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COMPOSITION OF CORPORATE BOARD OF DIRECTORS AND VOLUNTARY DISCLOSURE IN THE ANNUAL REPORTS: THE CASE OF KUWAIT

Key Words

Voluntary Disclosure; Board of Directors; Kuwait Stock Exchange; Cross-directorships; Corporate Governance.

Abstract

This study investigates the association between the composition of a corporate board of directors (represented by cross-directorships, CEO duality, and board size) and the level of voluntary disclosure practices in Kuwait. Regression analysis for a sample of 119 Kuwaiti companies listed on the Kuwait Stock Exchange (KSE) at the end of 2007 reveals that the cross-directorships, company size, company age, and leverage are the most important variables explaining the voluntary disclosure of Kuwaiti companies. In contrast the other independent variables (board size, CEO duality and industry categories) do not emerge as being statistically significant in explaining the voluntary disclosure of Kuwaiti companies.

Introduction

Within the current status of the Kuwaiti corporate financial reporting environment and corporate governance framework, this research look at the awareness of Kuwaiti companies listed on the Kuwait Stock Exchange (KSE) into the corporate voluntary disclosure in annual reports. More specifically, this study investigates the influence of corporate governance attributes that could drive corporate voluntary disclosure. In particular, cross-directorships, CEO duality, and board size. It provides insights into, as well as possible explanations for, the variation between Kuwaiti companies at the level of corporate voluntary disclosure.

Disclosing more information than required is crucial to the growth and development of capital markets especially for the evaluation of the wealth

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and to decisions makers regarding listed companies (Saudagaran, 2004). In the events that companies are lacking proper disclosure, prospective investors may be hesitant to invest in such companies. Whreas, disclosing more information by listed companies will lead to reviving the investors, confidence and improve their investment decisions.

Kuwait is a developing country with an emerging securities market. Kuwait's economy is heavily relying on oil production and exportation. The Kuwaiti securities market provides new channels for financing and investment in new businesses with a view to diversifying its economy and to reduce the economic impact of volatile oil prices. It is anticipated that it will reduce governmental expenditure, widening the public investment base, increasing the number of foreign investors, encouraging private sector participation in shaping the economy and advance Kuwait into becoming a financial and trade centre. The latter is in accord with His Highness the Amir of the State of Kuwait's desire to transform Kuwait into an international financial and trade centre. It can be said, disclosing more information than mandated could promote investment opportunities in the country and encourage foreign investors to invest in more projects in Kuwait.

Over the last two decades the Kuwaiti government has attempted to enhance the growth of the economy and development in the stock market in order to be internationally competitive. For example, obligating Kuwaiti listed companies to comply with International Financial Reporting Standards (IFRS), issuing the 1999 Amiree Decree Law No. (10) regulating the direct investment for foreign capital of Kuwait and the 2000 Amiree Decree Law No. (20) approved non-Kuwaitis' ownership in shares in the Kuwaiti companies. Despite these attempts, there has been little comparable parallel development in broader corporate governance issues in Kuwait. It is curious that little research has been undertaken to investigate linkages between the general state of corporate governance in Kuwait and corporate voluntary disclosure practice.

Research into the level of voluntary disclosure practices has primarily paid attention to the influence of a number of *company-specific characteristics* of developed countries such as US (Buzby, 1975; Singhvi and Desai, 1971; Cerf, 1961), UK (Firth, 1979), Sweden (Cooke, 1989), New Zealand (Jiang and Habib, 2009; Adams and Hossain, 1998; Hossain *et al.*, 1995; McNally *et al.*, 1982), Japan (Cooke, 1991), Spain (Inchausti, 1997), Switzerland (Raffournier,

1995) and France (Depoers, 2000) and in some developing countries such as India (Hossain, 2008; Marston and Robson, 1997; Singhvi, 1968), Mexico (Chow and Wong-Boren, 1987), Malaysia (Ghazali and Weetman, 2006; Haniffa and Cooke, 2002; Hossain *et al.*, 1994), Hong Kong (Chau and Gray, 2002; Ferguson *et al.*, 2002; Ho and Wong, 2001; Wallace and Naser, 1995), Bangladesh (Ahmed, 1996), Zimbabwe (Owusu-Ansah, 1998), Singapore (Eng and Mak, 2003), Kenya (Barako *et al.*, 2006), Qatar (Hossain and Hammami, 2009) and Jordan (Naser *et al.*, 2002).

However, the relationship between corporate governance attributes and voluntary disclosure practices has not been researched in a comprehensive manner. Only few studies have examined this association and the outcomes were mixed (Donnelly and Mulcahy, 2008; Lim *et al.*, 2007; Xiao and Yuan, 2007; Barako et *al.*, 2006; Cheng and Courtenay, 2006; Ajinkya *et al.*, 2005; Arcay and Vazquez, 2005; Gul and Leung, 2004; Makhija and Patton, 2004; Eng and Mak, 2003; Chau and Gray, 2002; Haniffa and Cooke, 2002; Ho and Wong, 2001; Forker, 1992). In contrast, Limited consideration is paid to the voluntary corporate financial reporting disclosure practices in developing countries in general. Kuwait in particular has attracted virtually little concern, notwithstanding its significance as an oil producer of importance to the western world economies.

Studying many aspects of corporate governance could explain the variations in the level of voluntary disclosure practices among Kuwaiti companies listed on the KSE. The ongoing spread of the economic crisis during 2008 and its consequences in 2009, along with a drop in crude oil prices, which raged the world and affected the whole investment activities in most countries as well as the previous scandals in the U.S.A, Canada, and Australia, all combined have raised global awareness of corporate governance issues, particularly of the role of directors. Corporate polices relating to voluntary disclosure stem from the board, and companies with strong boards are more likely to cope with challenges and pursue policies that ensure higher financial transparency (Gul and Leung, 2004). In contrast, a weak corporate governance structure usually leads the board to acting as if it is unanswerable to its stakeholders (Dechow, Sloan, and Sweeney, 1996). This could result in less incentive for additional disclosure.

