
Firm age	+**	+	+**	+	+	+
Liquidity	-**	+**	+**	+**	+**	+**
Gearing	+**	+	+	+	+	+
Profitability	-	-	-	-	-	-*

9.4.1 Firm size

As indicated in Table 9.3, the findings of the bivariate analysis and the multivariate analysis agreed about the positive significant association of Firm size with LVD in the annual reports of Kuwaiti listed companies. The findings of this variable were found to be significant at the 1% level in all the different statistical methods employed in the present study. That means the larger companies (total assets) are more willing to disclose more information voluntarily in their annual reports than the small companies. McNally et al. (1982) concluded that size was a dominant corporate characteristic in establishing the leaders in voluntary disclosure practice.

A number of previous disclosure studies have investigated various determinants of companies' voluntary disclosure practices. A positively significant association between firm size and LVD has been documented in many studies. For example; Cooke (1992, 1993), Wallace et al. (1994), Hossain et al. (1995), Inchausti (1997), Ahmed and Courtis (1999), Eng and Mak (2003), Ghazali and Weetman (2006), Barako et al. (2006), Al-Saeed (2006), Hossain and Hammami (2009), Al-Janadi et al. (2013), Soliman (2013), Ullah (2013), Dhouibi and Mamoghli (2013), Uyar et al. (2013) and Wijana et al. (2013). While some studies found insignificant association

between firm size and disclosure, such as Aljifri and Hussainey (2007), they found firm size has insignificant association with the level of forward-looking information disclosed in UAE annual reports. In addition, Hasan et al. (2013) in Bangladesh concluded there was an insignificant association between size and disclosure. Based on the results of the current study, **we accept hypothesis H7**: *There is a positive association between the firm size and the level of voluntary disclosure in the annual reports of Kuwaiti companies.*

9.4.2 Firm age

The findings in Table 9.1 show a disagreement between the results of bivariate and multivariate analyses about the direction and the significance of the firm age variable with LVD in the annual reports of the investigated companies. The findings of the bivariate analysis indicate that Firm age was found to be positively significant associated at the 1% level. On the other hand, the different statistical techniques employed in the multivariate analysis show a positively insignificant relationship between firm age and LVD in the annual reports. But the normal score model indicates that Firm age was found to be positively significant associated at the 5% level with LVD in the annual reports.

The age of the company is considered one of the modern variables that has been discussed recently (Camfferman and Cooke, 2002). Most of the disclosure studies found insignificant association between the age of the company and disclosure; for example, Haniffa and Cooke (2002), Hossain and Reaz (2007), Uyar et al. (2013), Wijana et al. (2013) and Soliman (2013). However, some studies found positively significant association between the age of the company and disclosure, such as Carlin et al. (2006) in Hong Kong, Camfferman and Cooke (2002) in British and Dutch companies, and Hossain and Hammami (2009) in Qatar. In Saudi companies, Al-Saeed (2006) found a positively significant association, but after deleting highly-ranked companies.

However, Table 8.2 shows the Firm age of the Kuwaiti listed companies ranges from 1 year to 58 years. Many studies indicate that the older companies are ready to disclose more information voluntarily in their annual reports. That indicates the older

companies have business experience and customer loyalty; also, they know how to increase customer satisfaction by determining relevant information sufficiency. Therefore, older companies seek to disclose more information to their clients. But in this study, the different statistical techniques employed in the multivariate analysis found a positively insignificant relationship between firm age and LVD in the annual reports. Based on the results of the current study, **we accept hypothesis H8**: *There is no association between the firm age and the level of voluntary disclosure in the annual reports of Kuwaiti companies*.

9.4.3 Liquidity

As shown in Table 8.15, the bivariate and multivariate analyses provide different results regarding the significance of the relationship between Liquidity and LVD. While the results of the bivariate analysis indicate that it was found to be negatively significant at the 1% level with LVD, the multivariate analysis indicated significance of Liquidity with LVD. It was positively significant at the 5% level in all regression models. This result suggests that Liquidity has an effect on LVD.

The result of the present study is consistent with Cooke (1989), Camfferman and Cooke (2002), Al-Moataz and Hussainey (2012), Nandi and Ghosh (2012) and Mathuva (2012), who found a positive relationship between liquidity and disclosure. However, this is in contrast to the results of Wallace et al. (1994), Naser et al. (2002), and Mangena and Pike (2005), who found a negative relationship between liquidity and disclosure. In addition, Belkaoui and Kahl (1978), Barako et al. (2006) and Elzahar and Hussainey (2012) did not find any significant association between disclosure and liquidity. Based on the results of the current study, **we reject hypothesis H9**: *There is no association between the liquidity and the level of voluntary disclosure in the annual reports of Kuwaiti companies*.

9.4.4 Gearing

Both bivariate and multivariate analyses provide different results regarding the significance of the relationship between Gearing and LVD, as shown in Table 9.3. While the results of the bivariate analysis indicate that Gearing was found to be positively significant associated with LVD, the different statistical methods

employed in the multivariate analysis indicate positively insignificant association of Gearing with LVD. This result suggests that gearing does not have a significant influence on LVD in the annual reports of the Kuwaiti listed companies.

The finding of the current study is consistent with the findings of previous studies. For example, Chow and Wong- Boren (1987), Wallace et al. (1994), Raffournier (1995), Wallace and Naser (1995), Ahmed (1996), Chen and Jaggi (2000), Depoers (2000), Camfferman and Cooke (2002), Haniffa and Cooke (2002), Ghazali and Weetman (2006), Chau and Gray (2010), Elzahar and Hussainey (2012) and Hasan et al. (2013) documented evidence of insignificant association of gearing with LVD. However, this contradicts the results of other studies that concluded positively significant association between gearing and LVD, e.g. Malone et al. (1993), Hossain et al. (1995), Ahmed and Courtis (1999), Naser et al. (2002) and Camfferman and Cooke (2002). In addition, the result here is in contrast with Eng and Mak (2003) and Uyar et al. (2013), who found negatively significant association between gearing and LVD. Thus, **we accept hypothesis H10**: *There is no association between the* gearing *and the level of voluntary disclosure in the annual reports of Kuwaiti companies*.

