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AN INVESTIGATION OF THE DETERMINANTS OF VOLUNTARY DISCLOSURE BY KUWAITI SHARIAH-COMPLIANT COMPANIES

Key Words

Voluntary Disclosure; Islamic Disclosure; Shariah-compliant Companies; Specific Corporate Characteristics; Kuwait.

Abstract

This study examines the relationship between specific corporate characteristics and the extent of voluntary disclosure (i.e., overall, conventional, and Islamic disclosure items) in the annual reports of 108 Shariah-compliant companies listed in the Kuwait Stock Exchange in 2009. Five specific corporate characteristics are investigated: company size, profitability, ownership structure, audit firm size, and industry type. The extent of voluntary disclosure is measured using a self-constructed index. The index consists of 132 items: 86 conventional and 46 Islamic. Multivariate regression analyses are used to examine the relationships between these characteristics and each category of voluntary disclosure. The results show that Shariah-compliant companies disclosed on average 15%, 17%, and 13% of overall, conventional, and Islamic items, respectively. The results show that company size is positivly associated with the extent of voluntary disclosure in all three categories, while auditor firm size and industry membership are positive and significant with overall and conventional voluntary disclosure. Profitability and ownership structure were insignificant in all categories. It is believed that this result will prove useful to lawmakers, preparers of financial statements, and others, such as investors.

Introduction

The purpose of financial reporting is specified in the framework of the International Financial Reporting Standards (IFRSs): to provide informa-

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tion about the company that is useful to existing and potential investors, lenders, creditors, and other users in making decisions about providing recourses to the company. Similarly, financial reporting regulations in Kuwait focus on protecting investors and other users of financial reports. Specifically, the company law of Kuwait also reflects a similar idea of the objective of financial reporting, to be useful, sufficient and relevant, financial and non-financial information should be provided to meet users' demands. Thus, financial reporting is used by companies as a means of communicating information to their stakeholders to allow them to make better economic decisions (Ball *et al.*, 2012; Cooke, 1992).

Disclosure practices can be categorized into mandatory or voluntary disclosure. Mandatory disclosures are items that companies must disclose because of statutory regulations (Ball *et al.,* 2012); therefore, they represent the minimum level of information to be disclosed in the annual reports. However, voluntary disclosure is defined as information that is not required by statutory regulations (Ball *et al.,* 2012). A company usually discloses information voluntarily to assure users that it is a good company.

Voluntary disclosure is not limited to conventional disclosure (social or environmental), but may also include information items from an Islamic perspective. This is because the resurgence of Islam led Muslim decision makers to expect companies to disclose more information that would help them fulfill their spiritual needs (Othman and Thani, 2010). Haniffa (2002) argued that although current disclosure practices fulfilled wider user needs, they lacked the most pertinent items from an Islamic perspective. This could have impaired the judgment of Muslim decision makers and adversely affect their spiritual well-being (Haniffa, 2002). Moreover, Shariah-compliant companies needed to prove that they are operating under Shariah rules and principles.[1] Haniffa and Hudaib (2002) suggested that full disclosure in the annual report of relevant and reliable information would assist Muslim stakeholders in making both economic and religious decisions, as well as assist management in fulfilling their accountability to God and society.

Kuwait is one of the Middle Eastern Muslim countries that realized the need for companies to comply with Shariah rules and principles. Conse-

(1) Shariah is the Islamic law of human conduct, which regulates all matters of the lives of Muslims. It is based on God's holy word in the Al-Quran, the deeds and sayings of the prophet Mohammed, and the consensus of Islam religious scholars (Maali ***et al.***, 2006: 1-2).

quently, Kuwait Finance House is a pioneering company in Islamic Finance or Shariah-compliant banking. It was established in Kuwait in 1977 and provides a wide range of Shariah-compliant products and services, including banking; real estate; trade finance; investment portfolios; and corporate, commercial, and retail financial markets. The number of companies claiming to comply with Shariah rules and principles increased to 156 as of December 31, 2009, which represents 77% of all companies listed on the Kuwait Stock Exchange (KSE). These companies represent 50% of total market capitalization of the KSE. This could reflect the investors' need for such companies. It also indicates the importance of these companies as a component of the overall capital market of the KSE. However, until the establishment of the Capital Market Authority (CMA) in Kuwait in 2010, there was no authority to assure that companies' transactions and activities were based on Shariah rules and principles. Companies claiming to comply with Shariah law voluntarily appointed a Shariah supervisory board of Islamic scholars to verify their transactions and activities.

This study contributes to the limited literature in the area of determinants of corporate voluntary disclosure by Shariah-compliant companies. It fills the gap of empirical studies on Shariah-compliant companies' disclosure practices. Therefore, the purpose of this study is to investigate the extent of voluntary disclosure (overall, conventional, and Islamic disclosures) in the annual reports of Shariah-compliant companies and to explain why some companies disclose more than others. Specifically, Islamic voluntary disclosure deserves special attention in the Middle Eastern countries because investors seek to invest in Shariah-compliant companies to help them fulfill their spiritual needs. Further, this study contributes to the empirical research exploring specific corporate characteristics and their effect on social and Islamic disclosure and corporate transparency.

This study is important in enhancing our understanding of corporate disclosure by Shariah-compliant companies in Kuwait. It explores the determinants that help explain voluntary disclosure, including Islamic information. This study may be useful for lawmakers, preparers of financial statements, and existing and potential investors (Muslim and non-Muslim). The CMA (the lawmakers) may use the findings to suggest areas in which efforts to improve the disclosure regulatory practices by Shariah-compliant companies in Kuwait should be concentrated. Given the importance of Shariah-compliant companies, the CMA should be particularly concerned with issues related to disclosure, specifically for Islamic information. This information is also useful for the preparers of financial statements, who should want to match the amount of information in their annual reports with that of other companies in order to be successful in competing for funds. Further, it may be useful for Shariah supervisory boards in companies communicating with stakeholders. This may assist in strengthening the Kuwaiti Shariah supervisory boards. Stakeholders like investors may consult the findings to understand Kuwaiti Shariah-compliant companies better when diversifying their Islamic investment portfolios.

The remainder of the study is organized as follows. The next section describes the Shariah Advisory Council (SAC) and the Shariah supervisory committees. The relevant literature review is discussed in Section 3. The hypotheses are then developed in Section 4. The next section describes how the sample was selected, the data collection methods, and the statistical analysis performed. The results are presented and interpreted in Section 6. The conclusion, limitations, and suggestions for how the research could be extended are set out in the final section.

Background of the Shariah Advisory Council and the Shariah Supervisory Committees

In Kuwait, a number of Shariah-compliant companies have appointed Shariah supervisory boards to monitor the transactions and activities of their companies to limit the divergence of interest between Muslim decision makers and management. Although it is not mandatory for a Shariah-compliant company to have its own Shariah board, a company appoints the board to assure Muslim decision makers of the company's compliance with Shariah rules and principles. In general, the board consists of top scholars in Islam. The demand for the services of such boards arises out of the constant need to check accounting against Shariah rules and principles. The board investigates to what extent the company has adhered to Shariah rules and principles in all its activities. The investigation would include examination of the company's memorandum and articles of association, its contacts, its financial reports, and various other reports. The board prepares a special report regarding the results of their investigation, which is published alongside the annual report of the company. However, since the appointment of the board is not mandatory, a number of companies have not appointed boards and simply include a declaration claiming that they comply with Shariah rules and principles in their annual reports.[2]

(2) This information was obtained from interviews with two members of the Shariah supervisory committee of a Shariah-compliant company. The interviews were an important phase of this study because they provided information that is unpublished and unavailable from any other source.

