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CORPORATE GOVERNANCE DISCLOSURE IN KUWAIT

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Key Words

Corporate Governance; corporate governance Disclosure; Kuwait Stock Exchange (KSE).

Abstract

The purpose of this study was to examine the relationship between corporate governance mechanisms and disclosures for listed companies in Kuwait, focusing, in particular, on the extent to which corporate governance mechanisms affect disclosures of company corporate governance. The results of a regression analysis indicated that ownership concentration, family members on the board, and debt were critical variables for explaining the relationship between corporate governance mechanisms and corporate governance disclosures, whereas board size, the proportion of non-executive directors, and role duality had no impact on such relationships.

Introduction

Corporate governance disclosure-regulatory and voluntary- has been held to improve financial performance, reduce risk, and raise shareholders confidence, which is consistent with the argument of agency theory that, when good disclosure is communicated to external shareholders and other stakeholders, conflicts and the problem of information symmetry are reduced (CIPE, 2002)[(1)]. This study examined the governance of listed companies in Kuwait in an attempt to investigate the relationship between corporate governance mechanisms and corporate governance disclosure. The results provided additional evidence of

(1) Center for International Private Enterprise (CIPE)

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this relationship beyond that furnished by existing research based on mature markets in developed economies. Research that explored corporate governance disclosure first was conducted in developed countries (Raffournier, 1995; Forker, 1992), but the results of these studies may not be applicable to the Kuwaiti environment. Kuwaits situation is not like that in the UK or the US, other developed countries, or even Asian countries for three reasons: the country's weak legal system, limited disclosure, and the highly-concentrated ownership structure.

In an environment such as that in Kuwait, it is significant to have a study focused on the level of corporate governance disclosure practices among listed Kuwaiti firms. Hence, this study attempted to determine whether the corporate governance mechanisms, namely, the concentration of ownership, the size of boards, the proportion of non-executive directors, the percentage of family members on the board, the practice of having a CEO separate from the chairman of the board, and debt ratio, have significant relationships with level of corporate governance disclosure, particularly in Kuwait as a developing country which has no corporate governance code and no requirements for corporate governance disclosure. Thus, corporate governance disclosure is voluntary for listed firms.

In this study, we examined the corporate governance mechanisms and corporate governance disclosure in 2012 among a sample consisting of 118 Kuwaiti non-financial listed companies. The results indicated that corporate governance disclosure for our sample was highly distributed. After testing the appropriateness of the study's model, the regression (OLS) results indicated that the concentration of ownership, the presence of family members on the board, and debt were important mechanisms in explaining corporate governance disclosure. However, the size of the board, the proportion of non-executive directors, and the duality of roles did not have significant impacts on corporate governance disclosures.

The current study differs from the current literature in three ways. First, the study focuses on governance mechanisms that may have direct impact on firms corporate governance disclosures and investigates whether the level of governance practices influences governance disclosure practices in the absence of corporate governance code. Second, in contrast to earlier studies, this study examines corporate governance disclosure in annual reports in a developing country using seven governance mechanisms. Thus, to the best of our knowledge, this study is one of very few studies that have extended the analysis of corporate governance disclosure using such a number of governance mechanisms. Third, this study can help in investigating the nature of current corporate governance disclosure and assist the Kuwaiti government in the development of regulations. The findings of this study will improve our knowledge about the factors that determine corporate governance disclosure in Kuwait and will improve the likelihood of successful implementation of corporate governance code. In particular, it is expected that the results of this study will provide better information to shareholders and boards of directors that will lead to more competitive and efficient firms.

The remainder of the paper is structured as follows. Section two reviews financial reporting and corporate governance in Kuwait. Section three presents the theoretical background for this study, addresses the previous studies on corporate governance disclosure, and presents the development of our hypotheses. Section four describes the research design, the variables considered, and the model used in the study. Section five reports on the appropriateness of the model and provides descriptive data as well as the main results. Sections six and seven present the implications of the findings and the conclusions respectively.

Corporate Governance and Dis-Closure in Kuwait

As mentioned previously, there is no corporate governance code in Kuwait. All corporate governance disclosure is voluntary. The primary source of financial reporting and disclosure is the Companies Law No. 15 of 1960, which requires companies to prepare annual financial statements. Companies are required to submit these statements along with the director's and the auditor's reports to shareholders. Also, companies are required to acquire shareholder approval during the annual general meeting (AGM) on the financial statements and for the appointment of directors and auditors. Also, Kuwait's listed companies must prepare their records according to International Financial Reporting Standards (IFRSs), according to Law No. 18 of 1990.

The Kuwait Stock Exchange (KSE) has imposed requirements for all listed companies. The listed firms must have been in operation for at least five years and must have issued three sets of financial statements. Prior to their listing, all companies must have annual net profits that total no less than 10% of their total capital. All listed companies must comply with international standards, company laws, and commercial laws. All financial statements, directors' reports, and auditors' reports must be submitted to KSE within three months after the end of the year. Also, companies must disclose any material information that impacts the financial statements or the financial position to the KSE.

Law No 2 (1999) states that every shareholder who holds more than 5% of the outstanding shares should inform the board of directors, and the directors are required to send this information to KSE. Al-Saidi and Al-Shammari (2012) found that Kuwait's corporate governance system lags behind those of more developed countries, such as the UK and the US and Kuwaiti market is dominated by a few firms. Also, they stated that takeovers are rare and that the system has no proxy fights. Mechanisms for protecting minority shareholders' are very weak, because large shareholders can control those who are nominated to serve on the board. Kuwaits board structure is organized with more non-executive directors and, sometimes, boards are organized with all of the directors being non-executive directors. Also, there is no requirement for independent directors or an audit committee.Yet, many listed firms in Kuwait still maintain large family shareholdings and strong family influences on the boards. In most firms, the chairmen act as CEOs, and banks have limited roles and representation on the boards. Furthermore, Kuwaits ownership is heavily concentrated by three large shareholders, namely, institutional investors, government, families or individuals (Al-Saidi and Al-Shammari, 2012).

Previous Studies and Development of Hypotheses

Previous studies

Agency theory is the main theoretical framework in this study.(2) Agency theory began with Berle and Means (1932), who stated that owners (principals) hire managers (agents) to manage their firms on their behalf for certain salaries. Then, Jensen and Meckling (1976) stated that this relationship produces a problem, because the two parties have different goals and interests. Also, Jensen and Meckling (1976) concluded that agency problems, such as the moral hazard (action) and adverse selection (information) occurred because directors might maximize their interests at shareholders expense. Jensen and Meckling (1976) further found that

(2) There are several theories that available in studying the relationship between corporate governance mechanisms and corporate governance disclosure such as signaling theory, positive theory, capital need theory, and stakeholder theory. However, this study will use agency theory only because it is exploring study.

another conflict exists between debt holders and firms since they have different interests. Investors want firms to invest in risky projects, while banks want firms to secure their ability to repay loans. From an agency theory perspective, the implication for corporate governance is that adequate monitoring mechanisms must be used to protect principals and reduce agencies costs (Fama and Jensen, 1983). In this context, this study used corporate governance mechanisms, such as ownership concentration, inside versus outside directors (also known as executive versus non-executive directors or independent directors), the duality of roles, the size of the board, and debt.