9.4.5 Profitability

As indicated in Table 9-3, there was an agreement between bivariate analysis and the multivariate analysis of the significant negative relationship between profitability with the level of voluntary disclosure in the annual reports of investigated companies, except for the quantile model where it was negative association at the level of 10%. This result suggests that companies with higher Profitability disclose less information voluntarily in their annual reports.

This finding is consistent with the results of Wallace et al. (1994), Raffounier (1995), Meek et al. (1995), Hackston and Milne (1996), Al-Janadi et al. (2013) and Hasan et al. (2013) who found insignificant association between profitability and disclosure. In addition, other studies provide evidence of a negatively significant relationship between profitability and disclosure levels, such as Wallace and Naser (1995), Owusu-Ansah (1998), Inchausti (1997), Chen and Jaggi (2000), Barako et al. (2006) and Vandemele et al. (2009). On the other hand, this contradicts the findings of other studies that concluded positively significant association between profitability and

LVD, e.g. Haniffa and Cooke (2002), Ghazali and Weetman (2006), Agca and Onder (2007), Soliman (2013) and Damagum and Chima (2013). Thus, we reject hypothesis H11: *There is a positive association between the profitability and the level of voluntary disclosure in the annual reports of Kuwaiti companies.*

9.5 Summary

This chapter aimed to identify the determinants of voluntary disclosure practices in the annual reports of Kuwaiti listed companies. It reports the empirical findings of the relationship between the level of voluntary disclosure in the annual reports over the four years (from 2007 to 2010), and each of the corporate governance mechanisms, ownership structure and firm characteristics.

It was found that most corporate governance mechanisms have a significant relationship with the level of voluntary disclosure. Non-executive Directors, Audit Committee, and Audit firm have a positively significant association with voluntary disclosure; while Role duality has a negatively significant association with voluntary disclosure. On the other hand, Board size has a negatively insignificant association with voluntary disclosure.

However, Ownership structure has a positively insignificant association with LVD. Regarding Firm characteristics, Firm Size and Liquidity have positively significant association with voluntary disclosure, while Firm age and Gearing have a positively insignificant association with voluntary disclosure. However, Profitability has a negatively insignificant association with voluntary disclosure.

The next chapter presents the conclusions of this study. The chapter highlights a summary of the findings of the study, as well as the contribution of this study. The limitations of the study and where possible how to overcome these limitations are addressed. Also, suggestions are provided for further research.

Chapter 10: Conclusions, Contributions, Limitations and Future Research

10.1 Introduction

The thesis is expected to contribute to accounting knowledge in different perspectives. First, the thesis provides a comprehensive view of the previous studies that have discussed the level of voluntary disclosure, and the different recommended methods that are believed to use in measure the extent of voluntary disclosure. Second, it evaluates the level of disclosure through overall disclosure and its categories in Kuwait's business environment. Third, it provides a conceptual framework to show the relationship between the level of voluntary disclosure and its categories with the corporate governance mechanisms, ownership structure and firm characteristics, to find whether there are statistically significant relationships. Finally, it reviews the different theories that could offer the scientific basis to provide a full explanation of the study results.

The chapter will start with a brief reminder of the research objectives and research questions in section 10.2. Section 10.3 presents a summary of the research methodology which was applied to achieve the research objectives. The results and conclusions of the research are discussed in section 10.4. The contribution of this research to knowledge is presented in section 10.5. The limitations of the research are discussed in section 10.6. Finally, section 10.7 provides suggestions for future research.

10.2 The Research Objectives, Research Questions

The aim of this thesis is to evaluate and measure voluntary disclosure practices in the annual reports issued by Kuwaiti listed companies over four years (2007-2010). Also, the aim is to investigate the effect of corporate governance characteristics, ownership structure and firm characteristics on the voluntary disclosure of financial reporting, and improve LVD in Kuwait based on the results of this study. This study comes especially after three years of existence of CG principles for banks and financial companies issued by the Central Bank of Kuwait in 2004.

To reach this overall aim, the following specific objectives have been established:

1. Provide a full explanation of what voluntary disclosure means to Kuwaiti customers and to the firms' managers.
2. To evaluate voluntary disclosure through overall disclosure and its categories during the study period.
3. To find whether there are statistically significant relationships between LVD and its categories with the CG mechanisms, ownership structure and firm characteristics.
4. To compare the extent of LVD in both sectors (the financial sector and the non-financial sector).
5. To link the empirical results with the different theories to provide a clear meaning to results.

As mentioned before, this thesis seeks to investigate voluntary disclosure practices in Kuwaiti listed companies evolving during the period 2007-2010. Besides, it aims to examine the effect of corporate governance mechanisms, ownership structures and firm characteristics in determining the level of voluntary disclosure. To achieve that, the empirical research questions of this study are as follows

1. What is the extent of voluntary disclosure in the annual reports of Kuwaiti listed companies?
2. To what extent did voluntary disclosures of Kuwaiti listed companies and its categories change over the period 2007-2010?
3. What are the determinants of voluntary disclosure in the annual reports of Kuwaiti listed companies?
4. Is there any difference between the financial sector and non-financial sector?