Before 2010, there was no authority to ensure that companies claiming to comply with Shariah rules and principles were actually doing so. In February 2010, the Ministries Council issued law No. 7 of 2010 establishing the Kuwaiti CMA. The Executive Regulations of Law No. 7 of 2010 include 15 articles establishing the SAC. The law states that the Council is the reference in all decisions of the CMA relating to activities consistent with Shariah rules and principles. The SAC consists of at least five members, including experts in the jurisprudence of the Islamic financial transactions, law, economics, and administrative sciences with the majority being specialists in Shariah. The aims of the SAC are to:

- function as a reference for the activities of companies licensed to work in compliance with Shariah rules and principles;
- ensure the supervisory departments of the CMA comply with Shariah rules and principles in their supervision of Shariah companies;
- advise the CMA on products and new Islamic financial instruments in the capital market;
- advise the CMA on complaints from Muslim decision makers about their companies' non-compliance with Shariah rules and principles;
- propose a Shariah index (of Shariah-compliant companies listed on the KSE) to the CMA.

The law also gives the SAC the right to classify companies listed on the KSE as compliant or non-compliant based on whether their activities are in compliance with Shariah rules and principles. The law defines Shariah-compliant companies as those whose business transactions and activities are in compliance with Shariah rules and principles. Shariah non-compliant companies are those whose activities are against Shariah rules and principles. For example, non-compliant business transactions and activities include interest (*riba*), gambling (*maysir/gimar*), speculation and ambiguity[(3)], and manufacture or sale of prohibited or related products or services, such as alcoholic drinks, pork, and unlawful entertainment.

Literature Review

In many countries, religious beliefs are a private issue, influencing every aspect of life, including spirituality,

(3) Gharar: An Islamic finance term describing a risky or hazardous sale, where details concerning the sale item are unknown or uncertain. Gharar is generally prohibited under Islam, which explicitly forbids trades that are considered to have excessive risk due to uncertainty (Maali *et al.*, 2006).

business, and social justice (Rice, 1999). Islam is a religion that affects the way Muslims live and do business (Graafland *et al*., 2006; Sulaiman, 2001). Islam's influence on business-especially accounting-is evident (Wilson, 2006; Beekun, 1997; Karim, 1995). From an accounting perspective, Islam influences financial disclosure practices (Ullah and Jamali, 2010; Baydoun and Willett, 1997).

The Islamic perspective of disclosure consists of two requirements: (1) full disclosure, and (2) social accountability (Haniffa, 2002; Baydoun and Willett, 2000). The concept of social accountability relates to the principle of full disclosure with the objective of serving Islamic society (Baydoun and Willett, 2000). Unity with God *(tawhid)* is a foundational Islamic concept. God has absolute ownership; human beings are merely trustees in this world (Maali *et al*., 2006). As trustees, all people are responsible for God and Islamic society, and will be accountable for their actions in an afterlife (Maali *et al*., 2006; Baydoun and Willett, 1997). Under Islam, people's accountability includes societal accountability. In Islamic accounting, management and shareholders are accountable to all stakeholders for their actions, including society and the public (Baydoun and Willett, 1997). Society has the right to understand a company's operational effects on its well-being, and to be advised within the requirements of Shariah of whether the objectives were achieved (Baydoun and Willett, 2000). One of the ways companies do this is by providing full disclosure to help discharge their accountability to society. Haniffa and Hudaib (2002) and Baydoun and Willett (2000) suggest that full disclosure includes relevant and reliable information of importance for companies discharging their accountability to God and society and for Muslim decision makers making economic and religious decisions.

Islamic social reporting is an extension of social reporting that encompasses not only the conventional disclosures related to the broad expectations of society in terms of a company's role in the economy, but also a spiritual perspective (Haniffa, 2002). The objectives of Islamic social reporting show not only whether the company is compliant with Shariah principles but also how operations affect the well-being of society in terms of interest and unfair trading practices; they help Muslim decision makers perform their religious duties (Maali *et al*., 2006; Sulaiman, 2001). Haniffa (2002) suggests Islamic social reporting is necessary in an Islamic society with the objectives of demonstrating accountability to God and society, and increasing the transparency of business activities by providing relevant information conforming to the spiritual needs of Muslim decision makers.

A number of studies in the corporate reporting literature have examined the influence of specific corporate characteristics and voluntary disclosure levels in various countries (e.g., Yuen *et al.*, 2009; Al-Shammari, 2008; Leventis and Weetman, 2004; Makhija and Patton, 2004; Ferguson *et al.*, 2002; Haniffa and Cooke, 2002; Meek *et al.*, 1995; Hossain *et al.*, 1995; Cooke, 1989; Firth, 1979; Singhvi and Desai, 1971). However, these studies examine disclosure of conventional information in non-Shariah-compliant companies using a self-constructed index. Despite the growth of Shariah-compliant companies in both size and complexity, few studies have examined the determinants of voluntary and Islamic disclosure, particularly in the context of Shariah-compliant companies.

Othman *et al.* (2009) attempted to identify specific corporate characteristics influencing voluntary Islamic disclosure by 56 Shariah-approved companies listed in Bursa Malaysia over three years (2004 to 2007). They developed an Islamic disclosure index consisting of 43 items in order to measure voluntary Islamic disclosure. They used content analysis to describe the level of voluntary Islamic disclosure. They employed multivariate regression analysis to investigate the association between specific corporate characteristics and Islamic voluntary disclosure. They found that voluntary Islamic disclosure was 22% in 2004, 25% in 2005, and 30% in 2006. They reported that company size and profitability were positively associated with voluntary Islamic disclosure in 2004 and 2005, while none of the variables were significant in 2006. Moreover, type of industry was not significant in any of the three years.

Ousama and Fatima (2010) examined the relationship between voluntary disclosure (overall, conventional, and Islamic disclosure) and specific corporate characteristics in the 2003 annual reports of 50 Shariah-approved companies listed in Bursa Malaysia. They developed a disclosure index consisting of 59 items: 28 Islamic and 31 conventional. They found that the level of overall voluntary disclosure was 19%, on average. The extent of conventional disclosure was 21%, and the level of Islamic disclosure was 17%. They also reported that company size is positively associated with the three categories of voluntary disclosure. However, size of audit firm is associated with only overall and Islamic disclosure. With respect to industry, they reported that non-manufacturing companies disclose more Islamic items than manufacturing companies. Ownership structure is positively associated only with overall and conventional disclosure.

The review of the above literature demonstrates that studies examining the relationship between specific corporate characteristics and voluntary Islamic disclosure are scarce and limited. To date, no study has attempted to examine such an issue for Shariah-compliant companies in Kuwait. Therefore, this study measures the extent of voluntary disclosure (overall, conventional, and Islamic information items) practiced by Shariah-compliant companies listed on the KSE and attempts to explain why some companies disclose more than others.

Hypotheses Development

Prior studies have reported that a number of specific corporate characteristics may influence the company's disclosure of voluntary information in general and Islamic information items in particular. In the present study, each specific corporate characteristic had to meet four preconditions before it was included in the study. First, there had to be a sound, theoretical reason for expecting the specific corporate characteristic to be associated with voluntary disclosure. Second, the specific corporate characteristic should be relevant to the socioeconomic environment of Kuwait. Third, the specific corporate characteristic should be measurable in principle. Finally, sufficient data should be available in the Shariah-compliant companies' annual reports or guides available from stock exchanges for the specific corporate characteristic to be measured in practice.

Based on these preconditions, five specific corporate characteristics were selected for this study: (1) company size, (2) profitability, (3) ownership structure, (4) size of external audit firm, and (5) type of industry.

(1) Company size

Size was identified as a significant explanatory variable in explaining the variation in the level of voluntary disclosure in prior disclosure studies. A number of theoretical explanations for expecting a positive relationship between company size and level of voluntary disclosure was provided in the literature. Agency theory (Jensen and Meckling, 1976) suggests that agency costs are associated with the separation of management from ownership, which is likely to be greater in larger companies. Larger companies are more politically visible than smaller companies and consequently more exposed to political attack in the form of greater regulation, such as price controls, threat of nationalization, and social responsibility. Therefore, larger companies have a greater incentive to disclose more information in their annual reports than smaller companies in order to enhance their reputation and public image and to lessen public criticism or threat of government intervention (Hagerman and Zmijewski, 1979; Watts and Zimmerman, 1978).