The study investigates the level of voluntary disclosure in the 2007 annual reports of a sample of 119 Kuwait companies. Descriptive statistics indicate that the average level of voluntary disclosure of Kuwaiti companies included in this study is 22 per cent, ranging from 2 to 63 per cent. These statistical results indicate that voluntary disclosure of the sample companies is widely distributed.

Multivariate regression (Ordinary Least Squares) analysis reveals that the cross-directorships, company size, company age and leverage are the most important variables explaining the voluntary disclosure of KSE listed companies. In contrast the other independent variables (board size, CEO duality and industry categories) did not emerge as being statistically significant in explaining the voluntary disclosure of Kuwaiti companies.

Consideration of the factors of corporate governance influencing Kuwaiti companies voluntary disclosure, should contribute further general knowledge with which to advance the foreign investors to invest in Kuwait and provide guidance to Kuwaiti accounting regulatory policy choice.

The remainder of the study is organized as follows; The next section discusses the corporate reporting and governance mechanisms in Kuwait. Section 3, reviews the literature and develops hypotheses on the association of corporate governance attributes with the voluntary disclosure. Section 4 reports the methodology adopted in the study. Section 5, presents the results of the study. Finally, Section 6 provides concluding remarks.

Corporate Reporting and Governance Framework in Kuwait

Corporate Financial Reporting and Regulations in Kuwait

This part reviews the status of Kuwaiti accounting regulations that influence corporate reporting disclosure in general. The primary source of financial reporting in Kuwait is the Commercial Companies Law No.15/ 1960. This law was issued to handle the formation of new companies and to legalise any existing companies' affairs.

This law requires companies to prepare an annual report, including a profit and loss account and balance sheet. Also, the accounts must give an 'honest and fair' view. "Honest and fair' might reasonably be taken to be the equivalent of the traditional *British* 'true and fair' dictum. Companies are required to provide shareholders with a copy of the balance sheet of the expired financial year, profit and loss account and the reports of both the directors and the auditor. Directors are required, within two months of the date of the Annual General Meeting (AGM) to approve the accounts, publish in the official Gazette the balance sheet of the expired year and a list stating the names of the directors and the auditors. However, there are no further requirements concerning the form and content of the financial statements. It could be said that Law No. 15/1960 failed to indicate the actual level of information that a company should disclose.

Another source of regulation that influences financial reporting in Kuwait is the Commercial Law No. 68/ 1980 replaced No.2/1961. This law requires companies to keep suitable accounting records in accordance with accounting principles. The Commercial Law No. 2/1961 required every company to keep a daily journal of all financial operations and an inventory book. Therefore, it is reasonable to conclude that local corporate disclosure rules and regulations in Kuwait are relatively unsophisticated and comprise of minimal disclosure requirements, though it might be considered that what they specified is not inconsistent with the detail now set out in the International Financial Reporting Standards (IFRS).

Another source of regulation that influences the financial reporting in Kuwait is the Ministerial Resolution No. 18 of 1990. This resolution requires all companies in Kuwait, whatever their legal status, to prepare their financial statements in accordance with IFRS. According to the Ministry of Commerce and Industry's records, after the adoption of IFRS, the quality of the financial information available to users improved significantly.

Stock markets have a huge influence on *shaping* the financial reporting disclosure practices (Cooke, 1989). Sophisticated stock markets increase pressure on companies to provide better disclosure. Stock exchange listing requirements and related regulations are generally perceived to positively impact the financial reporting practices of listed companies (Choi, 1973).

The KSE market was officially operated in 1983 with the view to regulate the securities. Listing requirements for Kuwaiti companies are found under Article 4 of KSE regulations. The minimum capital required for a company to be listed on the KSE is 10 million Kuwait dinars[1]. A company must be in operation for at least five years and must have published audited financial statements for the three financial years prior to the listing application. Also, a company must have achieved a net profit in the last two years, with a minimum yearly net profit of 7.5 per cent of the its capital.

(1) Roughly 1 KD = 3 USD.

As the Kuwaiti financial reporting requirements apply to all KSE- listed companies, all Kuwaiti companies must comply with the IFRS and with all local regulations such as Commercial Companies Law and Commercial Law. An audited balance sheet and income statement, director's report and the auditor's report must be submitted within three months of the end of the financial year to the KSE. Unaudited reports must be filed on a quarterly basis. Stockholders of listed companies are required to disclose immediately to the KSE if their holding reaches (directly or indirectly) 5 per cent of company's capital. Similarly, listed companies should disclose immediately the names of shareholders whose ownership interest reaches 5 per cent of its total shares. In addition, listed companies must disclose immediately to the KSE any material information that may affect their business or financial position. The KSE displays this information on trading screens instantly. Stockholders who violate these rules are denied the right to vote for the extra number of respective stocks, in two consecutive Annual General Meetings.

Corporate Governance in Kuwait

Despite the huge development in corporate financial reporting and regulations in Kuwait, there has been little comparable parallel development in broader corporate governance issues in Kuwait. There is no corporate governance law nor a code of best practices imposed on Kuwaiti non-financial companies. However, the Kuwaiti Law No. 15 of 1960 sets out the general responsibilities of corporate boards, their objectives, composition, and voting rights. *Law No. 15 of 1960* however, lacks provisions to protect the minority of shareholders since board nomination and election processes are dependent on the major shareholders and board election in Kuwait is by *statutory voting*, which implies *one share, one vote*. Thus, a majority shareholder can control the composition and structure of a company's board.

The common board structure in Kuwait has more non-executive directors with a minority of executive directors or managing directors (Kuwait Stock Exchange Investor Guide, 2007). The law does not specify any criteria or conditions of a preferable or necessary mix of non-executive and executive directors in Kuwaiti companies. Loose board structuring might reasonably be a predictor of loose general governance regimes. Kuwait is no different. Board structures are haphazard, and so is corporate governance in general.