There have been very few studies that examined the relationship between corporate governance mechanisms and corporate governance disclosure. To the best of our knowledge, there are only five published papers that have addressed this relationship. First, Samaha *et al.* (2012) studied corporate governance disclosure in Egypt by using six governance mechanisms, and they found that the concentration of ownership and the duality of roles have a negative impact on disclosure, while non-executive directors have a positive impact. Second, Bujaki and McConomy (2002) found that only non-executive directors had a positive impact on corporate governance disclosure in Canadian listed firms. However, Ben-Amar and Boujenoui (2006) examined the same listed firms by using four government mechanisms, and they found that non-executive directors, concentration of ownership, and duality of roles all had negative impacts on governance disclosure. Third, Lokman *et al.* (2012) examined the situation in Malaysia and found that the quality of government and compensation had positive impacts on governance disclosure. Bauwhede and Willekens (2008) studied the relationship between governance mechanisms and governance disclosure and found that the concentration of ownership among large shareholders had a negative impact on governance disclosure in14 European countries.

The majority of studies related to disclosure used corporate governance mechanisms as the main factors that explain the relationship between these mechanisms and corporate voluntary disclosure using the agency theory framework. Forker (1992) was the first academic researcher to examine disclosure; he investigated disclosure in the UK and found that non-executive directors had a positive impact on disclosure and that the duality of roles had a negative impact. Also, Raffournier (1995) studied a sample of 161 listed firms in Switzerland in 1991 using several independent variables and found that large, international firms provide more disclosure. He concluded that large shareholders reduce the level of governance disclosure for their benefits only. Similarly, Donnelly and Mulcahy (2008) studied voluntary disclosure in Ireland and found that non-executive directors had a negative impact on disclosure, while the duality of roles and institutional investors had no impact on disclosure. Also, Barros *et al.* (2013) and Lakhal (2005) studied voluntary disclosure in France and found mixed results.

La Porta *et al.*(2000) found that weak protection reduces investors' ability to rely on disclosure and future decisions, which makes disclosure less effective. However, the opposite was true for strong legal protection. Apostolou and Nanopoulos (2009) studied the listed firms in Greece and found that non-executive directors had a positive impact on voluntary disclosure, while the concentration of ownership and family members on the board had no impact on voluntary disclosure. Also, Arman and Yonet (2011) studied voluntary disclosure in Turkey and found that the proportion of non-executive directors and the size of the board had positive impacts on disclosure, while family members on the board had a negative impact, and the duality of roles had no impact.

Yuen *et al.* (2009) studied Chinese listed firms and found a positive relationship between disclosure and institutional ownership and non-executive directors, but there was a negative relationship with CEOs and audit committees. However, there was no evidence that demonstrated any impact of the concentration of ownership on disclosure. Cheung *et al.* (2007) studied voluntary disclosure in Thailand and Hong Kong by using three variables, namely, concentration of ownership, composition of the board, and size of the board, and found no significant relationship between these variables and disclosure. Also, Ho and Wong (2001) examined voluntary disclosure in Hong Kong and found no impact on voluntary disclosure by the duality of roles or non-executive directors, while family members on the board had a negative impact on disclosure.

Also, Mohamad and Sulong (2009), Akhtaruddi *et al.* (2009), Ghazali and Weetman (2006), and Haniffa and Cooke (2002) studied voluntary disclosure in Malaysia by applying different governance mechanisms, and they found that the duality of roles had no impact on voluntary disclosure, family members on the board had a negative effect, and other mechanisms had mixed results. Also, Eng and Mack (2003) studied voluntary disclosure in Singapore and found that the concentration of ownership had no impact on the level of information, while the proportion of non-executive directors had a negative impact on disclosure. In Kenya, Barako *et al.* (2006) used a sample from 1992 to 2001 and found that the concentration of ownership had a positive impact on disclosure, while non-executive directors and the duality of roles had negative impacts.

For Arab countries, Al-Shammari and Al-Sultan (2010) identified four corporate governance variables and found that only the voluntary audit committee had a significant and positive relationship with the extent of voluntary disclosure. Hassan (2013) studied the same relationship in the UAE and found that the size of the board, the duality of roles, and foreign ownership had no impact on voluntary disclosure. Al-Janadi *et al.* (2013) studied voluntary disclosure and found that non-executive directors and the size of the board size had significant and positive relationships with disclosure, while family members on the board and the duality of roles had no significant relationships with disclosure. Fathi (2013) studied voluntary disclosure in Tunis and found that only the duality of roles had a negative impact on disclosure.

In short, the literature review presents mixed results and the main reason for such results is due to the selection of items that might affect voluntary disclosure which varies from one study to another and from one country to another. The current study extends the current literature by examining corporate governance disclosure and a number of corporate governance mechanisms in Kuwait for 2012. Table 1 summarises the literature discussed above.

Development of Hypotheses

To develop the study's hypotheses, we reviewed all previous studies that examined voluntary disclosure and corporate governance disclosure. The main objective of this study was to examine the relationship between corporate governance mechanisms and corporate governance disclosures in annual reports of Kuwait's listed firms. Firms were studied by focusing on six governance mechanisms, viz. the concentration of ownership, the size of the board, non-executive directors, family members on boards, the duality of roles, and debt. The theoretical framework and empirical studies related to these six governance mechanisms and testable hypotheses are discussed in the following sections.

Concentration of Ownership

Agency theory (Fama and Jensen, 1983; Jensen and Meckling, 1976) takes the position that an investor

Table 1
Summary of Literature on Voluntary Disclosure Using Corporate Governance Index 1

No	Authors	Country	Independent variables and main results with voluntary disclosure (positive - negative - none relationship with disclosure)
1	Al-Shammari and Al-Sultan (2010)	Kuwait	Non-executive directors (none), Family members (none), Role duality (none), Audit committee (+)
2	Cheung *et al*. (2007)	HK and Thailand	Ownership concentration (none), Board composition (none), Board size (none)
3	Mohamad and Sulong (2009)	Malaysia	Non-executive directors (none), Role duality (none), Audit Committee (none), Family directors (-)
4	Akhtaruddi *et al*. (2009)	Malaysia	Board size (+), Non-executive directors (+), Ownership (none), Family control (-)
5	Barako *et al*.(2006)	Kenya	Non-executive director (-), Role duality (-), foreign and institutional (+)
6	Haniffa and Cooke (2002)	Malaysia	Ownership concentration (+), Board independent (none), Role duality (non), Family directors (-)
7	Forker (1992)	UK	Independent directors(+), Role duality (-), Audit committee (none)
8	Ghazali and Weetman (2006)	Malaysia	Directors ownership (-), Family directors (-), Government ownership (none), Non-executive directors (none)
10	Donnelly and Mulcahy (2008)	Ireland	Non-executive directors (+), Institutional investors (non), Role duality (none), Insiders ownership (none)
11	Apostolou and Nanopoulos (2009)	Greek	Ownership institutional (none), Family directors (none), Non-executive directors (+)
12	Arman and Yonet (2011)	Turkey	Board size (+), Non-executive directors (+), Role duality(none), Family ownership (-)
13	Yuen *et al*. (2009)	China	Ownership concentration (none), Non-executive directors (none), Role duality (-)
15	Eng and Mack (2003)	Singapore	Government ownership (+), Large shareholders (none), Non-executive directors (-)
16	Ho and Wong (2001)	HK	Non-executive directors, Audit committee (+), Role duality (none), Family member (-)
17	Lakhal (2005)	France	Ownership (-), Non-executive directors (none), Board size (none), Role duality (-)
18	Barros *et al* (2013)	France	Managerial ownership(+), Independent directors (+), Board meeting (none)
19	Hassan (2013)	UAE	Role duality (none), Board size (none), Board committees (+), Foreign ownership (none)
20	Al-Janadi *et al*. (2013)	Saudi Arabia	Non-executive directors (+), Family members (none), Board size (+), Role duality (none), Audit committee (none), Government ownership (none)
21	Fathi (2013)	Tunis	Board size (none), Non-executive director (none), Role duality (-), Ownership concentration (none)