Based on the Islamic perspective of social accountability and full disclosure, larger companies are more likely to become involved with the society and therefore disclose more information in the annual reports to discharge their accountability to their stakeholders, particularly Muslim stakeholders. In Kuwait, a number of larger companies have contributed to society by building hospitals, parks, and roads, or providing hospitals with equipment. It can be argued that, from the Islamic perspective, Shariah-compliant companies may disclose more information about how they are meeting their perceived responsibilities towards society in order to enhance their public image and reduce political costs. The capital need hypothesis (Choi, 1973) suggests that a prime motive for disclosure is the need to raise capital at the lowest cost. In order to raise capital in the markets, larger Shariah-compliant companies may increase Islamic disclosures to demonstrate that their businesses act in a responsible manner based on Shariah rules and principles. Larger Shariah-compliant companies may thus have greater incentive to disclose more voluntary information than smaller companies. Therefore, it is hypothesized that:

> H1: There is a positive relationship between Shariah-compliant company size and the level of voluntary disclosure.

Consistent with this argument, a positive relationship between size and voluntary disclosure has been found in prior studies (Ousama and Fatima, 2010; Othman *et al.*, 2009; Al-Shammari, 2008; Hossain *et al.*, 1995; Cooke, 1989; Firth, 1979; Singhvi and Desai, 1971). However, Makhija and Patton (2004) and Haniffa and Cooke (2002) found no evidence of such a relationship.

(2) Profitability

Agency theory suggests that managers of larger profitable companies may wish to disclose more information to obtain personal advantages, like the continuation of their management position and compensation (Inchausti, 1997). Applying signaling theory (Ackerlof, 1970), larger profitable companies may disclose more information than less profitable companies because managers of larger profitable companies are more likely to signal their success and strength to potential investors and market participants (Inchausti, 1997; Singhvi and Desai, 1971).

Based on the Islamic perspective of social accountability and full disclosure, a company should be willing to provide full disclosure regardless of whether it is making profit because management is accountable for their actions to all stakeholders, or to society and the public (Haniffa, 2002; Baydoun and Willett, 1997). For these reasons, it is hypothesized that:

> H2: There is a positive relationship between profitability and the level of voluntary disclosure.

Empirical evidence provides conflicting results. A positive association between profitability and voluntary disclosure was found (Othman *et al.*, 2009; Al-Shammari, 2008), while it was not significant (Leventis and Weetman, 2004; Hossain *et al.*, 1995).

(3) Ownership Structure

Company ownership structure has been suggested as relevant in explaining variation in the extent of voluntary disclosure. Wallace and Naser (1995) suggested that variation in the proportion of the company's shares owned by outsiders (shareholders) may account for some differences in the level of voluntary disclosure because, according to agency theory, companies with more outside ownership are more likely to disclose more information than companies with less outside ownership. This is because when there are more outsiders, the demand for publicly available information is likely to increase. Detailed disclosure in annual reports may allow outsiders to monitor their interests more efficiently, thereby reducing agency costs (Fama and Jensen, 1983; Leftwich *et al.*, 1981). Managers of companies with more outside ownership are more likely to disclose more voluntary information in order to signal that they are acting in shareholders' interests.

Based on the Islamic perspective of full disclosure and social accountability, management and shareholders are accountable for their actions to all stakeholders, or to society and the public. Society has the right to understand a company's operational effects on its well-being and to know whether the company is compliant with Shariah principles irrespective of proportion of outside ownership. Full disclosure by companies could provide all stakeholders and the society with detailed information, helping companies discharge their accountability to society.

In Kuwait, three shareholder groups typically have substantial equity ownership in companies listed on the KSE. These groups are the government and its agencies, dominant families, and institutional investors. These groups may influence the level and quality of disclosure. These groups are considered insiders because they usually have representatives on the companies' boards of directors; thereby, they have better access to internal information. Therefore, consistent with agency theory, it can be predicted that companies with more outside ownership have higher motivation to disclose more information than companies with more inside ownership. Accordingly, it is hypothesized that:

> H3: There is a positive relationship between the proportion of shares held by outsiders and the level of voluntary disclosure.

In Kuwait, there is no information about the number of shareholders, but there is only information about the proportion of shares owned by government and its agencies, dominant families, and institutional investors, as the KSE requires each individual, company, or the government that owns 5% or more of a company to disclose their ownership. The proportion owned by these three groups is added together to arrive at the proportion of equity owned by insiders and to derive the proportion owned by outsiders.

Empirical evidence relating the association between ownership structure and the extent of voluntary disclosure is mixed. For instance, Raffournier (1995) found no association between ownership structure (measured by shares not held by known shareholders) and the extent of voluntary disclosure. Depoers (2000) also found no relationship between ownership structure (measured by the proportion of shares held by the three largest shareholders) and the extent of voluntary disclosure. However, Hossain *et al*. (1994) found a positive association between ownership structure (measured by the top ten shareholders) and the level of voluntary disclosure, whereas Chen and Jaggi (2000) found no relationship between ownership structure (measured by the proportion of shares owned by outsiders) and the level of voluntary disclosure. Ousama and Fatima (2010) found positive association between ownership structure and conventional voluntary disclosure, but no such an association with Islamic disclosure.

(4) Size of External Audit Firm

Size of external audit firm has been suggested to be a factor in explaining variations in the level of voluntary disclosure. Jensen and Meckling (1976) argued that large audit firms act as a mechanism to reduce agency costs and exert more of a monitoring role by limiting opportunistic behaviors by managers. They argued that larger audit firms are less likely to be associated with clients that disclose lower levels of information in their annual reports. Conventionally, larger audit firms are identified as being one of the Big Four (or formerly, Big Five or Six) international auditing firms, and smaller audit firms are identified as a non-Big Four (Owusu-Ansah, 1998; Hossain *et al.,* 1994; DeAngelo, 1981). The signaling literature suggests that there are dual benefits for auditing firms and their clients. The choice of an external auditor can serve as one signal of a company's (or client's) value. For example, Craswell and Taylor (1992) showed that listed companies are more likely to choose a Big Six auditing firm. Such a choice signals to investors that the contents of the annual reports are audited in a high-quality manner. Auditing firms may also use the information disclosed by their clients as a way of signaling their own quality (DeAngelo, 1981).

Based on the Islamic perspective of social accountability and full disclosure, people's accountability includes societal accountability. As a consequence, the Big Four international auditing firms are more likely to be responsible toward shareholders and the society by exerting more of a monitoring role to uncover any opportunistic behavior by managers. Therefore, the Big Four international auditing firms are more likely to encourage their Shariah-compliant clients to provide full disclosure to help discharge their accountability to God and society and to help Muslim decision makers in their economic and religious decisions.

In Kuwait, company law requires every joint stock company (including Shariah-compliant companies) to appoint at least two external auditors registered with the Ministry of Commerce and Industry to audit the company's accounts. The external auditing law does not permit foreign auditing firms to operate unless they are affiliated with a local firm. As a result, audit firms in Kuwait can be classified into local firms with international affiliations (Big Four) and local firms without such an international affiliation (non-Big Four). It can be expected that Shariah-compliant companies audited by one of the local audit firms with an international affiliation (Big Four) are more likely to have a higher level of voluntary disclosure than companies audited by local audit firms without an international affiliation (non-Big Four). Thus, it is hypothesized that:

> H4: There is a positive relationship between the size of external audit firm and the level of voluntary disclosure.