Kuwait is generally unaware of corporate governance issues as matters necessitating specific attention.

The Kuwaiti Commercial Companies Law is the only source of corporate governance in Kuwait. It only implies general features and does not specify features of corporate governance similar to those in the separate codes of corporate governance regimes in the Anglo-American practice. Thus, for example, Kuwaiti companies do not have to establish the board committees common in the west - audit committees, remuneration committees or nomination committees. In addittion, directors are generally nominated by the majority shareholders, the most important factor influencing board selection are aspirants' relationships with the majority shareholders, in contrast with (at least the appearances created by) the Anglo-American pattern, - of drawing upon those nominated by a nomination committee. Also, in contrast with Anglo-American framework, generally directors' are relatively *non-independent*. CEO duality is allowable in Kuwaiti companies. This contrasts with virtually all western corporate governance codes.

Moreover, the Kuwait Commercial Companies Law does not concentrate on other corporate governance issues such as the rights of shareholders, the role of myriad stakeholders, disclosure and transparency, the general structure of the board and the responsibilities of the board in detail. Indeed, the term corporate governance is notable by its absence from the Law.

Theoretical Framework and Literature Review

In this study the link between the voluntary disclosure and a number of corporate governance attributes is explained through two distinct theories that are relevant to the current study: the agency theory and the resource dependence theory.

Drawing on the principal and agent relationship consequent on the separation of ownership (through security holding) of modern corporations and the control of their daily affairs by contracted managers, management is viewed as the agent and the shareholders as the principal, such that, according to Jenson and Meckling (1976), the agency relationship can be depicted:

> "A contract under which one or more (principals) engage another person (the agent) to perform some services on their behalf which involves delegating some decision-making authority to the agent"

Corporate managers are perceived to act self-interestedly (Jensen and Meckling, 1976), the self-interest producing conflicts amongst those involved in the firm (Fama and Jensen, 1983). Consequently, the agency theory assumes that the conflict of interests provokes agency costs, which owners then have the incentive to reduce (Morris, 1987).

Agency costs of equity are said to occur when the shareholders observe managers as not pursuing shareholders' interest and as a result the firm's value declines (possibly mostly reflected by low share prices), and when excessive costs of monitoring and bonding managers so that they do pursue the shareholders' interest, are incurred (Healy and Palepu, 2001; Morris, 1987). In turn, by virtue of managers having incentives to convince the shareholders that they are taking the right actions, disclose more information is perhaps a mechanism to reduce the agency costs. The literature over the past seventy years strongly pursues that theme, with much of it drawing upon the agency theory to explain financial reporting disclosure.

The notion of *independence* draws considerable support from the agency theory's posited conflict setting. This explains current widespread support for boards that are independent of the professional management team, *answerable* to shareholders, and that perform a strong monitoring role. In particular, it is the underlying rationale behind calls to move to a separation of the CEO and Chairperson roles.

Under *resource dependence* approach, the distinct role that directors play is ensuring the provision of essential resources or securing those resources through linkages to the external environment (Daily and Dalton, 1994; Zahra and Pearce II, 1989; Pfeffer, 1972). This perspective, views boards 'important boundary encompassing units' that because of their connections to the community, are able to bring needed resources to the company. Furthermore, because of their prestige in their respective professions and communities, directors are perceived able to gain resources to achieve successful operations.

Empirical work on the resource dependence perspective has emerged from economists and sociologists on the feature of *board interlock* (Zahra and Pearce II, 1989) - the situation where two directors from different companies serve on each other's boards. To attract more resources, the perception is that companies need to consider that the board functions as a link to the external environment, and that companies best respond to significant changes in their external environment by altering board composition.

Literature Review

The link between corporate governance attributes and voluntary disclosure practices has not been researched in an inclusive manner. Only few studies have examined this association and the outcomes were mixed (Donnelly and Mulcahy, 2008; Lim *et al*., 2007; Xiao and Yuan, 2007; Barako et *al*., 2006; Cheng and Courtenay, 2006; Ajinkya *et al*., 2005; Arcay and Vazquez, 2005; Gul and Leung, 2004; Makhija and Patton, 2004; Eng and Mak, 2003; Chau and Gray, 2002; Haniffa and Cooke, 2002; Ho and Wong, 2001; Forker, 1992). Some of the recent and relevant studies to the current study are referenced below.

Forker (1992) investigates the association between corporate governance attributes and the voluntary disclosure of share options of U.K. companies. The variables included in his study are: independent directors on board, duality, appointment of non-executive director as chairman and the existence of an audit committee. He finds positive but not significant relationships between independent directors and audit committee, and voluntary disclosure of share options. In addition, he finds significant negative links between the existence of role duality and the voluntary of share-option disclosure.

Ho and Wong (2001) investigate the level of voluntary disclosure for Hong Kong companies and the association between the independence of director, existence of audit committee, role duality and family members on the board. They find a significantly positive link between the existence of an audit committee and the level of disclosure; the percentage of family members on the board is negatively related to the degree of disclosure. No support for hypothesizing an association between independent director and role duality, and the level of voluntary disclosure.

Haniffa and Cooke (2002) examine the importance of various corporate governance factors, cultural and 17 company-specific characteristics on the determinants of voluntary disclosure in the annual reports of Malaysian listed companies. A random sample covers 167 companies from the Kuala Lumpur Stock Exchange that published their annual reports during the year ended 31 December 1995 was chosen. All banks, insurance and unit trusts companies were excluded due to their different statutory requirements. A scoring sheet comprising of 65 voluntary information items was constructed based on the selection of voluntary items of information which was derived from the prior research to develop a disclosure index. With respect to the company-specific characteristics, multiple regression revealed that assets-in-place, top ten shareholders, and foreign ownership were found to be significant at the 5 per cent level, and profitability and industry type significant at the 1 per cent level. Whereas independent non-executive director as chairperson, CEO duality and family members on the board were found to be negatively associated with level of voluntary disclosure.