with a large ownership interest in a company will be more interested in being able to monitor the company than small shareholders because they have less incentive to monitor management. In other words, firms prefer to decrease the level of disclosure because of the influence of ownership concentration. Large shareholders have the ability to influence a firm's activities and disclosure (Barako *et al.*, 2006).

Empirically, the available studies in the literature have produced mixed results. For example, Lakhal (2005) found a significant negative relationship between ownership concentration and disclosure because family directors are secure enough in positions to apply the entrenchment hypothesis (Ho and Wong, 2001).(3) However, Eng and Mak (2003) and Yuen *et al.* (2009) found no relationship between large shareholders and disclosure. Moreover, Barako *et al.* (2006) and Haniffa and Cooke (2002) found a positive relationship between the ownership concentration and voluntary disclosures.

In Kuwait's case, Al-Shammari (2008) considered large shareholders as insiders because they have better access to companies' information and have representatives on the board of directors. Therefore, consistent with agency theory, it can be predicted that firms with a higher level of ownership concentration will have less motivation to disclose more information. Thus, this view predicts a negative relationship between ownership concentration and corporate governance disclosure. Therefore, we set our first hypothesis as follows:

H1: There exists a negative relationship between ownership concentration and the level of corporate governance disclosure.

Board size

The general view is that small boards are more effective. Jensen (1983) and Yermack (1996) concluded that large boards (more than seven or eight members) are unlikely to be effective. Small boards are active, dynamic, easy to organize, and can easily achieve consensus. Jensen (1983) and Lipton and Lorsch (1992) stated that large boards are less effective because they lead to reduced control over management. Lipton and Lorsch (1992) recommended that boards should have between eight and nine members because greater numbers will slow decision making. Empiri-

(3) The entrenchment effect refers to the negative consequences of higher ownership by managers since managers may pursue their private interests at the expense of other shareholders.

cally, Arman and Yonet (2011) and Akhtaruddi *et al.* (2009) found that the bigger the board becomes, the greater the extent of voluntary disclosure. However, Fathi (2013), Cheung *et al* (2007), and Lakhal (2005) found no relationship between the size of the board and disclosure. In Kuwait, the laws require that boards have three or more members. Al-Saidi and Al-Shammari (2012) found that boards in Kuwait tend to have from three to ten members. In this study, consistent with the theoretical perspective, we proposed that boards with smaller numbers of members increase corporate governance disclosure. The directors abilities to control and make decisions are more likely to increase if the size of the board is small. We proposed that a small board of directors results in increased effectiveness and efficiency; therefore, corporate governance disclosure will be higher. This leads to the following hypothesis:

H2: There exists a negative relationship between board size and the level of corporate governance disclosure.

Non-executive directors

From the perspective of agency theory, the board of directors must be independent to be effective in monitoring management. The board of directors should consist primarily of non-executive directors, who are seen as good mechanisms for monitoring and controlling managers' decisions because of their opportunistic behaviours (Fama and Jensen, 1983; Jensen and Meckling, 1976). Therefore, more non-executive directors on the board create more effectiveness and provide more disclosure (Haniffa and Cooke, 2002).

Empirically, Arman and Yonet (2011), Apostolou and Nanopoulos (2009), Akhtaruddi *et al.* (2009), Donnelly and Mulcahy (2008), Yuen *et al.* (2009), and Forker (1992) concluded that non-executive directors on boards relate to more effective board monitoring and higher levels of corporate disclosure. Yet, some researchers have determined that there is a negative relationship between non-executive directors on boards and the levels of disclosure, including Al-Moataz and Al-Hussainey (2011), Barako *et al.* (2006) and Eng and Mak (2003). However, other researchers have found that there was no relationship between the two variables, including Ghazali and Weetman (2006), Lakhal (2005), Haniffa and Cooke (2002), and Ho and Wong (2001).

Kuwaiti company law does not distinguish between non-executive directors and executive directors. In addition, the law does not mention the percentages of non-executive or executive directors, leaving board composition to be organized by the companies. Al-Shammari and Al-Sultan (2010) studied voluntary disclosure and found no relationship between the proportion of non-executive directors and disclosure. Also, Al-Saidi and Al-Shammari (2012) stated that the non-executives in Kuwait are not effective directors. Even though there were mixed results, we set our third research hypothesis as follows:

H3: There exists a positive relationship between ownership concentration and the level of corporate governance disclosure.

Family directors

According to agency theory, family management reduces and can even eliminate the conflict between shareholders and managers. Therefore, agency theory would predict a positive impact between value and the presence of family members on the board of directors (Berle and Means, 1932). Fama and Jensen (1983) believed that the long relationship between the presence of family directors and firms is crucial in monitoring and disciplining managers. James (1999) stated that family advantages, such as trust, altruism, and long relationships improve the level of commitment towards firms. Empirically, Arman and Yonet (2011), Akhtaruddi *et al.* (2009), Mohamad and Sulong (2009), Ghazali and Weetman (2006), Haniffa and Cooke (2002), and Ho and Wong (2001) found that the presence of family directors disclose less information.

Al-Saidi and Al-Shammari (2012) concluded that families have the power and incentive to expropriate small shareholders and to withhold information or to give them greater access to internal information. However, Al-Janadi *et al.* (2013) and Al-Shammari and Al-Sultan (2010) found no significant relationship between disclosure and family directors. We proposed that family directors in Kuwait have a positive impact on disclosure for two reasons, namely, it is consistent with agency theory and with the concept of family advantages. Also, family members are more effective in monitoring management based on large ownership or long-term relationships. In other words, family members are expected to be involved actively in monitoring management, while others might benefit from a free ride.(4) Therefore, our hypothesis is:

(4) Grossman and Hart (1980) defined the free-rider problem as ’when individual shareholders who own a small number of shares might not be in a position to protect their interests because the agent cannot be monitored easily and because the agent engages in costly actions’.

H4: There exists a positive relationship between the presence of family members on the board and the level of corporate governance disclosure.