10.3 Summary of the Research Methodology

The researcher adopted a multi-paradigm approach to achieve the research objectives. This design incorporated both mix the interpretivist and functionalist approaches. To achieve the first empirical objective, "explanation of what voluntary disclosure means", the researcher reviewed the previous research to provide the definitions of voluntary disclosure. In addition, to highlight the factors determining LVD in both developed and developing countries (Chapters 2 and 3). In order to achieve the second empirical objective, a disclosure index of 50 items was

constructed (see Appendix 1). The index encompassed six categories of information: general corporate information; board of directors and management; specific corporate strategy; employee information; corporate social disclosure and others. The items in the disclosure index were un-weighted using a dichotomous approach, in which an item was one if it is disclosed, zero if it is not disclosed. This method has been used in many previous studies (see Chapter 6, Table 6.5). Statistical tests, the validity and reliability of the index, were used to minimise subjectivity (see Chapter 7). The level of voluntary disclosure was calculated by dividing the actual disclosure awarded by the total possible disclosure appropriate for the company. The final sample is 155 Kuwaiti listed companies with 620 firm–year observations. Descriptive Statistics were used to evaluate the extent of LVD and its categories over the study period (from section 7.4 to section 7.7). In order to achieve the third empirical objective, both univariate analysis and multivariate analysis were used. In bivariate analysis, five different tests were employed, namely: correlation coefficients, Pearson and Spearman (as parametric and non-parametric tests). Mann-Whitney and T-test (as parametric and non-parametric tests) were employed to examine the correlation between level of voluntary disclosure and each of the independent variables. A robust standard error is applied to overcome the data is not normally distributed (after regression diagnostic). Five separate regression models were run based on different transformations of the dependent and explanatory variables: OLS regression (untransformed), Normal scores of both dependent variable and continuous explanatory variables, GLS regression, Tobit regression and Quantile regression. Furthermore, 11 hypotheses were formulated in order to examine the association between the level of voluntary disclosure (dependent variable) and corporate governance mechanisms, ownership structure and firm characteristics (independent variables). In order to achieve the fourth empirical objective, in section 8.7 OLS regression was used in both the financial and non-financial sectors to provide evidence whether there are any differences between the financial sector and non-financial sector. Many theories were used to provide a clear explanation for determinants of LVD in Kuwaiti listed companies. These theories are agency theory, stewardship theory, signalling theory, legitimacy theory, stakeholder theory and political cost theory, which achieve the fifth empirical objective.

10.4 The results and conclusions of the research

The empirical study of the thesis is divided into two parts. First, the examination of the level and trend of voluntary disclosure in Kuwait listed companies during years 2007-2010. Second, investigate whether there are statistically significant relationships between LVD and its categories with the CG mechanisms, ownership structure and firm characteristics.

The first part of the empirical study aims at quantitatively investigating LVD in practices in Kuwaiti listed companies' annual reports. A variety of analyses and statistical tests, including assessment reliability and validity, the checklist of voluntary disclosure items, item to sub-total (group score) correlations and descriptive statistics are undertaken in order to measure the extent and trend of voluntary disclosure.

The findings of this part indicate the overall of LVD in annual reports of Kuwaiti listed companies in the four financial years from 2007 to 2010 ranged from 20.69% to 33.72% with a mean of 25.80%. By examining the annual reports of 2007, 2008, 2009 and 2010, the findings show a significant improvement in the voluntary disclosure of Kuwaiti listed companies during these four years. LVD 2007 ranged from 8% to 78% with a mean of 20.96%. LVD 2008 ranged from 6% to 78% with an average of 21.10%. LVD 2009 ranged from 10% to 80% with a mean of 27.41%, and LVD 2010 ranged from 6% to 80% with an average of 33.72%. The statistical results indicate a significant difference between LVD 2008 and LVD 2009 and between LVD 2009 and LVD 2010.

The contributions of the different components (categories) of the voluntary disclosure index to the level of the voluntary disclosure score were examined. The items of (GCI) category have the largest contribution to LVD over the four-year period with an average score of 37.20%; the minimum was 39.1% in 2008, and the maximum was 63.1% in 2010. The second largest contribution comes from items of about (BDM) category over the four-year period with an average score 22.40%; the minimum was 21.94% in 2008, and the maximum was 34.66% in 2010. These are followed by items about the (O) category with an average score of 15.40%; the minimum was 23.78% in 2008, and the maximum was 33% in 2010. Then, in

descending order, come the (SCS) and (CSD) categories: (SCS) category with average score of 12.55%; the minimum was 13.33% in 2008, and the maximum was 24.66% in 2010; while (CSD) category with average score of 8.26%; the minimum was 8.71% in 2007, and the maximum was 26.34% in 2010. (EI) the category has the lowest proportion in LVD with an average score 4.19%; the minimum was 6.45% in 2007, and the maximum was 9.03% in 2010.

Findings of the items of LVD to LVD score over the study period (2007-2010) indicate the top five items are brief narrative history of company, information on ISO certification, description of organisational structure, name of the directors and pictures of all directors/board of directors they scored averages of 99.84%, 99.52%, 92.26%, 73.39% and 59.19%, respectively. However, the lowest five items are identification of senior management and their functions, age of the directors, type of shareholders (for example, institutions and individuals), majority shareholders information and number or percentage of Kuwaiti employees, which scored averages of 0.16%, 0.16%, 0.65%, 1.77% and 1.77%, respectively.

The second part of the empirical work aims at quantitatively investigating whether there are statistically significant relationships between the level of voluntary disclosure and its categories with the corporate governance mechanisms, ownership structure and firm characteristics. All the variables that have been theoretically hypothesised to be associated with the level of voluntary disclosure were entered into the regression equation. The various regression models, which are employed in this study, yield slightly different results in terms of both the significance of variables and the adjusted R2. In the OLS regression (untransformed) the independent variables explain around 59.88% of LVD, measured by adjusted R-squared with an F-ratio of 85, which is significant $p < .001$. In the normal scores regression the independent variables explained around 59.88% of LVD, measured by adjusted R-squared with an F-ratio of 83.61. In Tobit regression the independent variables explain around 47.62% of LVD, measured by Pseudo R2 with Prob > chi2 = 0.000. In 25% Quantiles model the independent variables explained around 37.9% of LVD, while 50% Quantiles model the independent variables explained around 37.64% of LVD. However, in 75% Quantiles model the independent variables explained around 39.33% of LVD.