Empirical evidence of the association between auditor and voluntary disclosure is inconclusive. Some studies found a positive association (Ousama and Fatima, 2010; Al-Shammari, 2008), while others found no such association (Leventis and Weetman, 2004; Hossain *et al*., 1995; Hossain *et al*., 1994)

(5) Type of Industry

Industry type is included in order to account for any otherwise uncontrolled, industry-specific factors that may influence the level of voluntary disclosure in general and Islamic disclosure in particular. Industry has been identified by theoretical and empirical research as a factor with a significant influence on voluntary disclosure. Industry type may capture sensitivity to political costs not captured by other proxies that differ by industry (Ball and Foster, 1982). Ferguson *et al*. (2002), for instance, argued that companies in identifiable, highly competitive industries may disclose less information to avoid loss from the leakage of proprietary information. The existence of a dominant company in an industry with high levels of voluntary disclosure may have bandwagon effects for all companies within this industry (Belkaoui and Kahl, 1978). As a consequence, different industry groups may have different disclosure levels because of differences in their sensitivity to political costs not captured fully by other proxies and to other unspecified industry commonalities. Thus, it is hypothesized that:

> H5: The level of voluntary disclosure differs between manufacturing and non manufacturing companies.

Empirical evidence from prior studies is mixed. Prior studies have found that industry type does not influence a company's voluntary disclosure (Othman *et al*., 2009; Makhija and Patton, 2004; Ferguson *et al*., 2002; Meek *et al*., 1995). However, other prior studies have found contrasting results (Ousama and Fatima, 2010; Haniffa and Cooke, 2002).

Data Collection and Research Method

This section describes the research method of the study, including sample description, data collection, and how the dependent and independent variables are operationalized, and the analyses are used to test the hypotheses.

Sample and Data Collection

At the time of data collection, there was no authority to identify Shariah-compliant companies in Kuwait. (With effect from January 1, 2012, Shariah-compliant are identified by the SAC of the CMA.) This study selected all Shariah-compliant companies listed on the KSE because they are the largest companies and are expected to be more accountable in terms of reporting their activities in conformance with Shariah rules and principles. Using large companies is supported by prior studies (Hassan and Harahap, 2010; Othman and Thani, 2010; Maali *et al.,* 2006). Since there was no authority identifying Shariah-compliant companies at the time of data collection, it was decided to collect all companies' annual reports and read them in their entirety to identify whether or not the companies were in compliance with Shariah. A company is considered in compliance with Shariah if it has a Shariah supervisory board or it publishes a statement in the annual report that it complies with Shariah rules and principles.

The 2009 Companies Guide published by the KSE revealed that as of December 31, 2009, 198 companies were listed on the KSE. Sixty-six financial and insurance companies were excluded from the study because of materially different types of business operations. This approach has been followed by a number of previous accounting disclosure studies (e.g., Othman and Thani; 2010; Ousama and Fatima, 2010; Haniffa and Cooke, 2002; Cooke, 1989). The Companies Guide was consulted to obtain the Web addresses of the 132 non-financial companies. Search engines (www.google.com and www.yahoo.com) were also used if addresses were not available from the Companies Guide. Eighty-eight companies' annual reports were collected from their homepages. For the remaining 44 companies, the Companies Guide was consulted to obtain the names and addresses of the general managers or chief executive officers. A letter requesting the English version of the 2009 annual reports was addressed to the general manager or chief executive officer of each of the 44 remaining companies. After follow-up letters were sent, 42 companies responded to the request for their annual reports, a response rate of 95%. This high response rate may reflect the willingness of Kuwaiti companies to provide their annual reports to non-shareholders.

A total of 130 annual reports were collected. Three companies were excluded from the study because of a year-end date outside of the calendar year. After reading all annual reports, it was revealed that 108 companies (108/127; 85%) were Shariah compliant. Sixty-six companies had a Shariah supervisory board (61%), whereas the remaining 42 companies (39%) only reported that they were in compliance with Shariah law. Based on the KSE's classification, the sample of the study can be classified as 31 real estate companies, 24 manufacturing companies, 5 food companies, and 48 service companies. The 2009 annual reports were selected because they were the most recent data available on the listed companies at the start of the study. Table 1 summarizes the final sample. For the purpose of this study, the companies are classified as 29 in the manufacturing industry and 79 non-manufacturing companies.

The Dependent Variable

The level of voluntary disclosure (overall, conventional, and Islamic information items) is measured by a disclosure index, which is the dependent variable. A properly constructed disclosure index is seen as a reliable measurement device for corporate disclosure (Marston and Shrives, 1991). Consequently, it has been used by prior disclosure studies.

The initial step in constructing the index is to develop a voluntary disclosure checklist over and above what is required by company law, IFRSs (Kuwait has adopted IFRSs), and stock exchange listing requirements. With respect to disclosure of Islamic information items, Willett and Sulaiman (2001) suggested that voluntary disclosure of Islamic information items along with the conventional information items in the financial reporting of the Shariah-compliant companies is one way of developing Islamic reporting. In Kuwait, Shariah-compliant companies are listed on the KSE and operate in a non-fully

Table 1
Selection of the Sample Companies

Description	No. of listed companies
Companies listed on the stock market as of December 31, 2009	198
Financial companies listed on the market as of December 31, 2009 but excluded from the study	66
Non-financial companies listed on the market as of December 31, 2009 and included in the study	132
Annual reports available from company Web sites	88
Companies responding to request for their 2009 annual reports	44
Companies not responding to request for their 2009 annual reports	2
Companies with a year-end date not in the calendar year	3
Total non-financial companies collected	127
Companies not in compliance with Shariah rules and principles	19
Final sample: companies in compliance with Shariah rules and principles	108

Islamic economic system. Therefore, these companies are affected by the conventional reporting system. Moreover, investment in Shariah-compliant companies is not limited to Muslim investors. Both Muslims and non-Muslims can buy and sell these companies' shares. Haniffa and Hudaib (2002) argued that information disclosure should assist Muslim decision makers in making religious and economic decisions and help non-Muslims decision makers make economic decisions. As a result, the disclosure index includes Islamic items in addition to conventional items.

Voluntary conventional items in the checklist were selected based on previous studies in Kuwait (Al-Shammari and Al-Sultan, 2010; Al-Shammari, 2008). With respect to Islamic information items, an extensive review of prior studies was undertaken to develop a list of relevant Islamic information items that should be disclosed by Shariah-compliant companies. For an item to be included, it must have been used in previous studies. However, only a few empirical studies were found on the development and use of a disclosure index with Islamic disclosure (Hassan and Harahap, 2010; Ousama and Fatima, 2010; Othman and Thani, 2010; Othamn *et al.,* 2009; Maali *et al*., 2006).

To validate the checklist, three steps were undertaken. First, the list was further screened to eliminate any mandatory items found in company law, IFRSs, and stock exchange listing requirements. Second, an internal mandatory checklist, obtained from one of the Big Four auditing firms, was used for comparison with our checklist to eliminate any mandatory items from the checklist. Third, two experienced practicing Kuwaiti accountants from KPMG and Ernst & Young, and two academics specializing in the area of disclosure and financial reporting refined the checklist to ensure its validity. The final checklist instrument consisted of 132 voluntary overall information items: 86 conventional items and 46 Islamic disclosure items. The checklist is given in the appendix.

The overall voluntary disclosure consists of seven themes as follows:

Corporate Environment

This category contains only conventional information items. The information to be disclosed is related to general information about the economic environment in which the companies operate. Other information relating to general and specific corporate information may be useful for the users of annual reports. Such information could help users (Muslims and non-Muslims) understand the corporate economic environment and the company objectives and strategy.

Employee Information

Social justice is stressed in Islam. Accordingly, employees must be dealt with justly. Muslim decision makers need to know if the company deals justly with its employees. Therefore, exploitation and discrimination are prohibited by Shariah rules and principles. Information related to salaries, nature of work, working hours, and holidays leads to social justice. Moreover, education and training are essential because of Islam's emphasis on the search for knowledge. Disclosure of such information could help users to know whether the company violates social justice for employees as described in the Shariah rules and principles.

Social Responsibility

This category contains information items about prohibited activities, *zakat* and charity (*saddaq*), *waqf*[(4)], current value balance sheet (CVBS), value added statement (VAS), and other social activity information items. Specifically, *zakat* is an obligation of individuals and businesses. It is one of the pillars of Islam, a tax based on wealth. Z*akat* is obligatory only for individuals; Shariah-compliant companies are not obligated to pay *zakat* on behalf of shareholders. However, in Kuwait, many Shariah-compliant companies do pay it on behalf of their shareholders. Therefore, such companies should disclose in the annual report the sources and uses of the *zakat*. They should also disclose any balance of the *zakat* fund not yet distributed, and the reasons for the delay in distribution. Unlike *zakat*, charity is voluntary and encouraged by Islam.