In a related study, Arcay and Vazquez (2005) investigate the relationship among Spanish corporate characteristics, the governance structure of the corporation, and its voluntary disclosure. They found company size, along with some attributes of corporate governance such as the proportion of independent on the board, the formation of an audit committee, directors' shareholdings and stock option plans, are positively associated to voluntary disclosure.

In a recent study, Barako *et al.* (2006) examine the extent of voluntary disclosure on Kenyan listed companies and a range of company attributes and corporate governance attributes: the proportion of non-executive directors, dual leadership structure, presence of an audit committee, ownership structure, company size, leverage, profitability, industry type, liquidity, and the external auditor type. 43 companies from the Nairobi Stock Exchange publishing their annual reports during the year ended 31 December 1995 to 2001 were chosen. A scoring sheet comprising 47 voluntary information items was constructed based on the selection of voluntary items of information derived from the prior research, to develop a disclosure index. With respect to the company-specific characteristics, multiple regression reveals that large companies and companies with high debt voluntarily disclose more information. Profitability, liquidity, and type of external audit company are found to be insignificant with respect to the level of voluntary disclosure. Of corporate governance, the presence of an audit committee is a significant factor related with degree of voluntary disclosure. Also, the results show that the proportion of non-executive directors is negatively associated with the level of voluntary disclosure.

More recently, Donnelly and Mulcahy (2008) investigate the link between corporate governance and voluntary disclosure in Ireland. They find positive and significant relationship between voluntary disclosure and the number of non-executive directors on the board. Whereas, the study's outcomes indicate there was no connection between voluntary disclosure and ownership structure.

Overall, the prior studies show voluntary corporate disclosure is an essential part of financial reporting. These studies also illustrate significant relationship between a number of corporate governance mechanisms and the extent of voluntary corporate disclosure. The current study extends prior research by examining the linkage between the level of voluntary disclosure and a number of variables related to corporate governance in a Kuwaiti setting for year 2007.

Hypothesis Development

The development of corporate governance hypotheses proceeds from the theoretical consideration discussed in the previous section and from corporate governance related literature. This part examines the potential association between the level of voluntary disclosure by Kuwaiti companies and the three corporate governance variables - namely: directors with cross-directorships, CEO duality, and board size.

Cross-Directorships

Arguments relating to cross-directorship - one director involvement on more than one board, generates diverse views. The first, for example, Dahya *et al*. (1996) suggests that directors sitting on more than one board will assist in making information more transparent as comparisons can be made from intimate knowledge of other companies, whilst, the second states that such directors are less independent (Davis, 1993).

With respect to voluntary disclosure, cross-directorships are an interesting variable to consider; arguably, directors taking advantage of their position and knowledge, are potentially less secretive, and as a result of the knowledge gleaned from a connection with other companies, might be expected to support increased disclosure.

In Kuwait, there are some directors who sit on more one board, though it will be recalled that the Commercial Companies Law No.15/ 1960 prohibits being a director of more than three listed companies in Kuwait. This possibly ensures that multiple directorships give relatively special status and open up special opportunities. On balance, it might be expected to diminish any tendency toward secrecy. Therefore, the next hypothesis considers the association between directors on more than one board and the level of voluntary disclosure.

H1: *The greater the ratio of board directors with directorships in other companies boards, the greater the level of voluntary disclosure.*

CEO Duality

CEO duality is where two positions within a company are held by one individual, particularly the CEO or managing director also being the Chairman of the board. One person serving as both Chair and CEO would tend to withhold unfavourable information to the public, and in turn potentially restrict information disclosure (Ho and Wong, 2001). Similar claims have been made by other researchers. For example, in an earlier study, Forker (1992) used agency theory to argue that CEO duality threatens monitoring quality and is harmful to the quality of disclosure. Consistent with this view, a recent study by Donnelly and Mulcahy (2008) reports weak evidence between CEO/Chair duality and the level of voluntary disclosure.

Haniffa and Cooke (2002) observe that splitting the two roles provides substantial control over the management's functions and performance, and when the CEO or managing director is also the Chair, the CEO has the opportunity to control the rest of the board, select agenda items and select favourable board members. Gul and Leung (2004) suggest that a unitary leadership structure poses a strong individual power base, which could diminish the board's ability to exercise effective control, that firms with CEO/Chair duality are more likely to be associated with lower levels of disclosures since the board is less likely to be effective in monitoring management and ensuring a higher level of transparency. Early in the discussion, Chagnati, Mahajan and Sharman (1985) had argued a Chair who is also the CEO, may not have the time to carry out both positions' functions in acceptable manner, that separation can evoke a checks and balances power on company's management. Mak and Li (2001) argued that duality promotes managerial dominance, since that person is more associated with management than with stockholders' interests. This implies less disclosure to outsider-users of financial statements.

In the Kuwaiti setting, Kuwaiti companies are not required by law to separate the role of Chairman of the company and CEO or managing director, in the manner claimed in other jurisdictions to be related to the best practice of corporate governance. An examination of the KSEIG, (2007) reveals that from the sample under study (119 companies), there are 56 (47.1%) Kuwaiti companies listed on the KSE with CEO duality, a proportion clearly lesser than the 63 (52.9%) Kuwaiti companies listed on the KSE where the Chair is not the CEO. Since voluntary disclosure is considered as a form of expanded disclosure, it can be anticipated that the *CEO duality companies* are less likely to pay much attention to the voluntary disclosure. Thus, it is appropriate that the possible impact of CEO duality on the voluntary disclosure is hypothesized in H2.