A summary of the findings of the regression analysis between the level of voluntary disclosure and corporate governance mechanisms was provided in Table 9.1. According to the findings, most of the corporate governance mechanisms revealed a significant association with the level of voluntary disclosure.

We **accept hypothesis H1**: *There is a positive association between the non-executive directors and the level of voluntary disclosure in the annual reports of Kuwaiti companies.* Agency theory states there may be problems in the relationship between two parties, say, a shareholder (principal) and a corporate manager (agent) who represents the shareholders (principal) in transactions with a third party, as a result of their separation. Many problems arise when the two parties have different interests, which may lead to conflict of interest between the two parties, because corporate management (agent) has the opportunity to make decisions based upon their own goals at the expense of the shareholders' goals (principal) (Jensen and Meckling, 1976). Also, Watts and Zimmerman (1986) reported that management (agent) pursue their own interests instead of the shareholders' interests (ownership).

When management (agent) possess more information than shareholders (principal), this leads to the existence of a conflict of interest between shareholders (principal) and management companies (agent) in information asymmetry which is central in agency theory and the behaviour of the managers. Opportunistic behaviour means that managers exploit their positions in order to pursue their own interests by failing to disclose some information to the other parties. This would occur if managers have information about the company and they deliberately withheld it from the shareholders, in the knowledge that such information would affect the shareholders' decisions about their investment (Fama and Jensen, 1983; Jensen, 1993; Salmon, 1993).

Consequently, in order to assist in more objective management evaluation, the presence of non-executive directors on the board of directors is considered to play an important and influential role in helping to monitor and control the opportunistic behaviour of management. Also, the presence of non-executive directors on the board of directors is considered a method to help the shareholders (principal) to

observe managers (agent) to ensure that the managers (agent) are always acting in the best interest of shareholders (principal) (Brickley and James, 1987).

In this respect, many scholars have used agency theory in order to explain why directors on the board decide to disclose voluntary information in the annual reports, such as Leftwich et al. (1981), Cooke (1989), Depoers (2000) and Watson et al. (2002). Also, many scholars provide arguments for the need to control and monitor the behaviour and actions of the board due to their opportunistic behaviour, whether to avoid or reduce it (Jensen and Meckling, 1976; Andres et al., 2005).

The presence of non-executive directors on any board is considered a method to enhance the effectiveness of boards (Byrd and Hickman, 1992; Salmon, 1993). Furthermore, Fama and Jensen (1983) see non-executive directors as decision experts, while Tricker (1984) reported that the existence of non-executive directors provides '*additional windows on the world*' (p. 171). In other words, non-executive directors are considered a major factor influencing corporate voluntary disclosure (Barako et al., 2006; Ho and Wong, 2001). Financial reporting and disclosures are considered a method to facilitate credible disclosure between managers and shareholders in order to mitigate information asymmetry and agency conflicts (Healy and Palepu, 2001).

We **accept hypothesis H2**: *There is a negative association between the board size and the level of voluntary disclosure in the annual reports of Kuwaiti companies*. Many studies have focused on board size as one of many factors which may influence voluntary disclosure as a strategic decision taken by the board. Despite this, there is no special theory to explain the optimal size for a board; also, there is no empirical evidence to suggest the optimal size for a board. In any case, the empirical findings of the relationship between Board size and LVD were mixed.

In this regard, the value of a company may be affected by its board size, through the role played by the board in the monitoring and observation of the firm's activities, besides the role of the board to monitor managerial performance, reduce opportunistic behaviour and enhance financial disclosures. Hussainey and Wang (2011) reported companies with large boards are less likely to be dominated by the

board. John and Senbet (1998) and Zahra and Pearce II (1989) reported that a company which has a large size will be more able to monitor managerial behaviour. In addition, Kim and Nofsinger (2007) reported that a company with small size might have a better board. Jensen (1993) reported that small sized boards are more useful to monitor manipulation by the CEO, and that will increase the high degree of coordination and communication between the board and managers. On the other hand, Kiel and Nicholson (2003) concluded that larger size companies need larger boards to control and monitor management's performance. Samaha et al. (2012) stated that the larger sized boards provide greater corporate internal reporting, while Abeysekera (2010) found that board size had no affect on strategic external capital disclosure. However, board size is different from country to country, which depends on laws and legislation specific to each country. Agency theory predicts that large board size can play an important and influential role in monitoring by the board, make decisions useful and reduce agency cost.

We **reject hypothesis H3**: *There is a positive association between the role duality and the level of voluntary disclosure in the annual reports of Kuwaiti companies.* Many scholars have pointed to the importance of separation between the chairman and CEO because it will lead to increasing the effective for the company, as well as helping to reduce the dominance of the administration on the board (Fama and Jensen, 1983; Jensen, 1993; Van den Berghe and Levrau, 2004; Khodadadi et al., 2010). In addition, the OECD Principles of CG (2004), which suggest separation between chairman and CEO, reported that:

> "Separation of the two posts may be regarded as good practice, as it can help to achieve an appropriate balance of power, increase accountability and improve the board's capacity for decision making independent of management" (p. 63).

As indicated in the previous chapter, Table 8.3 shows that about 60 percent of the companies have role duality, which means the positions of chairman and managing CEO are occupied by the one person, while Al-Shammari and Al-Sultan (2010) found 57% of the Kuwaiti listed companies in 2007 have role duality. It is important to note that Kuwaiti company law did not prevent duality in Kuwaiti companies

before 2013, which encouraged Kuwaiti companies to combine the two positions, chairman and CEO, in one person.

This result supports agency theory, which considers separation of the positions of chairman and CEO would help to enhance board independence, increase accountability and reduce domination by management of the board.