In Islam, people's accountability includes accountability to the society. Thus, disclosure of qualitative and quantitative information related to charitable activities could help Muslim decision makers understand the company's contribution to the society, as both the management and the shareholders are accountable for their actions to all the stakeholders of the company. Shariah-compliant companies should not engage in activities that violate Shariah rules, such as charging interest (*riba*). Therefore, companies must disclose these activities. Such information could help the users understand how the operations of the company have affected the well-being of the society in terms of interest (*riba*) and prohibited practices. It also helps Muslim decision makers perform their religious duties.

Environment

This category contains information about environmental protection pro-

(4) Waqf is an inalienable religious endowment in Shariah law, typically denoting a building or plot of land for Muslim religious or charitable purposes (Maali *et al*., 2006).

grams or activities undertaken. Shariah-compliant companies are expected to disclose information about programs and activities undertaken to discharge their accountability and transparency to the society. Disclosure of this information could assist users to determine whether company activities have an impact on the environment, and, if so, how the company deals with protecting the environment.

Corporate Governance

This category contains information on the board of directors, its reporting, and the Shariah supervisory board. Information to be disclosed is related to the names of directors, their educational qualifications, their commercial experience, and other information that could affect their performance. Such information could help the users understand the quality of their directors and their previous experience, which could have an impact on the company activities and performance. This category also contains information on the reporting of the board of directors, such as the declaration about compliance with Shariah rules and principles and the board's opinion on prohibited transactions. Disclosure of this information may tell Muslim users that their company is in compliance with Shariah rules.

Muslim decision makers are interested in the report of the Shariah supervisory board because the report shows whether the company is in compliance with Shariah rules and principles. Therefore, Shariah-compliant companies should disclose such a report. However, since a number of Shariah-compliant companies do not have Shariah supervisory boards, it is not expected that these companies will have such a report.

Ownership Structure

This information consists of three items concerning the number of shareholders and the amount of their ownership. Disclosure of the number of Muslim shareholders and their shareholdings allows Muslim users to understand the concentration of Muslim ownership of Shariah-compliant companies, which is relevant because greater Muslim ownership of a company could create pressure on management to demonstrate accountability and transparency, especially for Islamic information. In addition, this information could encourage potential Muslim investors to invest in these companies. In addition, disclosure of information about the number of institutional investors and their shareholdings and the number of shares owned by the government could assist users in understanding whether the company in which they are investing is controlled by institutional investors or the government or both. Such information may affect shareholders' decisions about investing in these companies.

Financial Information

The disclosure of financial information is based on the concept of full disclosure. This category contains information items related to profitability ratios, liquidity ratios, and growth and other ratios. It also includes information items on debts written off and advertising. Such information could help users assess the company performance and its ability to meet its obligations.

Market-Related Information

This category contains information about the company's shares. Specifically, it includes information about the share price at year end, share price trend and behavior, volume of shares traded, and other relevant information items. Information in this category could assist users in understanding the behavior of the company's shares and its performance in the market.

Typically the level of voluntary disclosure depends largely on the information items included in the checklist. This study measures voluntary disclosure by using the 132 selected information items. However, information items relevance is harder to define because users of financial reporting may have extremely different interests. Although this study attempts to use large lists of information items to capture all information which could be useful, it is limited by the selection of items.

Scoring the Disclosure Items and Disclosure Index

Each disclosure item was given equal weight in the index, consistent with prior voluntary disclosure studies. Information items could have been weighted based on their perceived importance; however, equal weighting was preferred to avoid the subjectivity involved in assigning items' weights of importance for different user groups (Othman and Thani, 2010; Al-Shammari, 2008; Barako *et al.*, 2006; Wallace and Naser, 1995; Cooke, 1991). In addition, prior studies have argued that the results of the equal weighting procedure tend to be similar to those of other weighting systems (Prencipe, 2004; Zarzeski, 1996; Chow and Wong-Boren, 1987; Firth, 1979).

Each disclosure item scores one if disclosed and zero if not, although no penalty is imposed if the item is considered irrelevant. To ensure the judgment of relevancy is not biased, the following procedure was undertaken. First, the entire annual report was read carefully before scoring to enable the researcher to understand the nature and complexity of each company's operations and to form an opinion on whether undisclosed items obviously applied to the company. Second, an independent faculty member coded the checklists. Inter-rater agreement was 96% and all disagreements were resolved via discussion between the two coders. This is consistent with prior voluntary disclosure studies. The scores for each item were then added to derive the final score for each company. The voluntary disclosure index (I) for each company was then calculated as the ratio of total actual items disclosed to the maximum possible item score applicable to that company. This approach has been followed by the majority of disclosure studies.

The Independent Variable

Data for all independent variables were obtained from the annual reports. Table 2 summarizes the independent variables and their proxies.

Statistical Method

Based on the above, the regression equation takes the following form:

$$\begin{aligned} I_{ij} &= B_0 + B_1 Size_j + B_2 Profitability_j \\ &+ B_3 Ownership_j + B_4 Auditor \\ &+ B_5 Industry_j + \varepsilon + ij \end{aligned}$$

Where: I = the voluntary disclosure index scores for sampled companies, i = number of indices according to overall and two categories of disclosure (1,..., 3), and j = the *j*th company.

Table 2
Summary of Independent Variables

Variable	Proxy
Company size	Natural log of total assets
Profitability	Return on equity = net profit/total shareholders equity
Ownership structure	Number of shares owned by outsiders/number of outstanding shares at year end
Size of external audit firm	Dummy variable coded 1 = a company audited by a local auditor with international affiliation (Big Four); 0 = a company audited by a local auditor without international affiliation (non-Big Four)
Industry	Dummy variable coded 1 = manufacturing company; 0 = non-manufacturing

Sources of information for the independent variables are a companys annual report or the annual Companies Guide published by the KSE. Data are related to financial year-end.

Results

Descriptive Statistics

Descriptive statistics for the overall, conventional, and Islamic voluntary disclosure indices are reported in Table 3. The table indicates that the average level of overall voluntary disclosure in Shariah-compliant companies is 15%. This is lower than Ousama and Fatima (2010) found in Malaysia (19%). The average voluntary disclosure for conventional items is 17%, which is higher than Ferguson *et al.*'s (2002) findings in Hong Kong (13%) but lower than the findings of Meek *et al.* (1995) in the United States, the UK, and continental Europe (18%); Leventis and Weetman (2004) in Greece (37%); Ghazali and Weetman (2006) in Malaysia (31%); and Ousama and Fatima (2010) in Malaysia (21%). With respect to Islamic items, mean voluntary disclosure is 13%, lower than the disclosure of conventional items and lower than Ousama and Fatima's (2010) (17%) and Othman and Thani's (2010) (22%) findings for Islamic items in Malaysia.

The mean level of voluntary disclosure is low because more than 85% of the items that could be disclosed voluntarily remain undisclosed. Lack of voluntary disclosure by companies could be attributed to the absence of encouragement and pressure from both the public and shareholders. This result shows that Shariah-compliant companies disclose more conventional items than Islamic items. The reason could be that conventional information such as financial ratios and market-related information is easily generated and published in the annual reports. Shariah-compliant companies may assume that users such as financial analysts are more interested in conventional items than Islamic items and thus they disclose more conventional information than Islamic information.

Table 3 shows the minimum and maximum percentages of overall, conventional, and Islamic disclosures. The minimum and maximum disclosures for overall items were 4% and 44%, respectively; only three companies disclosed the minimum (6/132 items), and only one company disclosed the maximum (58/132). Minimum and maximum disclosures for conventional items were 4% and 49%, respectively. For Islamic disclosure, the minimum was 2% and the maximum 36%; five companies disclose the minimum, and only one company disclosed the maximum.