Role duality

An additional variable with respect to the characteristics of the board is role duality, which refers to combining the roles of the CEO and the chairman of the board. In the UK, the Cadbury report (1992) recommended a clear split between these roles. Jensen and Meckling (1976) were opposed to a single person having both roles. According to Rechner and Dalton (1991), separating the roles will improve control over management and reduce the risk that comes from one person having too much power. Furthermore, it has been observed that the combined role has been very common among failed and bankrupt companies. Empirically, Yuen *et al*. (2009), Lakhal (2005), and Forker (1992) examined the relationship between the duality of roles and the level of disclosure, and they found that combining the two roles had a negative impact on disclosure. However, other studies, such as those conducted by Arman and Yonet (2011), Al-Shammari and Al-Sultan (2010), Mohamadand Sulong (2009), Donnelly and Mulcahy (2008),Barako *et al*. (2006), Haniffa and Cooke (2002), and Ho and Wong (2001), found no significant relationship between the two variables.

In Kuwait, companies are not required to split the roles of CEO and chairman and their combination is very common among listed firms (Al-Saidi and Al-Shammari, 2012). Although the majority of previous studies found no impact of this combination on disclosure, it is our view that it will increase risks and give one individual the motivation to reduce disclosures, particularly in developing countries. Therefore, the next hypothesis runs as follows:

H5: There exists a positive relationship between role duality and the level of corporate governance disclosure.

Role of debt

The role of debt is another factor that can impact corporate governance disclosure.[5] According to agency theory, management decisions are re-

(5) Debt is another factor that can impact corporate governance disclosure. Several previous studies have used debt as a control variable as we mentioned in Table 3. However, Agrawal and Knoeber (1996) used debt as a corporate governance mechanism. Also, Aljifri and Moustafa (2007) and Bohren and Odegaard (2001) used debt as a corporate governance mechanism. Thus, consistent with these studies, the current study used the role of debt as a corporate governance mechanism.

stricted if the firm has debt. Debt can ensure that a firm's cash flow is used to pay contracts, and, if the contracts are not paid, the firm will go bankrupt. In other words, debt may be used as a good signal that managers will work hard to meet the payments. Empirically, Fathi (2013), Al-Moataz and Al-Hussainey (2011), and Barako *et al.* (2006) found a positive relationship between debt and the level of disclosure. Therefore, firms with more debt provide more disclosure. However, Hassan (2013) and Akhtaruddi *et al.*(2009) found no such relationship between debt and the level of disclosure. Barros *et al.*(2013) and Eng and Mak (2003) found that there was a negative relationship between debt and disclosure. In the current study, we proposed that debt can have a positive influence on corporate governance disclosures for two reasons: (1) debt holders have incentives to exert influence on managers' actions and decisions, thereby disclosing more information to ensure that companies do not use their money in risky projects and act according to their covenants related to debt and (2) debt may be a good signal to the public that companies will work hard to make payment on a debt. Therefore, our hypothesis runs as follows:

H6: There exists a positive relationship between debt and the level of corporate governance disclosure.

Research design

Sample Selection and Data Sources

The year 2012 was chosen as the sample year for this study.(6) Consistent with several studies, e.g., Al-Shammari and Al-Sultan (2010), Ghazali and Weetman (2006), and Haniffa and Cooke (2002), financial companies were excluded from the sample because they have different regulations and because financial transactions are subject to different corporate governance rules. In total, 118 companies were selected from the entire population, whereas a minimum sample size of 30 is appropriate for most research (Sekaran, 2003).

Table 2 presents the sample selection by industry for the financial year ending in 2012. Data related to the corporate governance disclosure in-

(6) We chose the year 2012 for two reasons. First, the Kuwait Stock Exchange (KSE) changed the type of firm classifications in 2012. Also, the CG disclosure data were measured using an annual checklist. Data on variables were found either in the annual reports or on the companies websites. We limited our analysis to one year because using a checklist to measure and analyze corporate disclosure levels requires considerable amounts of time and effort. The sample included hard copies of the annual reports for 2012, as well as current CG disclosures on the companies websites.

Table 2
Sample Selection of firms by industry

No	Sectors	Total listed firms	Excluded firms	Included firms
1	Oil and Gas	8	0	8
2	Basic materials	5	0	5
3	Industrials	39	5	34
4	Consumer goods	7	0	7
5	Healthcare	3	0	3
6	Consumer services	16	0	16
7	Telecommunications	3	0	3
8	Utilities	0	0	0
9	Bank	9	9	0
10	Insurance	7	7	0
11	Real Estate	38	0	38
12	Financial services	53	53	0
13	Investment	1	1	0
14	Technology	4	0	4
	Total	**193**	**75**	**118**

dex and some corporate governance mechanisms were extracted from individual companys annual reports at the end of the 2012 fiscal year. The researchers found the annual reports for 90% of the companies in the sample; for companies whose annual reports were not available, the information was extracted from the companies' official websites. Data related to the ownership structure were extracted from KSEs official website.

Dependent Variable

The dependent variable used in this study was the disclosure index, which is a proxy for corporate governance disclosure. The initial step in constructing the index was to develop a checklist for voluntary corporate governance disclosure that exceeded the requirements established by company law, International Financial Reporting Standards (IFRSs), and the listing requirements of the stock exchange. Items in the checklist were selected based on previous studies (Samaha *et al.*, 2012; Lokman *et al.*, 2012; Al-Moataz and Al-Hussainey, 2011) and their applicability to the Kuwaiti environment. Three steps were taken to validate the checklist. First, the list was screened further to eliminate any mandatory items found in company law, IFRSs, and the listing requirements of the stock exchange. 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, one experienced practicing Kuwait accountant and an independent faculty member refined the checklist to ensure its validity.

A scoring sheet for each annual report was prepared based on the checklist, and a pilot study was undertaken based on 30 companies to ensure that the items were appropriate for each selected sector. Certain items were not relevant for all of the companies, and such items were excluded from the total number of items on the disclosure index. The final checklist instrument consisted of 100 items that were identified as relevant for corporate governance disclosure in the annual reports of Kuwaiti listed firms. Then, these 100 items were grouped into 9 categories (Table 3). All listed companies disclosed the same information on the board of directors reports, but their disclosures were not at the same level of detail. The disclosure checklist is presented in Appendix 1.

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, but equal weighting was preferred (Samaha *et al*., 2012; Lokman *et al*., 2012; Al-Moataz and Al-Hussainey, 2011). Each disclosure item received a score of one if disclosed and zero if not disclosed. Then, to measure the corporate governance disclosure, the scores for each item

Table 3
Items Included in Corporate Governance Disclosure Index

Group number	Names	Total items
1	Ownership and shareholders rights	18
2	Composition of board	23
3	Independent of board	9
4	Management	14
5	Audit	9
6	Risk management and internal control	7
7	Financial information	8
8	Social policies	6
9	Financial policies	6
	Total	**100**

were added to derive the final score for each company. Then, the corporate governance disclosure index (CGDI) for each company was calculated as the ratio of the total actual items disclosed to the maximum score (100 items) for that company. Higher scores indicated a higher level of corporate governance disclosure. The majority of disclosure studies have used this approach.