We **accept hypothesis H4**: *There is a positive association between the Audit committee and the level of voluntary disclosure in the annual reports of Kuwaiti companies.* Munro and Buckby (2008) argued that "audit committees are commonly viewed as monitoring mechanisms that enhance the audit attestation function of external financial reporting" (p. 2). In addition, an audit committee has the influence to reduce information asymmetry and increase trust of the annual report. The board authorises audit committee to supervision and review of the company's processes of financial reporting in order to produce and improve the quality of financial reporting (DeZoort, 1998). The existence of an audit committee on the board appears to present a more positive image of the directors, which supports stewardship theory. A steward is defined as a "person entrusted with management of another's property…a paid manager" (Sykes, 1982, p. 1043). The directors, under this theory, essentially want to improve their image and provide the impression to shareholders that they undertake their duties in the correct manner, which motivates managers to disclose more information.

We **accept hypothesis H5**: *There is a positive association between the Audit firm and the level of voluntary disclosure in the annual reports of Kuwaiti companies.* According to the disclosure literature, the type of auditor plays a role in influencing the kind and contents of the annual reports. The larger, Big Four auditors have experience that they have gained through their work with other companies. That perhaps incentivises the company to disclose more information in their annual report. Firth (1979a) argued that Big Four auditors provide better reporting practices and may therefore add a positive effect to disclosure. The smaller auditing firms may succumb to client demands to avoid loss of a client, while the larger auditing firms may dare to refuse the client's adverse demands (Malone et al., 1993).

Considering the auditing by large Big Four auditors as a signal for shareholders that company disclosure is more reliable, the results here indicate the support of signalling theory. That means the financial statements of a company that are audited by one of the Big Four audit firms signal to the stakeholder the apparent credibility and reliability of their reports; thus, the large audit firm may encourage the company to disclose more information in their annual report.

A summary of the findings of the regression analysis between the level of voluntary disclosure and ownership structure was provided in Table 9.2. The result of ownership concentration indicates no significant association with the level of voluntary disclosure.

We **reject hypothesis H6**: *There is a positive association between the ownership concentration and the level of voluntary disclosure in the annual reports of Kuwaiti companies.* The approach of La Porta et al. (1999) was adopted in this study to determine the ownership structure: if an investor owned (directly or indirectly) more than 20% of the company's shares, the company had concentrated ownership. As indicated in the previous chapter, Table 8.3 shows 122 companies belong to ownership concentration, and the rest belong to ownership diffusion. According to Hasan et al. (2013), who examined the relationship between the concentrated ownership and LVD in Bangladesh, they found concentrated ownership has the power to influence LVD, while White et al. (2007) found insignificant association between disclosure practice and ownership concentration in Australian biotechnology companies. In addition, Bozzolan et al. (2006) and Woodcock and Whiting (2009) failed to find any proof of ownership concentration affecting LVD. On the other hand, Haniffa and Cooke (2002) found that ownership diffusion is positively significant associated with LVD. In addition, Gelb (2000) reported there is positively significant association between the quality of annual reports and ownership diffusion. Legitimacy theory predicts that companies with widely held shares will disclose more information in response to the social pressures (Cormier and Gordon, 2001). Nevertheless, the results here are consistent with this theory.

A summary of the findings of the regression analysis between the level of voluntary disclosure and firm characteristics was provided in Table 9.3. The results indicate a significant association between the level of voluntary disclosure and some of the firm characteristics.

We **accept hypothesis H7**: *There is a positive association between the firm size and the level of voluntary disclosure in the annual reports of Kuwaiti companies*. Elzahar and Hussainey (2012) reported, "Those companies have enough resources to afford the cost of additional disclosure production" (p. 139). Also, Watson et al. (2002) reported that large companies can obtain greater benefits through undertaking more disclosure because it can reduce the information asymmetry problem. Marston and Polei (2004) asserted that the agency cost would decrease with a high level of disclosure. In addition, agency theory provides support for this finding since large Kuwaiti listed companies are willing to release more information in order to reduce agency costs.

We **accept hypothesis H8**: *There is no association between the firm age and the level of voluntary disclosure in the annual reports of Kuwaiti companies*. From Table 8.1, Firm age ranges from 1 year to 58 years, with an average of 23.45 years; about 50% of the companies have been listed for 24 years. From Table 9.3 it seems that firm age does not explain the variation of disclosure levels among the Kuwaiti listed companies while the age variable is not significant, but the coefficients are positive. This finding lends non-support to Hypothesis 8. However, that does not make an older firm safer from the effects of competition through early disclosure of financial information in a business environment, while younger firms do not suffer competition, because younger firms do not tend to release more information in order to avoid the additional costs of disclosure (Sejjaaka, 2003). Owusu-Ansah (1998) pointed out that the additional cost of disclosure is considered as an influential factor, which prevents the younger firm from disclosing more information. Kakani et al. (2001) argued that younger firms have a lack of reputation and capital, unlike older firms that release more information in the annual report, so the extent of a company's disclosure may be influenced by its age.

We **reject hypothesis H9**: *There is no association between the liquidity and the level of voluntary disclosure in the annual reports of Kuwaiti companies*. The results in Table 9.3 find a statistically significant association between *liquidity* and the voluntary disclosure index, also the coefficients are positive. However, Attig et al. (2006) linked liquidity and information asymmetry in the stock market, implying that if there is high liquidity that it will reduce information asymmetry. Laidroo (2008) reported that if a company has high liquidity ratios, they should disclose more to show confidence to stakeholders. Liquidity is considered as an indicator of a company's strength, which means it is still in the market; some companies use liquidity as a signal to their customers in order to increase confidence in their financial position in the market. Also, liquidity is considered as a tool of control and supervision about the firm's activities, which will encourage companies to disclose more information to appear they have the ability to manage their business properly (Wallace et al., 1994). In addition, signalling theory provides support for the results here about liquidity, since the managers of Kuwaiti listed companies send signals to stakeholders about their business, which requires more disclosure.