H2: *If the roles of the managing director/CEO and of the Chairman are split, the greater will be the level of voluntary disclosure.*

Board Size

Board size distinguishes small from large boards. Those who favour a small board suggest that the large can be less effective, presuming that more emphasis on politeness and courtesy in the large boards is at the expense of truth and frankness (Jenson 1993; Lipton and Lorsch 1992). In contrast, those supporting the large board's argument, claim that a larger board increases the possibility of bringing together more directors' specialties from a wider diversity of fields, which may help the company's performance (Loderer and Peyer 2002). Though, it has also been counter-claimed that large boards can frustrate coordination, communication, and decision-making each potentially more cumbersome than in smaller (Jenson, 1993).

For KSE-listed companies, the Commercial Companies Law No.15/1960 requires that the number of directors may not be less than three. The size for Kuwaiti companies ranges between three and ten (KSEIG, 2007). Accordingly, the following hypothesis expresses the potential relationship between the board size and the level of voluntary disclosure.

H3: *The smaller the size of the board of directors, the greater the level of voluntary disclosure.*

Control Variables

To test the core hypotheses, a range of factors identified by the extant literature as related to voluntary disclosure are selected as control variables in the regression model. These factors include company size (Barako *et al*., 2006; Ghazali and Weetman, 2006; Chau and Gray, 2002; Haniffa and Cooke, 2002; Ho and Wong, 2001;Chow and Wong-Boren, 1987), company age (Al-Shayeb, 2003; Courtis, 1979), leverage (Barako *et al*., 2006; Eng and Mak, 2003; Haniffa and Cooke, 2002; Ho and Wong, 2001;Inchausti, 1997; Raffournier, 1995), and industry categories (Inchausti, 1997; Meek *et al*., 1995; Cooke, 1991). Accordingly, the model includes proxies for company size, company age, leverage, and industry categories as control variables to capture their influence.

Data and Research Methods

Sample Selection and Data Sources

According to the KSEIG of 2007, by the end of 2007, there were 179 Kuwaiti companies listed on the KSE. Consistent with the prior studies, for example, Ghazali and Weetman, (2006), Haniffa and Cooke, (2002),

Table 1

Number of Kuwaiti Listed Companies Selected for this Study at the End of 2007

Industry	Number of Companies	Percentage
Real Estate	33	28
Manufacturing (Industrial and Food)	33	28
Services	53	44
Total	**119**	**100**

Inchausti, (1997), Raffournier, (1995), and Hossain *et al*., (1994), all companies in the finance (banks, insurance and investments) industries (60 companies) were eliminated because they report under different and rigid accounting and disclosure reporting rules and because their financial transactions are not equivalent with those sample companies selected in this study. Thus, the 119 sample companies were selected from 179 companies listed on the KSE.

Data was drawn from two sources: The primary data source for examining the association between the level of voluntary disclosure and a number of corporate governance variables is the Kuwaiti companies' annual reports at the end of 2007. These annual reports were the latest reports available at the time the paper was written. Thus, a letter was sent to all 119 sample companies that were selected for this study. A reminder letter was sent to those companies who did not provide their annual report. Data of remaining companies who did not respond to the reminder letter was purchased from KSE. The second source which was financial data was taken from the KSE official website.

Table 1 breaks down the 119 companies and indicates their industry. Overall, all companies of the sample companies responded to the study (119 of 119).

Measurement of Dependent Variable

The dependent variable in the current study is the level of voluntary disclosure measured by the Voluntary Disclosure Index (the VDI). The VDI is considered a reliable and valid instrument for measuring voluntary disclosure (Cooke and Wallace, 1989). *Reliability*, in this context, means that the same results will be obtained by using the same index to measure the level of disclosure by a particular company at a specific time (Marston and Shrives, 1991). Thus, The VDI was used in the current study to measure the level of voluntary disclosure.

In order to develop a voluntary disclosure index suitable to Kuwaiti setting, several steps were taken. First, previous studies were reviewed to construct a check list from common items those were included in any previous voluntary disclosure studies. For example, Hossain and Hammami, (2009), Donnelly and Mulcahy (2008), Barako *et al,* (2006), Haniffa and Cooke, (2002), Hossain *et al*, (1995), Cooke, (1989), Chow and Wong-Boren, (1987), and Firth, (1979).

Second, all Kuwaiti companies' annual reports were reviewed to include all voluntary items disclosed in those annual reports. Third, all mandatory disclosure items required by Kuwaiti laws, KSE rules, and the disclosure requirements of IFRS(2) items were not considered relevant to the current study and were excluded from the list. The above steps produced 51 relevant items to be included in the VDI (See VDI Appendix)(3).

Consistent with studies conducted by Hossain and Hammami, (2009), Donnelly and Mulcahy (2008), Ali *et al*. (2004), Glaum and Street (2003), Haniffa and Cooke (2002), Street and Bryant (2000), Tower *et al*., (1999), and Spero (1979) equal weight was attached to items in the VDI, on the views that voluntary disclosure items are important to all users of annual reports.

Consistent with prior related literature (Hossain and Hammami, 2009; Donnelly and Mulcahy, 2008; Barako *et al*., 2006; Glaum and Street, 2003; Haniffa and Cooke, 2002; Street and Gray, 2002; Street and Bryant, 2000; Tower *et al*., 1999; Zarzeski, 1996; Adhikari and Tondkar, 1992; and Spero, 1979), in the current study an item of information is assigned "1" if it is clearly disclosed, and "0" if clearly not. Items inapplicable for a specific company were coded (N/A).

Operationally, the VDI (the dependent variable in the regression models) for a given company was computed and the ratio formed by calculating the total number of voluntary disclosures made by it its annual report, divided by the maximum relevant score. Higher scores index refers to the greater level of voluntary disclosure.

Measurement of Independent Variables

The explanatory (independent) variables are measured with data from two sources: *Cross-directorships data*, *CEO duality, board size, company age*,

(2) Kuwaiti companies are required to comply with IAS/IFRS since 1990.