Independent and Control Variables

Consistent with the study's hypotheses, the independent variables examined in this study represent corporate governance mechanisms, i.e., concentration of ownership concentration, size of the board, the proportion of non-executive directors, the presence of family directors, role duality, and debt. Four control variables also were included, viz. firm's size, firm age's, profitability, and type of industry, to control for other potential impacts of corporate governance disclosure. Firms size is often used as an important control variable in studying the impact on levels of disclosure, as indicated by Al-Shammari and Al-Sultan (2010), Barako *et al.* (2006), Eng and Mak (2003), Haniffa and Cooke (2002), and Ho and Wong (2001). Jensen and Meckling (1976) concluded that agency costs are likely to be greater in larger firms. Barako *et al.* (2006) and Ho and Wong (2001) concluded that information disclosure is costly; therefore, large firms with sufficient resources are in a better position to present comprehensive and detailed financial statements.

The second variable, firms age, is important because young, listed firms disclose more information. This is consistent with Haniffa and Cookes (2002) position. They believed that newly-listed firms disclose more information to boost investors confidence because they may perceive young firms as more risky. However, Al-Shammari (2008) stated that older firms disclose more financial information in their annual reports than younger companies because they may have strong systems that are producing more information at less cost.

The third control variable is profitability, which was studied by Al-Moataz and Al-Hussainey (2011), Al-Shammari and Al-Sultan (2010), Hossain and Hammami (2009), Barakoet *et al.* (2006), Haniffa and Cooke (2002), Ho and Wong (2001), and Raffournier (1995). According to agency theory, managers of larger profitable firms may disclose more to obtain personal advantages, such as continuance of their management positions. Thus, they are interested in providing more details and information in their financial statements and annual reports to justify their work and reduce political costs. Consistent with this view, Akhtaruddi *et al.* (2009) studied the relationship between profitability and the level of disclosure and found a positive relationship. However, several studies, such as Al-Moataz and Al-Hussainey (2011), Hossain and Hammami (2009), and Barako *et al.*(2006) studied the impact of profitability on disclosure and found no relationship.

The last control variable is the industry variable. In this study, we postulated that industry type may also influence the corporate governance disclosure for listed firms. This variable has been used in several studies, such as Al-Shammari and Al-Sultan (2010), Yuen *et al.* (2009), Haniffa and Cooke (2002), and Ho and Wong (2001). Haniffa and Cooke (2002) concluded that levels of disclosure may vary according to industry type. In short, nine variables were included in our study as control variables to control their impact on disclosure. All variables are defined in Table 4.

Table 4
Operational Definitions of Independent and Control Variables

No.	Variables	Definitions	Source of Information
		Independent variables	
1	Ownership concentration (OC)	Percentage of shares owned by large shareholders is more than 5%	KSEs official website
2	Board size (BS)	Total number of directors	1. Company Annual reports 2. KSEs official website.
3	Board independent (NED)	Ratio of non-executive directors to total number of directors on the board	
4	Family directors (FD)	Ratio of family directors to total number of directors on the board	
5	Role duality (RD)	Dichotomous with 1 if the chairman is also the CEO of the company and 0 otherwise.	
6	Debt (DT)	Total debt to total assets	
		Control variables	
7	Firms size (FS)	Total assets	1. Company Annual reports 2. KSEs official website.
8	Firms age (FA)	Actual length of listing	
9	Profitability (PO)	Return on assets defined as net profit to total assets	
10	Industry type (IN)	Nine sections based on KSEs classifications, namely, oil and gas, basic materials, industrials, consumer goods, healthcare, consumer services, telecommunications, real estate, and technology.	

Model

In the study, we used the following empirical model to analyse the relationship between disclosure index and corporate governance variables:

$$CGDI = B_0 + B_1OC + B_2BS + B_3NED + B_4FD + B_5RD + B_6DT + B_7FS + B_8FA + B_9PO + B_{10}Ind1 + B_{11}Ubd2 + B_{12}Ind3 + B_{13}Ind4 + B_{14}Ind5 + B_{15}Ind6 + B_{16}Ind7 + B_{17}Ind8 + \varepsilon,$$

where CGDI represents the corporate governance disclosure index (in percentage) for sampled companies, B_0..., $B_1$7 represent regression coefficients, the independent and control variables are defined in Table 4, and ε represents the error term.

Since multiple regressions were used in this study to test the hypotheses, the OLS assumptions should be tested. According to Gujarati (1999) and Brooks (2002), five major problems should be tested, viz. multicollinearity, normality, heteroskedasticity, autocorrelation, and linearity. The Pearson correlation matrix was used to test the multicollinearity problem, while analyses of residuals and plots of the residuals against predicted values were conducted to test the other problems. Because some of these problems occurred in this study, we used econometric techniques to remove them from the data, as explained in the next section.

OLS Results and Discussion

Descriptive Data

Table 5 reports the descriptive statistics of the dependent variable (corporate governance disclosure index (CGDI)), the independent variables, and the control variables. The results from the corporate governance disclosure index indicated a mean of 31%, with the highest score achieved being 61% and the lowest score being 14% (standard deviation of 12%). This was very similar to the results reported by Haniffa and Cooke (2002) and Ghazali and Weetman (2006) in which the corporate governance index had a value of 31%. However, Hassan (2013) found that corporate voluntary disclosure was only 16% in the UAE. Kuwaiti firms were distributed widely with regard to corporate governance disclosure.

The mean value for the concentration of ownership was 56%, with a maximum value of 96.5% and a minimum value of zero, indicating concentrated ownership in most firms listed on the KSE. This finding indicated that the concentration of ownership was less than those in Kenya and Malaysia. This was very close to the findings of Samaha *et al.* (2012), who reported that the concentration of ownership in Egypt was about 57%. Barako *et al.* (2006) found the concentration of ownership to be 72% for

Table 5
Descriptive Statistics of Variables

OC: ownership concentration; BS: board size; NED: non-executive directors; FD: family member on boards; RD: role duality; DT: total debt divided by assets; FS: firms size; FA: firms age; PO: profitability

Variables	Sample number	Mean	Maximum (Minimum)	SD	Skewness	Kurtosis
CGDI	118	0.31	0.62 (0.14)	0.159	0.388	-1.356
OC	118	0.56	0.99 (0.10)	0.21	-0.041	-0.595
BS	118	5.9	10 (3)	1.45	0.368	0.198
NED	118	0.839	1.00(0.50)	0.088	-0.277	2.024
FD	118	0.125	0.67(0)	0.196	1.188	-0.020
RD	118	0.56	1.00(0)	0.498	-0.257	-1.967
DT	118	0.39	0.89(0.01)	0.22	0.406	-0.687
FS	118	160101.8	3287234 (2523)	357581.52	6.537	51.834
FA	118	11.77	29(1)	8.51	2.049	-0.226
PO	118	-0.0039	0.25(-0.51)	0.109	-1.695	4.856