We **accept hypothesis H10**: *There is no association between the gearing and the level of voluntary disclosure in the annual reports of Kuwaiti companies*. One could describe a company's financial structure by gearing, and predict the long-term risks which face that structure (Watson et al., 2002). Creditors need reliable information about their borrowers, which is why companies provide more information in their annual reports to meet creditors' needs (Hasan et al., 2013). In other words, highly leveraged firms suffer from agency costs (Al-Saeed, 2006), so firms have to disclose more information to reduce agency costs. From the results here, there is no association between gearing and LVD, which can be explained by creditors being able to obtain more information about the company's position in private ways, other than the annual reports.

We **reject hypothesis H11**: *There is a positive association between the profitability and the level of voluntary disclosure in the annual reports of Kuwaiti companies.* From Table 9.3 the results do not find a statistically significant association between profitability and the voluntary disclosure index. Also, the coefficients are negative. This finding lends non-support to Hypothesis. According to agency theory, the company should release more information to stakeholders in order to reduce agency costs. In addition, according to signalling theory, managers of highly profitable companies tend to release more information in their annual report for the public in order to increase investors' confidence, support management continuation of their positions and compensation, and raise capital at the lowest cost.

From the results here, profitability was found to have negative association with LVD. Abd-Elsalam (1999) reported that bad news might persuade the firm to release it on time in order to keep away from legal liability and to preserve their reputation. The company with low profitability will disclose more information about the risks they face (Vandemele et al., 2009). However, Hussainey and Al-Najjar (2011) stated:

> *"Therefore, it is not safe to conclude that less profitable firms are more likely to produce higher levels of future-oriented information than profitable firms"* (p. 17).

From the above, there is no agreement about a particular theoretical expectation of the impact of profitability on the level of voluntary disclosure. Thus, Kuwaiti listed companies may prefer to use profitability as a signal to inform their stakeholders about their financial position in order to avoid legal liability.

10.5 Contribution of this Research to Knowledge

The study makes a number of contributions to the literature in the following aspects:

1 The major contribution or originality of the present study is that it is the first empirical longitudinal study in Kuwait concerning the level of voluntary disclosure and its relationship with corporate governance mechanism, ownership structure and firm characteristics, as far as the researcher is aware. The study outlines Kuwaiti listed companies' behaviour in voluntary disclosure. It provides a comprehensive vision of voluntary disclosure for Kuwaiti listed companies after the Central Bank of

Kuwait issued the corporate governance for the financial sector. Therefore, this study adds a significant contribution to understanding the Kuwaiti business environment. It also provides the great benefit of knowledge to regulators of the accounting profession in Kuwait to develop laws and regulations, to increase disclosure and transparency for Kuwaiti listed companies, which consequently lead to higher corporate value.

2 The findings of this study indicate increasing LVD during the period of study (2007-2010). In addition, the findings provide evidence of significant differences among the four years. Especially after the Central Bank of Kuwait issued the principles of CG for the financial sector, the findings indicate LVD for the financial sector is greater than LVD for the non-financial sector. That asserts the importance of this study in order to show the effect of CG mechanisms since issuance by the Central Kuwait Bank in 2004.

3 This study has employed many quantitative methods to investigate the effects of corporate governance mechanism, ownership structure and firm characteristics on voluntary disclosure of Kuwaiti listed companies, such as OSL regression, Normal score, GLS regression, Tobit regression and quantile regression to extend the econometric robustness of the analysis. One of the significant features in this study is that it is believed to be the first study of voluntary disclosure employing quantile regression (divided into 25%, 50% and 75%) in order to identify the factors, which affect LVD.

4 This study used the disclosure index, modified from previous studies, for use in the Kuwaiti environment context. The researcher considers the disclosure index to be suitable for other Arab Gulf countries that are similar in business environment and experiencing the same economic changes.

5 This study has employed disclosure theories originating from developed and mature markets to explain voluntary disclosure practice in the annual reports of Kuwaiti listed companies as an emerging economy. That provides evidence of the possibility of employing the disclosure theories derived from developed countries in emerging countries, in order to provide explanation of voluntary disclosure practice,

as it is considered a channel through which corporate information is passed on to investors in the stock market.

6 This study covers almost all Kuwaiti listed companies except for a few companies of which the researcher was unable to collect financial reports, for those suspended from trading by the Kuwaiti stock market. This is unlike many previous studies, as shown, that relied on relatively small samples to study voluntary disclosure. Therefore, it is possible to generalise the results of the disclosure index to other companies not investigated in this study, according to the independent variables used in this study.

10.6 Limitations of the Research

Like all studies, there are some limitations to this study that need to be taken into consideration when assessing the results of the thesis.

1 The study employed a quantitative approach – although this has been criticised by scholars due to weak validity compared to a qualitative approach – because the major aim of this study was to measure the level of voluntary disclosure in the annual reports of Kuwaiti listed companies and to identify the effects of its determinants on levels of disclosure. Attention is drawn here to the fact that the quantitative approach has been taken in a large number of previous disclosure studies.

2 As mentioned in section 1.1 (Background to the study), there are many channels for companies to release information to the public, such as annual reports, conferences, analyst lists, investor relations, interim reports, prospectuses, press releases and the Internet. Nevertheless, this study relied on the annual reports of Kuwait listed companies to score for LVD. However, the annual report was found to be a very important disclosure source for information to stakeholders in many studies (e.g. Abu-Nassar and Rutherford, 1996; Hope, 2003). Thus, the findings of the study cannot be generalised to absolute scores for LVD of companies.

3 Although the construction of a disclosure index is the dominant method to measure the extent of corporate disclosure (Gruning, 2007), it has been described as a difficult process because it faces serious criticisms of limited validity (e.g.

subjective criteria, subjective weighting) and limited reliability (e.g. subjective coding) (Marston and Shrives, 1991). The researcher followed a number of steps to mitigate subjectivity in choosing the information items that should be included in the checklist. In addition, the researcher employed an un-weighted approach to measure the disclosure level of annual financial reports, because it eliminates the subjectivity of the user in evaluating the relative importance of each disclosure item across all user groups (Ferguson et al. 2002); and also, all information items on the checklist are of the same importance (Cooke, 1989; Hodgdon, 2004). Despite previous steps to mitigate subjectivity in the construction of a disclosure index, the researcher acknowledges the presence of subjectivity.