With respect to the independent variables, there is a wide range of variation within the sample, as indicated by the minimum and maximum values. Total assets (company size

Table 3
Descriptive Statistics for the Dependent and Independent Continuous Variables

	Mean	Std. Dev.	Min	Max	skewness	kurtosis
Dependent variables						
Overall disclosure	0.15	0.09	0.04	0.44	0.954	0.472
Conventional disclosure	0.17	0.13	0.04	0.49	0.860	0.670
Islamic disclosure	0.13	0.07	0.02	0.36	0.828	0.630
Independent variables						
Company size (KD million)*	133.00	291.00	3.41	2023.10	1.326	2.118
Profitability	0.20	0.11	-0.05	0.60	0.527	2.299
Ownership structure	0.46	0.17	0.08	0.87	2.185	4.083

*One $US = 0.305 KW Dinar. Company size was measured by total assets, The size distribution was, as usual, skewed. Skewness was mitigated by utilising the natural logarithm of size in the regression analysis, consistent with prior studies. Profitability was the ratio of net profit to total shareholders equity, and ownership structure was the percentage of shares owned by outsiders (number of shares owned by outsiders divided by total shares issued at year end).

measure), for example, has considerable dispersion in the scores, as represented by the minimum, maximum, and standard deviation (Table 3).

For the categorical independent variables, 69 companies were audited by a local audit firm affiliated with one of the Big Four, and 39 were clients of local audit firms not affiliated with one of the Big Four. For industry, there were 29 manufacturing and 79 non-manufacturing companies.

The data is analyzed to test normality distribution of the dependent variable and the independent continuous variables. If the data is not normally distributed, the regression analysis will be problematic. Table 3 shows the skewness and kurtosis values normally distributed because the skewness value is between - 3 and + 3, and the Kurtosis is between - 10 and + 10 (Kline, 1998). The K-S lilliefores test statistic of 0.052 ($p < 0.01$) also supported a conclusion that the residuals were normally distributed.

Before conducting regression analysis, multicollinearity was tested. One reason for doing this is to indicate whether multicollinearity could cause estimation problems. Table 4 contains a Pearson correlation matrix for the continuous variables. The table shows that the highest correlation coefficient was 0.178 (between company size and ownership structure). As a result, it is not sufficient to impair the regression results since the pair-wise correlation coefficients are less than 0.80 (Gujarati, 2003). However, another method widely used to detect multicollinearity is the Variance Inflation Factor (VIF). This is reported in Table 5. Since VIF did not exceed 10 for any variable in any model, it was concluded that collinearity was not a serious problem (Neter *et al*., 1983).

Analysis and Discussion of Results

This study is concerned with the association between a number of specific corporate characteristics and the extent of voluntary disclosure (overall, conventional, and Islamic disclosure) in annual reports of Shariah-compliant companies listed on the KSE in 2009. Table 5 presents the regression results for three models. For overall disclosure, the model is statistically significant at the 1% level and the adjusted R squared (Adj R^2) suggests that 45% of the overall voluntary disclosure variation is explained by the independent variables. The R^2 (adj.) was slightly higher than in prior studies (25% found by Ousama and Fatima [2010] and 32% by Othman *et al*. [2009]).

The results showed that the overall level of voluntary disclosure was associated with size, auditor, and industry. Profitability and ownership structure were insignificant. These findings lend support to hypotheses H1, H4, and H5. Size was positively associated with overall voluntary disclosure. Shariah-compliant companies audited by local audit firms affiliated with one of the Big Four auditing firms disclosed more voluntary information than the Shariah-compliant companies audited by local audit firm not affiliated with one of the Big Four auditing firms. There were significant differences between manufacturing and non-manufacturing companies. The manufacturing industry companies seem to disclose more information voluntarily than non-manufacturing companies.

The subdivision of disclosure into conventional and Islamic disclosure yields insights into the overall voluntary disclosure.

Table 5 showed that the adjusted R squared (Adj R^2) was 44%, suggesting that variables not included in the model may explain the variation in the conventional disclosure. The results report that company size, audit firm size, and industry type were asso-

Table 4
Pearson Correlation Coefficients Matrix for the Continuous Independent Variables

	Company size	Profitability
Profitability	0.088	
Ownership structure	0.178	0.074

Company size was measured by total assets, profitability was the ratio of net profit to total shareholders equity, and ownership structure was the percentage of shares owned by outsiders (number of shares owned by outsiders divided by total shares issued at year end).

ciated with conventional disclosure. Specifically, size was positively associated with conventional disclosure. These results were consistent with Ousama and Fatima (2010), Al-Shammari (2008), and Leventis and Weetman (2004), who found larger companies had a higher level of voluntary disclosure. Larger Shariah-compliant companies may disclose more conventional information because they face greater pressures and they have a stronger dependence on external capital. Audit firm size was positively associated with conventional disclosure. This indicates that Shariah-compliant companies audited by local audit firms affiliated with one of the Big Four auditing firms had a higher disclosure of conventional information than Shariah-compliant companies audited by local audit firms not affiliated with one of the Big Four auditing firms. A possible explanation for this result is that Shariah-compliant companies audited by local audit firms affiliated with one of the Big Four auditing firms have a stronger incentive to signal to the market their higher audit quality.

An industry effect exists. The results showed that companies in the manufacturing industry disclose more conventional information than those in non-manufacturing industries. A possible explanation is that Shariah-compliant manufacturing companies are more likely to affect the environment. Therefore, they might be monitored by the government, Kuwaiti environmental society, and the public and thus they disclose more information on environmental protection activities, information related to the general information about the economic environment, summary of the product produced, any new product development, and safety and working environment. However, non-manufacturing companies disclose more information related to financial ratios and market-related information.

The results also report that ownership structure was insignificant. This finding implies that more and less outsiders did not mean the demand for voluntary disclosure increased or deceased. A possible interpretation for this result is that outsiders might not apply pressure on their companies to disclose more information because they may rely on other information sources which may have a good contact with the companies such as financial analysts.

The results also showed that for voluntary Islamic disclosure, the adjusted R squared (Adj R^2) was 33%, which is lower than for conventional disclosure (Table 5). This suggests that variables not included in the model may explain the variation in

Islamic disclosure. Unlike conventional disclosure, the results reported that only size was significant for Islamic disclosure. Specifically, size was positively associated with Islamic disclosure. A possible interpretation for this result is that larger Shariah-compliant companies disclose more Islamic information than smaller companies because they may become more involved with the society and want to discharge their accountability to the society and stakeholders, particularly Muslim stakeholders. These results are consistent with Ousama and Fatima (2010) and Othman *et al.* (2009). The results also show that other variables (profitability, ownership structure, audit firm size, and industry) did not explain the variation in Islamic disclosure.

Based on the results, external auditors encourage companies to disclose conventional items over Islamic items. The two types of auditors did not seem to encourage their Shariah-compliant

Table 5
Regression Results

Independent variable (expected sign)	Overall disclosure			Conventional disclosure			Islamic disclosure		
	Coefficient		VIF	Coefficient		VIF	Coefficient		VIF
Company size (+)	0.093	+ + +	1.802	0.117	+ + +	1.857	0.060	+ + +	1.858
Profitability (+)	0.005		1.119	0.042		1.121	0.001		1.121
Ownership structure (+)	0.011		1.132	0.030		1.144	0.022		1.144
Auditor (+)	0.010	+	1.092	0.012	+	1.095	0.012		1.095
Industry(-/+)	+0.340	***	5.431	+0.214	**	5.635	0.003		5.635
Constant	-0.278	**		+0.191			-0.454	***	
Adjusted R^2	0.451			0.445			0.331		
F	5.675			5.409			1.926		
Prob. (F)	< 0.001			< 0.001			0.045		
No. of companies	108			108			108		

+ + + t test (one-tailed) is significant at $p < 0.01$; + t test (one-tailed) is significant at $p < 0.01$; *** t test (two-tailed) is significant at $p < 0.01$; ** t test (two-tailed) is significant at $p < 0.05$. Company size was measured by total assets, profitability was the ratio of net profit to total shareholders equity, ownership structure was the percentage of shares owned by outsiders (number of shares owned by outsiders divided by total shares issued at year end), auditor was a dummy variable coded 1 = a company audited by a local auditor with international affiliation (Big Four) and 0 = a company audited by a local auditor without international affiliation (non-Big Four); and industry was a dummy variable coded 1 = manufacturing industry and 0 = non manufacturing industry.

clients to disclose Islamic information to help discharge their accountability to the society and their Muslim shareholders because Islamic disclosure may not signal their success, and thus auditors are not interested to apply pressure on their clients for more disclosure of Islamic information. Although the results show insignificant differences between manufacturing and non-manufacturing companies in Islamic disclosure, manufacturing companies disclose more information related to activities toward the society whereas non-manufacturing companies disclose more employees' recruitment such as employment of other special-needs-group (i.e. handicapped).