(3) It should be noted that Kuwaiti professional and academic opinions were sought to further validate the VDI inclusion or exclusion items.

and type of *industry* were taken from KSE website. *Company size* and *leverage* were extracted from the companies' annual reports. Thus, the independent variables were measured as follows:

Cross- directorships variable was measured by the ratio of directors on the board with cross-directorships in other companies to total board size.

CEO duality was coded by a dummy variable taking the value of 1 for companies have a CEO also the chairman, and 0 for companies have not.

Board size was computed by number of directors on the board.

Company size was measured by log of total assets.

Company age was measured by the log of number of years since the company was incorporated.

Leverage was computed by the total debt to total shareholder equity.

Industry type was coded by a dummy variable taking the value of 1 for real estate companies and 0 otherwise (industry 1). Industry 2 was coded by a dummy variable taking the value of 1 for manufacturing companies and 0 otherwise and industry 3 was coded by a dummy variable taking the value of 1 for services companies and 0 otherwise.

Model Development

A multiple regression model was employed using Ordinary Least Squares (OLS) to determine which variables are associated with the voluntary disclosure and their significance level. Thus, the following regression model was fitted to the data:

$Y = \beta_0 - \beta_1$ (cross-directorships) $+\beta_2$ (CEO duality) $+\beta_3$ (board size) $+\beta_4$ (company size) $+\beta_5$ (company age) $+\beta_6$ (leverage) $+\beta_{7-9}$ (Industry$_{1\text{-}3}$) $+\varepsilon$

where, Y = Voluntary disclosure score; β_0 = regression intercept, the other$^{\beta}$ s are the parameters of the Model.

Research Results

Descriptive Statistics for Dependent Variable (Voluntary Disclosure)

Bearing in mind that the VDI is the dependent variable in this study, Table 2 presents descriptive statistics for VDI. Panel A indicates that the mean for the VDI for Kuwaiti companies in 2007 was 22%, ranging between 2 and 63 per cent and was higher than in earlier studies, those for example, by Ferguson *et al.* (2002) in Hong Kong (13%), and Meek *et al.* (1995) in US, UK and Continental Europe (18%) but, it was less than in earlier studies, those for example, by Hossain and

Table 2
Descriptive Statistics for the Dependent Variable - Voluntary Disclosure Index (VDI)

Panel A: Descriptive Statistics for VDI						
Dependent Variable	Number of Companies	Mean	Median	Standard Deviation	Minimum	Maximum
VDI	119	0.22	0.22	0.14	0.02	0.63

Panel B: Frequency Distribution of VDI Scores			
VDI Range	Number of Companies	Percentage	Cumulative Percentage
0.02 - 0.12	39	33	33
0.13 - 0.23	25	21	54
0.24 - 0.34	33	28	82
0.35 - 0.45	16	13	95
0.46 - 0.56	4	3	98
0.57 - 0.63	2	2	100
Total	**119**	**100**	

Hammami (2009) in Qatar (37%), Ghazali and Weetman (2006) in Malaysia (31%), and Leventis and Weetman (2004) in Greece (37%). These results in Panel A suggest that the voluntary disclosure by the 119 sample companies was widely distributed. Table 2 Panel B, reports the frequency distribution of the VDI scores for the 119 sample Kuwaiti companies. The statistics show that 39 companies (33%) scored between 0.02-0.12 of the applicable disclosure, 25 (21%) scored between 0.13-0.23; 33 (28%) scored between 0.24-0.34, 16 (13%) scored between 0.35-0.45, 4 (3%) scored between 0.46-0.56 and only 2 (2%) scored between 0.57-0.63.

Descriptive Statistics for Independent Variables

Table 3 presents the descriptive statistics for independent variables used in the study. The outcomes show that cross-directorships variable ranging from Zero to 80 percent, with the average of 0.23. This may have an effect on the financial reporting disclosure. In addition, Table 3 shows that the descriptive statistics indicate that the mean of the CEO duality was 0.47, with 56 (47.1%) companies have CEO duality and 63 (52.9%) companies have not. Obviously, the variation between the companies related to the CEO duality is due to the fact that in the Kuwaiti setting, Kuwaiti com-

Table 3
Descriptive Statistics for Independent Variables

(1) Continuous Variable	Mean	Median	St. Deviation	Minimum	Maximum
Cross-directorships	0.23	0.20	0.19	0.00	0.80
Board size	5.87	5.00	1.52	3	10
Company size* (KD million)**	172.63	59.17	468.58	3.45	4367.00
Company age	20.54	20.00	12.40	2	53
Leverage	0.38	0.40	0.21	0.01	0.89
(2) Dummy Variable	**Mean**	**Median**	**St. Deviation**	**n = 1**	**n = 0**
CEO duality	.47	0.00	0.50	56	63

Cross-directorships is measured by ratio of directors on the board with cross-directorships in other companies to total board size; Board size is measured by the number of directors on the board; Company size is measured by the log of total assets at year-end; Company age is measured by the number of years since the company was incorporated; Leverage is the ratio of total debt to total shareholders; and CEO duality is dummy variable coded 1 = if the CEO also the chairman, 0 = if not.

* In the regression, company size is operationalized as the log of total assets as at 31 December 2007.

** KD = Kuwaiti Dinars (Kuwaiti currency).

panies are not required by law to separate the role of Chairman of the company and CEO or managing director, in the manner claimed in other jurisdictions to be related to the best practice of corporate governance. Board size ranges from three to ten directors with mean of 5.87.

Of the control variables (except *industry*) shown in Table 3 reflect company age is ranging from 2 to 53 years, with the average 20.54. Due to the skewness, company age is not normally distributed. Thus, the natural logarithm of company age was used in the regression model. Company size (total assets) varied significantly, ranging from KD 3.45 to KD 4367.00 millions, with a mean of KD 172.63 millions. Due to the variation from normality, company size was transformed using natural logarithm of total assets as of December 31, 2007. Corporate *leverage* varying from 1 to 89 percent with a mean of 0.38.