4 There remain several untested CG mechanisms in this study due to shortage of data, such as personal characteristics of directors (e.g. qualifications of directors), and other kinds of board committee (e.g. remuneration committee, compensation committee and finance committee). Thus, the findings on the effects of corporate governance mechanisms on the level of voluntary disclosure cannot be generalised in this study.

5 This study focuses on Kuwaiti listed companies; it does not cover unlisted companies, and consequently, the findings of this study may not be applicable or generalised to other types of company.

10.7 Suggestions for Future Research

The results and the limitations of this research recommend some research opportunities related to disclosure literature. The following paragraphs present some potential areas that may be undertaken for future research regarding the voluntary disclosure in Kuwaiti.

First, this study relied on the annual reports of the Kuwaiti listed companies as one source of collection of voluntary corporate information to evaluate LVD. However, there are many channels through which companies provide voluntary information to the public, such as conferences, analyst lists, investor relations, interim reports, prospectuses, press releases and the Internet. Focusing on these sources could provide more explanations of disclosure policies in the Kuwait environment

Second, this study aims to evaluate and measure LVD practices in the annual reports issued by Kuwaiti listed companies over four years (2007-2010). It would be interesting to replicate the study following the issuing of the Corporate Governance Code – Kuwait, April 2010/7 Principles & Recommended Best Practices for Public Companies, to see whether there are any improvements to LVD.

Third, transparency, responsibility, accountability and fairness are four key principles of good corporate governance, as mentioned by previous studies. Rezaee (2009) describes corporate governance as "managed, monitored and held accountable to stakeholders for its actions" (p. 29). Further additions to the literature in the Kuwaiti business environment could consider other types of disclosure, such as corporate social responsibility, corporate environmental disclosure, risk management and forward looking information.

Fourth, the study relied on quantitative approaches to collect data. Future research might be extended to using qualitative approaches to investigate the relationship between LVD and its determinants, such as interviews with the directors of Kuwaiti companies, debt providers, financial analysts and wider shareholders to provide further insights into these relationships, which may enhance the explanatory power of these relationships.

Fifth, this study covers almost all Kuwaiti listed companies. It is possible to conduct this study in the future in medium and small-sized companies or in each of the thirteen sectors that constitute the Kuwait stock market. This may provide a better understanding of the extent of voluntary disclosure, in particular in each sector.

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Appendices

Appendix 1: Disclosure Index

No	Information item
A	**General Corporate Information Category**
1	Brief narrative history of company
2	Date of establishment of the company
3	Description of organisational structure
4	General descriptions of business activities
5	Majority shareholders information
6	Information about products (services)
7	Dividend policies
8	Statement of corporate general objective
9	Official address/registered address/address for correspondence
10	Web address of the bank/email address
B	**Board Of Directors and Management Category**
11	Name of the directors
12	Age of the directors
13	Picture of chairman
14	Picture of all directors/board of directors
15	List of senior managers (not on the board of directors)/senior management structure
16	Composition of Board of Directors
17	Number of BOD meetings held and date
18	Information about board of directors
19	Educational qualifications (academic and professional)
20	Background Information about member of the audit committees
21	Directors ' remuneration
C	**Specific Corporate Strategy Category**
22	Specific statement of strategy and objectives (financial – marketing – social)
23	Impact of strategy on current results
24	Impact of strategy on future results
25	New products (services) development
26	Forecast of sales (revenues)
27	Forecast of profits
28	Forecast of cash flow
29	Forecast earnings per share
30	Discussion of competitive position of the company
D	**Employee Information Category**
31	Geographical distributions of employees
32	Categories of employees by gender
33	Identification of senior management and their functions
34	Names and salaries of senior management
35	Number or percentage of Kuwaiti employees
36	Policy of training and number of employees trained

37	Recruitment policy
E	**Corporate Social Disclosure Category**
38	information on environmental protection programme
39	Information on donations to charitable organisations
40	Community programmes (general)
41	Student employment
42	Sponsoring public health, sporting and recreational projects
43	Sponsoring educational conferences, seminars or art exhibits
F	**Others Category**
44	Chairman's/MD's report/directors report
45	Information on ISO certification
46	Year of listing at KES
47	Share price at the year-end
48	Volume of shares traded trend
49	Shareholders owned – 5 % + of shares
50	Type of shareholders (for example, institutions, individuals)

Appendix 2: Sample

Banks sector	
NBK	National Bank Of Kuwait
GBK	Gulf Bank
CBK	Commercial Bank Of Kuwait
ABK	Al-Ahli Bank Of Kuwait
ALMU	Ahli United Bank
KIB	Kuwait International Bank
BURG	Burgan Bank
KFH	Kuwait Finance House
BOUB	Boubyan Bank
Investment sector	
KINV	Kuwait Investment Co.
FACIL	Commercial Facilities Co.
IFA	International Financial Advisors
NINV	National Investments Co.
KPROJ	Kuwait Projects Company (Holding)
AINV	Al-Ahlia Holding Co.
COAST	Coast Investment & Development Co.
SECH	The Securities House Co.
IIC	Industrial & Financial Investments Co
SGC	Securities Group Co.
MARKAZ	Kuwait Financial Centre
AIG	Aref Investment Group
TID	The Investment Dar Co.
ALAMAN	Alaman INVESTMENT CO.
FIC	First Investment Co.
ALMAL	Almal Investment Co.
GIH	Gulf Investment House
AAYAN	Aayan Leasing & Investment Co
BAYANINV	Bayan Investment Co
GLOBAL	Global Investment House
OSOUL	Osoul Investment Co
GIC	Gulfinvest International
KFIC	Kuwait Finance & Investment Co.
KAMCO	Kipco Asset Management Co.
ILIC	The International Leasting & Investment Co.
KIH	Kuwait Invest Holding Co.
NIH	National International Holding Co.
ISKAN	Housing Finance Co.
MADAR	Al-Madar Finance And Investment Co.
ALDEERA	Al-Deera Holding Co.
ALSAFAT	Alsafat Investment Co.
ALSALAAM	Alsalaam Group Holding Co.
EKTTITAB	Ekttitab Holding Co.
QURAINHLD	Al Qurain Holding Co.
SOKOUK	Sokouk Holding Co
ALMADINA	Al-Madina For Finance And Investment Co.