Summary and Conclusion

This study sought to examine, in an empirical way, the relationship between a number of specific corporate characteristics and the extent of voluntary disclosure (overall, conventional, and Islamic disclosure items) in the annual reports of 108 Shariah-compliant companies listed on the KSE in 2009. The extent of voluntary disclosure is measured cross-sectional using a self-disclosure index. The disclosure index was categorized into overall (132 items), conventional (86 items), and Islamic (46 items) disclosure. Three indices were used to examine the extent of voluntary disclosure (overall, conventional, and Islamic disclosure). A multivariate regression analysis was employed to test the association between the level of voluntary disclosure and the specific corporate characteristics.

Results show that overall voluntary disclosure by Shariah-compliant companies is 15%, lower than Ousama and Fatima's (2010) value in Malaysia (19%). The average voluntary disclosure for conventional items is 17%, higher than Ferguson *et al.*'s (2002) values in Hong Kong (13%), but slightly lower than Meek *et al.*'s (1995) in the United States, the United Kingdom, and continental Europe (18%). The results also indicate that the level of voluntary disclosure of Islamic information is 13%, lower than the findings of Ousama and Fatima (2010) (17%) and Othman and Thani (2010) (22%) in Malaysia. The findings suggest that the extent of voluntary disclosure of conventional items is comparable to extant studies, and higher than for Islamic items. The mean levels of voluntary disclosure are low because more than 85% of the items that could be disclosed voluntarily remain undisclosed.

The results of multivariate analysis indicate that different specific corporate characteristics influence different categories. Size was the only variable that was positive and significant for overall, conventional, and Islamic disclosure. This finding strengthens the argument that size, measured by assets, is important in determining corporate voluntary disclosure regardless of the type of company (Shariah or non-Shariah). A possible explanation for this finding is that size is a proxy for so many theoretical models. In addition, the results show that, based on the Islamic perspective, larger Shariah-compliant companies disclose more Islamic information than smaller companies because they may become more involved with the society and want to discharge their accountability to their society and shareholders, particularly Muslim stakeholders.

For overall voluntary disclosure, auditor and industry (in addition to size) were positive and significant. The results show that Shariah-compliant companies audited by local audit firms affiliated with one of the Big Four auditing firms disclose more voluntary information than Shariah-compliant companies audited by local audit firms not affiliated with one of the Big Four auditing firms. There were significant differences between manufacturing and non-manufacturing companies. The manufacturing-industry companies seem to disclose more information voluntarily than non-manufacturing companies. Profitability and ownership structure were insignificant.

The results indicate that size, auditor, and industry were positively associated with conventional disclosure. Larger Shariah-compliant companies disclose more conventional information because they may face greater pressures and have a stronger dependence on external capital. Shariah-compliant companies audited by local audit firms affiliated with one of the Big Four auditing firms had a higher level of disclosure of conventional information than Shariah-compliant companies audited by local audit firms not affiliated with one of the Big Four auditing firms. It could be that Shariah-compliant companies audited by one of the Big Four auditing firms have a stronger incentive to signal to the market their higher audit quality. The results show that companies in the manufacturing industry disclose more conventional information than those in non-manufacturing industries.

This study builds on the limited Kuwaiti literature on determinants of voluntary disclosure and fills a gap for empirical studies on Shariah-compliant disclosure practices. This study investigated the extent of voluntary disclosure (overall, conventional, and Islamic disclosures) in the annual reports of Shariah-compliant companies and to explain why some companies disclose more than others. Islamic voluntary disclosure deserves special attention in the Middle Eastern countries because investors seek to invest in Shariah-compliant companies to help them fulfill their spiritual needs.

Several limitations should be noted. First, the model explained 45% of overall variation, 44% of conventional disclosure, and 33% of Islamic disclosure. Although the model explained a significant part of the variation in disclosure, there is still a material part unexplained, which represents the "noise" of the model. Data availability limited the ability to study some factors that have been found to be important theoretically or empirically in other disclosure studies (share ownership by Muslims). As additional information becomes available about Kuwaiti Shariah-compliant companies, the effects of such factors should be investigated. Second, this study is limited to one source of information: annual reports. Other disclosures that companies provide were beyond the scope of this study. Future studies should investigate the level of voluntary disclosure through alternative media, such as the financial press, analyst meetings, stock market announcements, conference calls, and the Internet. Third, this study assumes that disclosure items have the same weight, and that Shariah-compliant companies disclosing the most information, selected the most important information. A survey focusing on various annual report user groups may provide further insight into the reliability of this assumption, especially in the case of Kuwait.

Fourth, the study uses annual reports from 2009, providing only a starting point for future research. Fifth, this study was undertaken before the establishment of the SAC of the CMA on January 1, 2012. Future studies should replicate this study to assess differences with the existence of the Council. Sixth, this study is limited to non-financial Shariah companies. Future studies should investigate the issue with financial Shariah companies. Finally, in the field of corporate disclosure in the Middle East, research should extend this study over a longer period, or alternatively involve comparative studies with other Arab countries such as Gulf Co-Operation Council (GCC) member states. Such studies should investigate changes in corporate voluntary disclosures across time, and compare potential variations in nations with disparate social, political, and economic systems. This will help validate the conclusions of this study and overcome the possibility that a small, single-period study biases results.

The findings of this study have important implications for lawmakers in Kuwait in their efforts to ensure information adequacy and increased efficiency of rapidly developing capital markets. Specifically, information derived from this study sheds light on how to create better accountability and transparency, especially among Shariah-compliant companies listed on the KSE. The findings provide evidence that Shariah-complaint companies lack voluntary disclosure, especially for Islamic disclosure information. As a result, the findings should be useful to the CMA (lawmakers) in Kuwait for improving overall disclosure regulatory practices by Shariah-compliant companies. More specifically, the CMA should be more concerned with the disclosure needs of users of smaller, non-manufacturing Shariah-compliant companies audited by non-Big Four auditing firms. The Shariah supervisory boards in companies may use the findings to communicate with stakeholders. This may assist in the strengthening of the Kuwaiti Shariah supervisory boards. Preparers may use the findings to match the amount of information in their annual reports with other companies to ensure capital sourcing. Investors may use the findings to understand the disclosure behavior of Shariah-compliant companies in Kuwait. Such findings may assist them in diversifying their investment portfolios. Furthermore, the findings help Muslim decision makers make economic and religious decisions.