Analysis of Univariate Results

Table 4 presents the results of univariate tests. Panel A presents Pearson's correlation among continuous variables. An examination of the correlation shows significant correlation coefficients for cross-directorships, company size, company age and leverage with the dependent variable (the VDI) with the exception of board size. Table 4 Panel B, reports *t* Test for CEO duality. No relationship between voluntary disclosure and CEO duality was found. Table 4 Panel C, presents One-Way Analysis of Var-

Table 4
Results of Univariate Tests

Panel A: Results of relationship between continuous variables and the voluntary disclosure (Pearson Correlation)		
Variables	Correlation Coefficient	Significant Level
Cross-directorships	.236	.005
Board size	.014	.442
Company size	.340	.000
Company Age	-.169	.033
Leverage	.307	.000

Panel B: t Test of Categorical Variable (two groups)		
Variable	t Value	Significant Level (2-tailed)
CEO duality	-1.476	.143

Panel C: One-Way Analysis of Variance Test (ANOVA)					
Source of variation	Sum of Squares	df	Mean Square	F statistics	Significance level
Between Groups	.012	2	.006	.289	.749
Within Groups	2.331	116	.020		
Total	2.343	118			

Table 5
Pearson Correlation Matrix for the Independent Continuous Variables

	Board size	Company size	Company age	Leverage
Cross-directorships	-.124	.218	.136	-.024
Board size		.387	.237	.128
Company size			.195	.389
Company age				-.011

Cross-directorships is measured by ratio of directors on the board with cross-directorships in other companies to total board size; Board size is measured by the number of directors on the board; Company size is measured by the log of total assets at year-end; Company age is measured by the number of years since the company was incorporated; Leverage is the ratio of total debt to total shareholders.

iance Test for industry categories. No differences were found between industries related to voluntary disclosure.

Possible multicollinearity between independent variables is a serious threat in interpreting the regression

(4) Multicollinearity is considered a problem only when the VIF exceeds 10. Thus, Variance inflation factors (VIF) were computed and found to be well within acceptable limits.

results. Thus, the Pearson Correlation Matrix for the independent continuous variables computed and revealed that whereas, multicollinearity was present, it was not severe. Table 5 reported that the largest value was.389 between *leverage* and *company size*. Consistent with Jude, Griffiths, Hill, Lutkephl, and Lee (1985), simple correlations between independent variables should not be considered severe until they exceeded 80 or 90 percent. Thus, multicollinearity did not appear to be a matter of concern in interpreting the regression results.(4)

Regression Analysis

The regression results presented in Table 6 show that the regression model is highly significant ($p < 0.000$) and explains about 20 per cent of the association between the dependent variable and the independent variables.

Consistent with expectations (Hypothesis H1) the outcomes show that the coefficient estimates for the cross-directorships variable is positive and significant in the model ($p < 0.05$). These results exhibit that greater voluntary disclosure is significantly associated with cross-directorships. Thus, H1 is supported. The result can be explained in terms of the possibility that directors with cross-directorships taking advantage of their position and knowledge, are potentially less secretive, and as a result of being well informed on a wider front by virtue of their multiple board memberships might be expected to support increased disclosure. An inference might be drawn that directors sitting on more than one board will assist in making information more transparent from their knowledge of other companies.

In contrast, insignificant negative relationship is observed for CEO duality (Hypothesis H2) and board size (Hypothesis H3). Although it has the predicted negative sign, the coefficient for CEO duality (H2) is not statistically significant. Thus, H2 is not supported. This result is consistent with Barako *et al.* (2006) and Ho and Wong (2001). In general, the result here implies that CEO duality does not influence the level of voluntary disclosure by Kuwaiti companies. One possible reason could be as Ho and Wong (2001) argue that those holding both roles (Chairman and CEO) are frequently substantial shareholders and it is unimportant whether the two roles are separated or combined. Their argument is probably applicable to Kuwait. Thus, the direction of influence of the CEO duality on the level of the voluntary disclosure is indeterminate.

Board size is not statistically significant, thus hypothesis H3 (that the

Table 6
Regression Results

Independent variables (Predicted sign)	Estimated Coefficients	t-statistics
Cross-directorships (+)	.151	2.348 **
CEO duality (-)	-.026	-1.095
Board size (-)	-.004	-.480
Company size (+)	0.029	2.616 ***
Company age (-)	-.045	-2.636 ***
Leverage (+)	.145	2.307 **
Industry 1 (Real Estate) (?)	0.005	.162
Industry 2 (Manufacturing & Food) (?)	0.028	.915
Constant	-.042	-.408
Adjusted R^2	0.206	
F	4.830	
Prob. (F)	0.000	
No. of companies	119	

***, ** p-value of statistical significance at the 0.01 and 0.05 levels respectively.

- Cross-directorships is measured by ratio of directors on the board with cross-directorships in other companies to total board size; Board size is measured by the number of directors on the board; Company size is measured by the log of total assets at year-end; Company age is measured by the number of years since the company was incorporated; Leverage is the ratio of total debt to total shareholders; and CEO duality is dummy variable coded 1 = if the CEO also the chairman, 0 = if not.

smaller the size of the board, the greater the level of voluntary disclosure) is not supported. Overall, the result here suggest that board size, at least in terms of the *number* of directors, is neutral with respect to voluntary disclosure.

For control variables, the findings reveal that the estimated coefficients for company size ($p < 0.01$), company age ($p < 0.01$) and leverage ($p < 0.05$) variables are statistically significant. In contrast, industry categories variables are not statistically significant, suggesting there are insignificant differences between industry categories.