Kenyan firms, and Ghazali and Weetman (2006) found it to be 67% for Malaysian firms. Average board size (BS) was six, with the maximum and the minimum being 10 and 3, respectively. These were smaller than the sizes of the boards in Malaysia and Kenya. Haniffa and Hudaib (2006) found that the mean board size was 8; Barako *et al*. (2006) concluded that mean board size ranged from 7 to 8. Hassan (2013) documented that the mean board size was 7 for firms listed in the UAE. Samaha *et al*. (2012) found that mean board size was 10 for Egyptian firms. These sizes are smaller than those in the UK (Conyon and Peck, 1998) and the U.S. (Bhagat and Black, 2002).(7)

The mean of the proportion of non-executive directors to total directors on the board was 84%, indicating that a significant number of directors are non-executive directors; however,

(7) Conyon and Peck (1998) studied a sample of 2886 from 1991 to 1994 and found that the mean board size was 8.5; Bhagat and Black (2002) studied a sample of 934 in 1991 in the US and found the mean board size to be 11.4.

it was difficult to determine whether such directors were independent. Barako *et al.* (2006) found the proportion of non-executive directors to be about 68% for Kenyan firms, while Ghazali and Weetman (2006) and Haniffa and Cooke (2002) found the proportion of non-executive directors to be 35% and 45%, respectively. Samaha *et al.* (2012) found the proportion of non-executive directors to be about 55%. Also, the mean number of family members on boards was 12.5%, which was less than the family proportion in Malaysia. This is consistent with the findings of Ghazali and Weetman (2006) and Haniffa and Cooke (2002). The mean of role duality was 56%, much greater than it was in Kenya, which means that role duality in Kuwait is less than the role duality in Egypt (Samaha *et al.*, 2012). Hassan (2013) found the role duality in the UAE to be about 18%. The results also showed that, on average, the debt ratio was 18%. With regard to control variables (except industry types), the average firm's size was 160,101million Kuwaiti Dinars in terms of total assets. The mean firms age was 11.77, with ages ranging from 1 to 29 years. Firm's profitability, as measured by return on assets, had a mean of -0.3%, with a maximum value of 25% and a minimum value of -50%.

The analysis of residuals and the plots of the studied residuals against predicted values indicated no problem of heteroskedasticity or linearity. However, the results showed that only two variables demonstrated high skewness and kurtosis, viz. firms size and profitability, while the remaining variables were within the acceptable range. Brooks (2002) concluded that data are normal when skewness is within ± 1.96 and kurtosis within ± 3. The researcher used rank (normal score) and log score, but the normal score produced better results (Cooke, 1998). The researchers also found no outliers in the data.(8)

Table 6 presents a distribution of overall corporate governance disclosure. It shows that there was huge variability in the corporate governance disclosure. For example, about 75 firms disclosed less than the average, while only 6 companies disclosed more than 54%.

Table 7 presents the correlation matrix for the independent and control variables. It indicates no multicollinearity problem because the correlation for all variables does not exceed 80% (Gujarati, 1999). Table 7

(8) To check outliers in the data, the researchers used a standard deviation of more than three by testing box-plot, histogram, and normal probability plots.

Table 6
Overall Descriptive Data for Corporate Governance Disclosure

CGI range	Number of firms	Percentage	Cumulative %
0.14-0.20	48	40.3	40.3
0.21-0.31	15	12.6	52.9
0.32-0.42	19	16	68.9
0.43-0.53	20	16.8	85.7
0.54-0.62	17	14.3	100
Total	118	100	----

Table 7
Pearson Correlations among Continuous Independent Variables

OC: ownership concentration; BS: board size; NED: non-executive directors; FD: family member on boards; RD: role duality; DT: total debt divided by assets; FS: firm's size; FA: firm's age; PO: profitability

Variables	OC	BS	NED	FD	RD	DT	FS	FA	PO
OC	1								
BS	-0.188*	1							
NED	0.141	0.222*	1						
FD	0.048	0.045	-0.105	1					
RD	-0.003	-0.011	-0.014	0.209*	1				
DT	-0.140	0.201*	-0.167	0.123	0.019	1			
FS	-0.115	0.205*	0.158	0.100	-0.071	0.121	1		
FA	-0.189*	0.271**	0.117	0.024	0.024	0.083	0.321**	1	
PO	0.186*	0.034	0.021	0.123	-0.047	-0.053	0.171	-0.051	1

***Correlation is significant at the 0.01 level
** Correlation is significant at the 0.05 level.
*Correlation is significant at the 0.1 level

also shows that the concentration of ownership had a negative impact on the size of the board, while family members on the board had a positive impact on role duality. Also, boards size had a positive impact on the proportion of non-executive directors and the debt ratio, while the proportion of non-executive directors, role duality, and debt ratio did not impact other governance variables.[9]

OLS results

Table 8 presents the results of OLS estimation, assessing the effect of corporate governance mechanisms on corporate governance disclosure index (CGDI). The F value in our model was 8.154, and it was significant at the 1% level; the adjusted R-squared value was 50.8%. Also, Table 8 gives the unstandardised beta coefficients, t-values, and significance levels of the coefficients. Hypothesis 1 predicted that ownership concentration was negatively associated with the corporate governance disclosure index (CGDI). The coefficient on ownership concentration was negative and only marginally significant (β = -0.127; $p < 0.05$). Thus, hypothesis 1 was supported. Hypothesis 2 predicted that boards size was negatively associated with the corporate governance disclosure index (CGDI). However, the coefficient of the interaction between boards size and corporate governance disclosure index (CGDI) was not significant (β = - 0.005, $p > 0.10$). Hypothesis 2 was not supported.

Hypothesis 3 predicted that the proportion of non-executive directors on boards was positively associated with the corporate governance disclosure index (CGDI). The coefficient of this interaction term was not significant (β = -0.022, $p > 0.10$). Hence, hypothesis 3 was not supported. Hypothesis 4 predicted that the proportion of family members on boards of directors was positively associated with the corporate governance disclosure index (CGDI). It is significant but in the opposite direction to that hypothesized (β = -0.138, $p < 0.05$). Therefore, this leads to the rejection of the hypothesis. Hypothesis 5 predicted that the role duality was negatively associated with corporate governance disclosure. The coefficient of this interaction term was negative but not significant (β = 0.018, $p > 0.10$). Hence the hypothesis was not supported. Hypothesis 6 predicted that there was a positive relationship between debt and the corporate governance disclosure index (CGDI). The coefficient on the

(9) According to our literature review, the interrelationships among governance variables have been discussed extensively in studying the relationship between firms performance and governance mechanisms, but this issue is not important in studying the relationship between voluntary disclosure and governance mechanisms. Thus, and consistent with the literature review, this problem is not discussed in this study. Also, studying the interrelationships among variables required more than one year, and that amount of time was not available in this study. However, this presents a good issue for future research.