Acknowledgment

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Appendix
Disclosure index checklist

No	Category
	1- Corporate Environment
	1-1 General information about the economic environment
1	General outlook of the economy
2	General outlook of the industry
3	Specific factors influencing business
	1-2 General Corporate information
4	Brief narrative history of company
5	Description of organizational structure
6	Statement of corporate general objective
7	Statement of financial objectives
8	Statement of marketing objectives
9	Description of marketing network for finished goods/services
10	Summary of major products (services) produced
11	Information on last years' performance
12	Financial history or summary-five or more years
	1-3 Specific Corporate Information
13	Statement of corporate strategy (financial - marketing - social)
14	Impact of strategy on current results
15	Impact of strategy on future results
16	Qualitative forecast of sales (revenues)
17	Quantitative forecast of sales (revenues)
18	Qualitative forecast of profits
19	Quantitative forecast of profits
20	Qualitative forecast of cash flow
21	Quantitative forecast of cash flow
22	Forecast earnings per share
23	Assumptions underlying the forecasts
24	Discussion of competitive position of the company
25	Discussion of financial strength of the company
26	New products (services) development
27	Forecast of Research and development expenses
	2- Employee information
	2-1 Categories and distributions of employees
28	Geographical distributions of employees
29	Line-of-business distributions of employees
30	Categories of employees by gender
31	Categories of employees by function

Cont. Appendix
Disclosure index checklist

No	Category
32	Reasons for changes in employees numbers
33	Number or % of Kuwaiti employees
	2-2 Employees' training
34	Amount spent on training
35	Nature of training
36	Policy of training
37	Number of employees trained
38	Impact of training on results
	2-3 Employees' work
39	Nature of employees' work*
40	Employees' working hours*
41	Employees' holidays*
42	Employees' other benefits*
	2-4 Employees' recruitment
43	Recruitment policy
44	Names and salaries of senior management
45	Identification of senior management and their functions
46	Corporate policy on salary, allowances and others
47	Corporate policy on equal opportunities*
48	Employment of other special-needs-group (i.e. handicapped)*
49	Employment of other special-interest-group (i.e. ex-convicts, former drug-addicts)*
	2-5 Information on employees' qard hasan
50	Qualitative of benevolent loan to employees *(qard hasan)**
51	Quantitative of benevolent loan to employees *(qard hasan)**
	2-6 Information on employees' safety policy
52	Information on safety and working environment
53	Information on accidents
	2-7 information on employees' religions rights
54	Higher echelons in the company perform the congregational prayers with lower and middle level managers*
55	Muslim employees are allowed to perform their obligatory prayers during specific times and fasting during Ramadhan on their working day*
56	Proper place of worship for the employees*
	3- Social responsibility
	3-1 information on Riba and Gharar
57	*Riba* (interest) activities*
58	Amounts of expenses/revenue from *riba* transactions*
59	Qualitative information on the prohibited transactions/activities*

Cont. Appendix
Disclosure index checklist

No	Category
60	Amounts of profits or losses from the prohibited transactions other than *riba* (interest)*
61	Information on *Gharar**
	3-2 information on Zakat
62	Information on computation of *Zakat**
63	Amount of *zakat* fund*
64	sources of zakat fund*
65	Beneficiaries of zakat*
66	The balance of zakat fund, and reasons for non-distribution*
	3-3 information on Saddaqa
67	Qualitative information on *Saddaqa*/Charitable donations*
68	Quantitative of *Saddaqa*/Charitable donations*
	3-4 information on Waqf
69	Qualitative information on *Waqf**
70	Quantitative of *Waqf**
	3-5 information on other social responsibility
71	Late repayments and insolvent clients/bad debts written-off
72	Current Value Balance Sheet (CVBS)*
73	Value Added Statement (VAS)*
74	How such amounts are to disposed of*
	3-6 information on activities towards the society
75	Qualitative information on the contribution towards the society programs*
76	Amounts of the contribution towards the society programs*
77	Student employment
78	Sponsoring public health, sporting and recreational projects
79	Sponsoring educational conferences, seminars or art exhibits
80	Funding scholarship programs or activities
81	Children care
	4- Environment
82	Qualitative information on environmental protection programs or activities under-taken
83	Amounts information on environmental protection programs or activities under-taken
84	Activities or projects undertaken by the company which could be unfriendly to the environment
	5- Corporate governance
	5-1 information about board of directors
85	Name of the directors

Cont. Appendix
Disclosure index checklist

No	Category
86	Age of the directors
87	Educational qualifications (Academic and professional)
88	Commercial experience of the executive
89	Other directorships held by executive directors
90	Commercial experience of the non-executive directors
91	Other directorship held by non-executive directors
92	Shareholdings in the company
93	Number of shares owned by management
94	Number of shares owned by directors
95	Directors' remuneration
	5-2 Report of the board of directors
96	Declaration about compliance with Shariah rules and principles*
97	Board's opinion about the necessity and nature of prohibited transactions undertaken*
98	Reasons for engagement in prohibited transactions*
99	The amount of revenue or expenses from prohibited transactions*
100	Information on forbidden activities: monopolistic practice, hoarding necessary goods, price manipulation, fraudulent business practice, and gambling*
101	Anti-corruption policies*
	5-3 Shariah supervisory Board
102	Report of Shariah supervisory Board*
103	Name of the Shariah supervisory Board*
104	Age of the Shariah supervisory Board*
105	Educational qualifications*
106	Other company's supervisory Board held by member board of the Shariah supervisory*
107	The Shariah supervisory board's remuneration*
108	The Shariah supervisory Board's view about the necessity of prohibited transactions/activities*
109	The Shariah supervisory Board's opinion regarding validity of zakat's computation*
	6- Ownership structure
110	Number of Muslim shareholders and its shareholdings*
111	Number of institutional investors and its shareholdings
112	Number of shares owned by the government
	7- Financial Information
	Financial ratios
113	Return on capital employed (Profitability ratios)
114	Liquidity ratios

Cont. Appendix
Disclosure index checklist

No	Category
115	Leverage ratios
116	Growth rate on earnings
117	Return on shareholder’s equity
118	Other ratios
119	Financial summary of 3 or more years
120	Qualitative information on debts written off*
121	Quantitative information on debts written off*
122	Qualitative information on advertising
123	Quantitative information on advertising
	8- Market-related information
124	Stock exchanges where shares are listed
125	Share price at the year end
126	Share price trend/behaviour
127	Volume of shares traded trend
128	Market capitalization at year end
129	Market capitalization trend
130	Shareholders owned- 5% + of shares
131	Type of shareholders (e.g., institutions, individuals)
132	Geographical distributions of shareholders

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الملخص

دراسة العوامل المحددة للإفصاح الطوعي من قبل الشركات الكويتية المتوافقة مع الشريعة الإسلامية

بدر عطية الشمري
الهيئة العامة للتعليم التطبيقي والتدريب

تهدف هذه الدراسة إلى التحقق من طبيعة العلاقة بين محددات الشركات ومستوى الإفصاح الطوعي (الشامل، والتقليدي، والإسلامي) في التقارير السنوية لعدد ١٠٨ شركة متوافقة مع الشريعة الإسلامية، ومدرجة في سوق الكويت للأوراق المالية في نهاية سنة ٢٠٠٩. قامت الدراسة بتوظيف خمسة متغيرات وهي: حجم الشركة، الربحية، هيكل الملكية، حجم شركة المراجعة، نوع الصناعة. وتم قياس مدى الإفصاح الطوعي باستخدام مؤشر يتكون من ١٣٢ بنداً (٨٦ بنداً تقليدياً، ٤٦ بنداً إسلامياً). تستخدم الدراسة تحليل الانحدار متعدد المتغيرات لدراسة العلاقة بين هذه المتغيرات وكل مؤشر من مؤشرات الإفصاح الطوعي. وقد أظهرت نتائج الدراسة أن متوسط الإفصاح الشامل ١٥٪، والتقليدي ١٧٪ والإسلامي ١٣٪. كما توصلت النتائج إلى أن حجم الشركة ونوع الصناعة يرتبط إيجابياً بمستوى الإفصاح الطوعي في كل من المؤشرات الثلاثة، بينما حجم شركة المراجعة يرتبط إيجابيا فقط بمستوي الإفصاح الشامل والتقليدي. وأوضحت النتائج أيضا عدم وجود علاقة بين الربحية وهيكلة الملكية وكل مؤشر من المؤشرات الثلاثة. ومن المتوقع أن نتائج هذه الدراسة ستكون مفيدة للمشرعين، ومعدي القوائم المالية وآخرين كالمستثمرين.

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