Insurance sector	
KINS	Kuwait Insurance Co.
GINS	Gulf Insurance Group
AINS	Al-Ahleia Insurance Co.
WINS	Warba Insurance Co.
FTI	First Takaful Insurance Co.
WETHAQ	Wethaq Takaful Insurance Co.
Real estate sector	
KRE	Kuwait Real Estate Co.
URC	United Real Estate Co.
NRE	The National Real Estate Co.
SRE	Salhia Real Estate Co.
PEARL	Pearl Of Kuwait Real Estate Co.
TAM	Tamdeen Real Estate Co.
AREEC	Ajial Real Estate Entertainment Co.
MASSALEH	Massaleh Real Estate Co.
ARABREC	Al-Arabiy Real Estate Co.
UREC	Union Real Estate Co.
ERESCO	Al-Enma A Real Estate Co.
MABANEE	Mabanee Company
INJAZZAT	Injazzat Real Estate Dev. Co
JEEZAN	Jeezan Holding Company
INVESTORS	Investors Holding Group Co
IRC	International Resorts Co.
ALTIJARIA	The Commercial Real Estate Co.
SANAM	Sanam Real Estate Co
AAYANRE	A Ayan Real Estate Co.
AQAR	Aqar Real Estate Investments Co.
ALAQARIA	Kuwait Real Estate Holding Co.
MAZAYA	Al-Mazaya Holding Co.
ADNC	Al-Dar National Real Estate Co.
THEMAR	Al-Themar International Holding Co
TIJARA	Tijara & Realestate Investment Co.
TAAMEER	Taameer Real Estate Investment Co.
ARKAN	Arkan Al-Kuwait Real Estate Co.
ABYAAR	Abyaar Real Estate Development Co
Industrial sector	
NIND	National Industries Group (Holding)
PIPE	Kuwait Pipes Industries & Oil Services Co
KCEM	Kuwait Cement Co.
REFRI	Refrigeration Industries And Stroge Co.
CABLE	Gulf Cable And Electrical Industries Co.
SHIP	Heavy Engineering Industrise And Ship Building Co.
MARIN	Contracting & Marine Services Co.
PCEM	Kuwait Portland Cement Co.
PAPER	Shuaiba Industrial Co.
MRC	Metal & Recycling Co.
KFOUC	Kuwait Foundry Co.
ACICO	Acico Industries Co.
UIC	United Industries Co.
BPCC	Boubyan Petrochemical Co.

GGMC	Gulf Glass Manufacturing Co. Ltd
HCC	Hilal Cement Co.
ALKOUT	Alkout Industrial Projects Co
KPAK	Kuwait Packing Materials Manufacturing Co.
KBMMC	Kuwait Building Materials Manufacturing Co.
NICBM	National Industries Co.
EQUIPMENT	Equipment Holding Co
NCCI	National Consumer Holding Co.
GYPSUM	Kuwait Gypsum Manufacturing & Trading Co.
IKARUS	Ikarus Petroleum Industries Co.
Services sector	
KCIN	Kuwait National Cinema
KHOT	Kuwait Hotels Company
AGLTY	Agility Public Warehousing Company
SHOP	Kuwait Commercial Complex Company
ZAIN	Mobile Telecommunications Company
SENERGY	Safat Energy Holding Company
EDU	Educational Holding Group
IPG	Independent Petroleum Group
CLEANING	National Cleaning Co.
SULTAN	Sultan Center Food Products Group Co.
AGHC	Arabi Holding Group Co.
CITYGROUP	City Group Company
KGL	Kuwait & Gulf Link Transport Co.
CABLETV	Kuwait Cable Vision
ASC	Automated Systems Company
NAPESCO	National Petroleum Services Company
KCPC	The Kuwait Company For Process Plant Construction &Contracting
KSH	Kuwait Slaughter House Company
EYAS	Eyas For Higher & Technical Education
HITSTELEC	Hits Telecom Holding Co.
ALSAFWA	Alsafwa Group Holding Company
HUMANSOFT	Humansoft Holding Co
KPPC	Privatization Holding Co.
NAFAIS	Nafais Holding Company
NSH	National Slaughterhouse Co.
AREFENRGY	Aref Energy Holding Company
SAFWAN	Safwan Trading & Contracting Co.
GFC	Gulf Franchising Holding Co.
TAHSSILAT	Credit Rating & Collection
MAYADEEN	National Ranges Company
ABAR	Burgan Co. For Well Drilling Tradhing & Maint
IFAHR	Ifa Hotels & Resorts Co.
CGC	Combined Group Contracting Co.
JEERANH	Jeeran Holding Company
PAPCO	Palms Agro Production Co
SAFTEC	Al-Safat Tec Holding Company

MTCC	Mushrif Trading & Contracting Co.
UPAC	United Projects Co.
ALAFCO	Alafco Aviation Lease And Finance
MHC	Al-Mowasat Health Care Co.
MASHAER	Mashaer Holding Company
OULAFUEL	Oula Fuel Marketing Co.
FUTURE	Future Communications Company Global
HAYATCOMM	Hayat Communications Company
MUBARRAD	Mubarrad Transport Co
ATC	Advanced Technology Company
YIACO	Yiaco Medical Co.
Food sector	
CATTL	Livestock Transport & Trading Com.
DANAH	Danah Alsafat Foodstuff Com
POULT	Kuwait United Poultry Com.
FOOD	Kuwait Food Company (Americana)
UFIG	United Foodstuff Industries Group Co.