Table 8
Regression of CGDI on Independent Variables and Control Variables

OC: ownership concentration; BS: boards size; NED: non-executive directors; FD: family members on boards; RD: role duality; DT: total debt divided by assets; FS: firms size; FA: firms age; PO: profitability; IN1-NI9: industry type on Kuwait Stock Exchange

Independent variables	Predicted sign	Estimated coefficient	t-value	P-value
Constant		0.406	2.963	0.004***
OC	-	-0.127	-2.322	0.011 + +
BS	-	-0.005	-0.596	0.553
NED	+	-0.022	-0.171	0.865
FD	+	-0.138	-2.320	0.011(a)
RD	-	-0.018	-0.838	0.404
DT	+	0.251	4.309	0.000 + + +
FS	+	0.028	1.868	0.032 + +
FA	+	0.044	3281	0.001 + + +
PO	+	0.00	-0.028	0.977
IN1	+/-	-0.022	-0.313	0.755
IN2	+/-	-0.063	-0.796	0.428
IN3	+/-	-0.124	-2.028	0.045*
IN4	+/-	-0.004	0.052	0.958
IN5	+/-	0.068	0.769	0.444
IN6	+/-	-0.034	-0.527	0.599
IN7	+/-	0.020	0.216	0.830
IN8	+/-	0.012	0.203	0.839

R-squared = 0.57- Adjusted R-squared = 0.508 - F-value = 8.154
Sig. F =.000 - N = 118

+ + + t test significant $p < 0.01$; + + t test significant $p < 0.05$; + t test significant $p < 0.10$
*** t test significant $p < 0.01$; *** t test significant $p < 0.05$; * t test significant $p < 0.10$.
The excluded dummy variable for industry classification is the Technology sector (IN9) and represented by the constant:
(a)Coefficient was statistically significant but had the opposite sign to that hypothesized.

debt was positive ($\beta = 0.251$, p < 0.01), so the hypothesis was supported. In terms of the control variables, the coefficients for the firms size and the firms age had positive impacts on the corporate governance disclosure, while profitability was not significant. The results showed that all coefficients for the industries were insignificant with the exception of industry 3 (industrial firms), which had a negative impact on the corporate governance disclosure index.

Discussion

The results of the study indicated that ownership concentration by large shareholders leads to less disclosure, which is consistent with agency theory and consistent with Barako *et al.* (2006) and Lakhal (2005). The negative relationship suggests a conflict problem and a tunnelling problem (La Porta *et al.*, 1998). Fathi (2013) studied the Tunisian situation and found that the percentage held by major shareholders had a negative impact on the extent of voluntary disclosure. He concluded that the majority shareholders were not interested in the disclosure because they had the ability to access all the information they needed. Also, the results indicated that there was an insignificant relationship between the boards size and corporate governance disclosure. This result was consistent with the finding of Samaha *et al.* (2012).

In this study, no relationship was found between the proportion of non-executive directors and the level of corporate governance disclosure. Thus, the agency theory argument concerning non-executive directors for Kuwaiti firms seems to be invalid. This result was consistent with the findings of Ghazali and Weetman (2006), Lakhal (2005), Haniffa and Cooke (2002), and Ho and Wong (2001). In Kuwait, Al-Shammari and Al-Sultan (2010) studied the relationship between the proportion of non-executive directors and voluntary disclosure and found no relationship between them. Thus, non-executive directors were not effective in pressing firms to disclose more information; they are probably not truly independent or effective since they are appointed by the large shareholders (Al-Saidi and Al-Shammari, 2012).

With respect to family members on the board of directors, the findings of the study indicated that there was a negative relationship between the presence of family members on the board and corporate governance disclosure. Thus, a better interpretation for this result is that Kuwaiti families have the power and incentive to expropriate small shareholders and to withhold information and give them greater access to internal information.This is inconsistent with the study of Al-Janadi *et al.* (2013), which found a positive relationship between family members on the board of directors and the level of voluntary disclosure. However, it was consistent with results of Arman and Yonet (2011), Akhtaruddi *et al.* (2009), Mohamad and Sulong (2009), Ghazali and Weetman (2006), Haniffa and Cooke (2002), and Ho and Wong (2001). In general, this finding has important implications for other Gulf Cooperation Council (GCC) countries, where boards are dominated by family members.

It also was found that there was no relationship between role duality and corporate governance disclosure, which is consistent with Arman and Yonet (2011), Mohamad and Sulong (2009), Donnelly and Mulcahy (2008), Barako *et al.*(2006), Haniffa and Cooke (2002), and Ho and Wong (2001). It was found that all board variables were not working effectively in Kuwait. As suggested by Al-Saidi and Al-Shammari (2012), one reason for this could be that the boards size, the proportion of non-executive directors, family members on the board, and role duality are not effective in Kuwait because of the weakness of the corporate governance rules.

The study also showed a positive relationship between debt and corporate governance disclosure. This result is consistent with agency theory in that more debt can result in agency problems, and, therefore, firms managers are more likely to report more disclosure voluntarily to help creditors monitor the firms and send a good signal about their future, and to increase their ability to pay their obligations on time. In addition, Jensen and Meckling (1976) concluded that having debt made the firms report more information to satisfy the need of creditors. This is consistent with the studies of Fathi (2013), Al-Moataz and Al-Hussainey (2011), and Barako *et al.* (2006). More debt puts greater pressure on management to work according to agreements with creditors to pay back the debt, thereby disclosing more to increase their confidence.

With regard to control variables, the results indicated that firms size had a positive impact on corporate governance disclosure, which is consistent with agency theory. Jensen and Meckling (1976) stated that agency costs are likely to be greater in larger firms. Barako *et al.* (2006) and Ho and Wong (2001) concurred with this. Al-Shammari (2008) studied Kuwaiti firms and found that large firms were subject to more rigorous public scrutiny and, therefore, may increase their disclosures to demonstrate that they are acting in a responsible manner. With respect to firms age, the estimated coefficient was positive, implying that older firms listed on the KSE disclosed more information than younger firms. Similarly, Hassan (2013) studied voluntary disclosure in the UAE and found that firms age had a positive impact on voluntary disclosure. However, firms age among listed firms in the industrial sector had a negative impact on corporate governance disclosure. This was inconsistent with Barako *et al.* (2006), Eng and Mak (2003), and Raffournier (1995), who found that industry type had no effect on voluntary disclosures. Profitability had no significant relationship with corporate governance disclosure, suggesting that firms with favorable profit conditions tend to disclose information less frequently. This is consistent with the findings of studies conducted by Barako *et al.* (2006), Eng and Mak (2003), and Raffournier (1995).