Summary and Conclusion

The objective of the study was to determine the impact of particular corporate governance mechanisms (cross-directorship, CEO duality and board size) on their level of the voluntary disclosure. The VDI based on 51 items relevant in the Kuwaiti commercial context was developed to investigate the level of voluntary disclosure in the 2007 annual reports of a sample of 119 Kuwait listed companies. The outcomes indicated that the mean for the VDI for Kuwaiti companies in 2007 was 22%, ranging between 2 and 63 per cent.

Regression analysis revealed that the cross-directorships, company size, company age and leverage were the most important variables explaining the voluntary disclosure of KSE listed Kuwaiti companies. In contrast the other independent variables (CEO duality, board size, and industry categories) did not emerge as being statistically significant in explaining the voluntary disclosure of Kuwaiti companies.

In general, the results of the statistical analysis are mixed. Thus the results reveal that Kuwaiti companies with a higher level of voluntary disclosure are expected to have directors with cross-directorships in the other companies, larger size, younger company, and have a higher level of Leverage.

These results have implications and suggestions for users of corporate financial disclosures and policy makers. Users of corporate financial disclosures in Kuwait might reasonably expect more disclosure from companies having directors with cross-directorships in the other companies, larger size, younger company, and have a higher level of leverage. As such, regulators should consider encouraging Kuwait's listed companies to structure their governance with those features in mind.

This study has been a cross-sectional examination. How the current pattern of disclosure will change over time is contestable, but clearly a longitudinal study in due course will be needed to obtain a more comprehensive understanding, and greater insight.

Appendix
Voluntary Disclosure Index

No.	Disclosure item
A General corporate information	**F Corporate social information**
1 Mission statement	37 Participation in government social campaigns
2 Brief history of corporate	38 Community programs (health & education)
3 Corporate structure	39 Employees' appreciation
4 Major plants, warehouses, projects	40 Recruitment policy
5 Information about the economy	41 Picture of employees' welfare
6 Information about the industry	42 Number of employees
7 Corporate establishment's date	43 Corporate policy on employee training
B Information about directors	44 Nature of training
8 Picture of chairperson only	45 Percentage of foreign and national labor force
9 Picture of all directors	46 Discussion of major types of product (services)
10 Academic qualification of directors	47 Picture of major types of product
11 Position held by executive directors	48 Improvement in product quality
12 Identification of senior management	49 Improvement in customer services
13 Number of shares held by directors	50 Information on donations to charitable organizations
14 Directorship of other companies	51 Distribution of marketing network of products
15 Number of BOD meetings held	
16 Directors' remuneration	
17 Age of directors	
C Corporate strategy	
18 General strategy and objectives	
19 Financial strategy and objectives	
20 Marketing strategy and objectives	
21 Impact of strategy on current results	
22 Impact of strategy on future results	
D Capital market data	
23 Volume of shares traded (trend)	
24 Volume of shares traded (year end)	
25 Share prices information (trend)	
26 Share prices information (year end)	
27 Domestic and foreign shareholdings	
28 Distribution of shareholdings by type of shareholders	
29 Year of listing at KSX	
30 Foreign stock market listing information	
E Financial review information	
31 Financial summary 3+ years	
32 Return on equity ratio	
33 Return on assets ratio	
34 Liquidity ratios	
35 Leverage ratios	
36 Other ratios	

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الملخص

تركيبة مجلس إدارة الشركة والإفصاح الطوعي في التقارير السنوية: حالة الكويت

فيصل صبار العنزي
الهيئة العامة للتعليم التطبيقي والتدريب

تهدف هذه الدارسة إلى بيان العلاقة بين تركيبة مجلس إدارة الشركة والإفصاح الطوعي في التقارير السنوية للشركات الكويتية المدرجة في سوق الكويت للأوراق المالية في نهاية سنة ٢٠٠٧. وقد أوضح تحليل الانحدار لعينة شملت ١١٩ شركة أن وجود أحد أعضاء مجلس إدارة الشركة في مجلس إدارة شركات أخرى، وحجم الشركة، وعمر الشركة، ومديونية الشركة هي أكثر المتغيرات ذات الدلالة الإحصائية في تفسير مستوى الإفصاح الطوعي للشركات. بينما المتغيرات الأخرى المستقلة (الرئيس التنفيذي للشركة، هو رئيس مجلس الإدارة، وحجم مجلس الإدارة، ونوع الصناعة) لم تُظْهر أنها ذات دلالة إحصائية.

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مجلة الشريعة والدراسات الإسلامية

فصلية علمية محكمة تصدر عن مجلس النشر العلمي بجامعة الكويت
تعنى بالبحوث والدراسات الإسلامية

رئيس التحرير السيد الأستاذ الدكتور: أبو اليزيد أبو زيد العجمي

صدر العدد الأول في رجب ١٤٠٤هـ - أبريل ١٩٨٤م

* تهدف إلى معالجة المشكلات المعاصرة والقضايا المستجدة من وجهة نظر الشريعة الإسلامية.
* تشمل موضوعاتها معظم علوم الشريعة الإسلامية: من تفسير، وحديث، وفقه، واقتصاد وتربية إسلامية، إلى غير ذلك من تقارير عن المؤتمرات، ومراجعة كتب شرعية معاصرة، وفتاوي شرعية، وتعليقات على قضايا علمية.
* تنوع الباحثون فيها، فكانوا من أعضاء هيئة التدريس في مختلف الجامعات والكليات الإسلامية على رقعة العالمين: العربي والإسلامي.
* تخضع البحوث المقدمة للمجلة إلى عملية فحص وتحكيم حسب الضوابط التي التزمت بها المجلة، ويقوم بها كبار العلماء والمختصين في الشريعة الإسلامية، بهدف الارتقاء بالبحث العلمي الإسلامي الذي يخدم الأمة، ويعمل على رفعة شأنها، نسأل المولى عز وجل مزيداً من التقدم والازدهار.

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