Implications of findings

- There is a significant negative relationship between ownership concentration and corporate governance disclosure. This is consistent with the argument of La Porta *et al.*(1999), who contended that large shareholders expropriated the minority shareholders in countries that have weak legal protection. Free-rider problems associated with diffuse ownership do not arise in case of ownership concentration, because large shareholders control most of the benefits and most of the firms' assets. When ownership is concentrated among a few investors, the possibility that the large shareholders will monitor and control managers is very high, which could have a negative impact on corporate governance disclosure, especially if the large shareholders lack experience, specific information, and knowledge. That is why the Kuwaiti government developed and implemented new regulations that require firms to disclose more corporate information, which protect managers from being influenced by unimportant decisions made by large shareholders or decisions that have negative impacts on governance disclosure.
- There is a negative relationship between family members on the board and corporate governance disclosure. It has been argued that, when family members sit on the board of directors, they become more committed to the firms because they have large numbers of shares and are likely to care more about their families names. Thus, they have a strong commitment to disclosing more to reduce the conflicts of interests among different parties. This study confirmed the opposite position among firms listed on the KSE. Thus, the KSE and investors should care more about corporate governance disclosure in firms that have family members on the board of directors.
- There is no significant relationship between the proportion of board

size, non-executive directors, and role duality and corporate governance disclosure. Agency theory has suggested that board variables (boards size, non-executive directors, and role duality) are important mechanisms that influence corporate governance disclosure. However, in this study, no significant impact was found on the corporate governance disclosure index. The main reason for this result may be the absence of having a corporate governance code in Kuwait. The implication is that the Kuwaiti government should put a governance code in place as soon as possible or at least modify the current law pertaining to companies to impose additional requirements for being board members and to separate the roles of the chairman of the board and the CEO.

- There is a positive relationship between debt ratio and corporate governance disclosure. Agency theory posits that there is a positive relationship between debt ratio and disclosure. The results of this study confirmed this conclusion. Kuwaiti banks impose more influence on listed firms to disclose more information about corporate governance. Therefore, high corporate governance disclosure is attributable to the effective role of the banks. Also, in this study, it was found that firms listed on the KSE disclose best when they have debt because of the strong monitoring by banks. Thus, the findings confirmed that Kuwaiti investors should carefully choose their target investments in case of having less debt, and the Kuwaiti government should give banks the right to attend the annual general meeting, which is not the case under the current rules.

Conclusions

This study was the first to examine the impact of corporate governance mechanisms on corporate governance disclosure in Kuwait. The results indicated that some corporate governance mechanisms impact corporate governance disclosure. Ownership concentration, presence of family members on the board and debt are significant variables for corporate governance disclosure, whereas the other variables are insignificant. The current study made three significant contributions. First, this study was the first to examine corporate governance disclosure in Kuwait. Second, the findings will help the Kuwaiti government, firms, and investors evaluate the current rules and improve the requirements for corporate governance disclosure. Third, this study made a significant contribution to the literature on corporate governance disclosure in developing countries.

The current study has three major limitations. First, the study only examined hypotheses on corporate governance disclosure in Kuwait; such hypotheses have been investigated thoroughly in developed countries. Second, this study tested hypotheses based on agency problems that stem from the relationship between firms and shareholders and the relationship between firms and debt holders. Thus, a future opportunity for research could be to test the hypotheses based on another theory. Third, there were limitations related to the index of corporate governance disclosure. This index has been used in previous studies and was used in this study. Although the scoring processes for the index are considered to be subjective, in this study all the necessary techniques were employed to reduce this problem. However, total elimination of subjectivity probably was impossible. Also, to compare the levels of corporate governance disclosure in different firms with the same index, financial firms were excluded from the study since they have different disclosures.

Nevertheless, future research can adapt by using a qualitative perspective or a longer study period. Future studies should also compare Kuwaits situation with the situation in other GCC countries, such as Oman, which have a higher level of corporate governance disclosure. Also, future studies can address the issue of endogeneity, which gives more attention to the interrelationship among governance mechanisms.

Appendix (1)
The Corporate Governance Disclosure Index

Groups	Factors	Item. No
Ownership and share-holders rights (18 items)	Provide a review of shareholders by type	1
	The voting right	2
	The top shareholders	3
	Shares in company held by directors	4
	Important shareholder dates	5
	Shareholders meeting	6
	The procedures at shareholders meeting	7
	How shareholders nominate the boards	8
	How shareholders nominate the auditors	9
	The rights in extraordinary	10
	Chairmen at the AGM to answer shareholders questions	11
	External auditors present at AGM to assist responses to share-holders	12
	The procedures for any enquiries or questions at AGM	13
	AGM do not overlap with other meetings	14
	Introduce new directors at AGM	15
	Give shareholders enough time before meeting	16
	Details about related party transactions	17
	Shareholders approve related party transactions	18
Board composition (23 items)	Chairman of the board	19
	Details about the chairman	20
	Listed about the board of the directors	21
	Information about the directors	22
	When the directors joined the board	23
	Classify the directors as executives and non-executive directors	24
	Role of board of the directors	25
	Their qualifications	26
	Number of meeting	27
	List of board committees	28
	Audit committee	29
	Names and the roles of audit committee members	30
	Compensation committee	31
	Names and roles of compensation committee members	32
	Nomination committee	33

Cont. Appendix (1)
The Corporate Governance Disclosure Index

Groups	Factors	Item. No
Board composition (23 items)	Names and roles of nomination committee members	34
	Independent/non-executive directors on committees	35
	Strategy/investment/finance committee	36
	Director training	37
	Directors salary	38
	Listed senior managers	39
	Background of senior managers	40
	Managers on the board	41
Independent board (9 items)	At least 50% non-executive directors	42
	More than 50% non-executive directors	43
	Nomination committee for non-executive directors	44
	Their qualifications	45
	Their role	46
	System for evaluating non-executive directors	47
	Requirements for non-executive directors	48
	Shareholders' approval for non-executive directors	49
	Non-executive directors attend the meeting	50
Management (14 items)	Responsibilities and tasks	51
	Who management is appointed by	52
	Managers qualifications	53
	Pictures and age	54
	Position in the corporation	55
	Employment year	56
	Who the CEO is appointed by	57
	CEO and board chairman are different people	58
	When the member was elected into the board	59
	Secretary to the board	60
	When the CEO reports to the board of directors	61
	What the CEO reports to the board of directors	62
	Proposes the principles of salary, bonus & other compensation	63
	Who the CEO gets reports from	64
Audit (9 items)	Responsibilities & tasks	65
	Valuation of the auditing	66
	Information about the audit plan	67

Cont. Appendix (1)
The Corporate Governance Disclosure Index

Groups	Factors	Item. No
Audit (9 items)	Audit firm	68
	Election process	69
	Pictures, names, and age of auditors	70
	Which year the (head) auditors were elected	71
	Audit and non-audit fees	72
	Information about the communication with the board/committee	73
Risk management and internal control (7 items)	Brief definition of risk	74
	Key procedures to manage risk	75
	Explanation supported by graphs and tables	76
	Fair value of derivatives if any	77
	The definition of internal control system	78
	The review of internal controls	79
	Details if there is any affect on shareholders from internal control	80
Financial information (8 items)	The company strategy	81
	Details of the kind of business	82
	Efficiency indicators	83
	Information on quarterly basis	84
	Accounting policy and standard	85
	Method of assets valuation	86
	Method of fixed assets depreciation	87
	Related party transaction	88
Social policies (6 items)	Number of employees	89
	Reasons for change in employee	90
	Employee safety	91
	Corporate social responsibility	92
	Environmental policy	93
	Environment activities and polices	94
Financial policies (6 items)	The reasons for taking debt	95
	The reasons for increasing debt	96
	Banks requirements for guaranteed payments	97
	Considering the shareholders in dividend	98
	How the dividend is sitting	99
	Future projects and dividend	100
Maximum total score = 100		

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