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KUWAIT CORPORATE CHARACTERISTICS AND LEVEL OF RISK DISCLOSURE: A CONTENT ANALYSIS APPROACH [*]

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ABSTRACT

This study investigated the association between specific corporate characteristics - mainly company size, leverage, liquidity, profitability, complexity, auditor type, and industry type - and corporate risk disclosure (CRD) in the annual reports for a sample of 109 Kuwaiti listed non-financial companies. A manual content analysis approach was used to measure risk disclosure by counting the number of risk-related sentences in annual reports. A multivariate regression analysis was employed to test the association between risk disclosure and the corporate-specific characteristics. The results indicated that the total sentences of risk disclosure were 1,461 sentences with a mean 19.87. The quantity of risk disclosures for all categories of risks was very limited. The findings showed that the CRD is associated positively with size, liquidity, complexity and auditor type. In addition, the results indicated significant differences among industries. However, the findings also showed that the association between CRD and other corporate-specific characteristics (leverage and profitability) is insignificant. This study concluded that the findings are also consistent with both agency and signaling theories.

Keywords: Risk disclosure; content analysis; agency theory; signaling theory; corporate-specific characteristics; Kuwait.

INTRODUCTION

A large amount of the existing research regarding corporate disclosure examines the relationship between level of disclosure and corporate-specific characteristics (Zadeh and Eskandari, 2012; Lan et al., 2013). Recently, considerable attention has been observed to investigating and improving corporate risk disclosure (CRD) (Oliveira et al., 2013). Linsley and Shrives (2006, p. 388) defined CRD as "any opportunity or prospect, or of any hazard, danger, harm, threat, or exposure, that had already impacted/or may impact upon the company, as well as the management of any such opportunity, prospect, hazard, danger, harm, threat or exposure." The goal of a great number of companies is to disclose a significant amount of information in their annual reports to satisfy their various shareholders' needs. However, there is a developing debate on the inadequacy of risk disclosure and therefore companies are not fully transparent in this respect (Oliveira et al., 2011a; 2013). There have been demands for even greater disclosure to occur to reduce asymmetries of

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access to corporate information and ensure shareholders are fully able to assess a company's performance (Oliveira et al., 2013). Risk disclosure is one aspect of these disclosure demands. Shareholders become more interested in risk profiles to better understand the risks a company faces and how the managers are managing risks, as well as to improve the measurement and disclosure of risk-related matters (Beretta and Bozzolan, 2004; Konishi and Mohobbot, 2007; Oliveira et al., 2013).

Several researchers argue that CRD is becoming more important to the public and this places greater pressure upon managers to explain how they are managing risks (Hassan, 2014; Oliveira et al., 2013). The outcome of improved risk transparency should ultimately be that it enhances the ability of shareholders and other stakeholders to manage their risk positions and provides greater transparency and increases investors' confidence (Hassan, 2014; Oliveira et al., 2011a; Solomon et al., 2000; Cabedo and Tirado, 2004; Ahmed et al., 2004; Linsley and Shrives, 2006; Abraham and Cox, 2007; Iatridis, 2008; Linsley and Lawrence, 2007; Spira and Page, 2003 Oliveira et al., 2013).

Most existing studies of risk-related disclosures have been conducted in Western and European countries such as the UK (Dhanani, 2003; Solomon et al., 2000; Linsley and Shrives, 2006; Abraham and Cox, 2007; Iatridis, 2008; Linsley and Lawrence, 2007), Italy (Beretta and Bozzolan, 2004), Canada (Lajili and Zeghal, 2005), USA (Rajgopal, 1999; Linsmeier et al., 2002; Jorion, 2002; Schrand, 1997; Hodder et al., 2001), Australia (Poskitt, 2005), Portugal (Oliveira et al., 2011a; 2013; Lopes and Rodrigues, 2007), Netherlands (Deumes, 2008), French and Latin countries (Beretta and Bozzolan, 2004; Combes-Thuelin et al., 2006) and Asia-Pacific countries (Amran et al., 2009; Konishi and Mohobbot, 2007). However, little is known about the CRD in Arab countries in general and Kuwait in particular, except Hassan (2009) who investigated the determinants of the risk disclosure in the UAE. This study therefore sought to investigate why variation exists among Kuwaiti companies in disclosing risk information.

Kuwait was a particular focus of this study because of its unique socio-economic context. First, Kuwait is an emerging capital market that adopts an open economic philosophy based on the market economy and liberalization of trade. Second, Kuwaiti government has initiated several far-reaching reforms at the Kuwait Stock Exchange (KSE) to mobilize domestic savings and attract foreign capital investment. These measures include privatization of state corporations through the stock exchange and allowing foreign investors to own shares tax free in the listed companies since 2000. Third, the KSE is becoming an important capital market in the region. It is ranked the second largest market in the Arab world (after Saudi Arabia) in terms of total market capitalization (AMF, 2013). Fourth, compared to other countries with advanced capital markets, the Kuwait accountancy profession is lagging behind in terms of offering professional certificates. Finally, the Kuwait regulatory framework incorporates different legislation that requires the disclosure of risk-related information in the corporations' annual reports. These reasons make investigating CRD an important issue in Kuwait.

This article is organized in seven sections. After this introduction, section two describes risk disclosure in Kuwait. Section three reviews literature on CRD and describes theories used in the study. Section four discusses hypotheses development. Section five discusses the data collection and research methodology. Section six presents and analyzes the empirical findings. The last section discusses the study conclusions, limitations and future research.

RISK DISCLOSURE IN KUWAIT

Financial reporting regulation in Kuwait is formed and managed by the government. It focuses on protecting investors and other users of financial reports. The main bodies

issuing rules are the Ministry of Commerce and Industry and the KSE. There are three sets of legislation that govern the financial accounting practices in Kuwait.

First, Company Law No. 15 of 1960 and its amendments govern the preparation of financial reports for listed companies. Second, Ministerial Resolution No. 18 of 1990 was issued to force companies operating in Kuwait to comply with the International Accounting Standards (IASs; currently known as International Financial Reporting Standards – IFRS) beginning from 1 January 1990. Listed companies are required to comply with IFRSs. According to the Resolution, the aim was to improve the level of information disclosure. Since Kuwaiti companies prepare their financial reports in harmony with IASs that include IAS 32, Financial Instruments: Presentation and IAS 39 Financial Instruments: Recognition and Measurement (also known as IFRS 7), financial instruments disclosure became obligatory after January 2007. Other standards such as segment reporting and contingencies (Alfredson et al., 2007) require the Kuwaiti companies to disclose risk information. These standards focused mainly on financial risks exposures and management policies. Nevertheless, the questions of "whether the level of CRD varies among Kuwaiti companies?" and "whether the corporate-specific characteristics determine level of CRD?" remained to be answered in this study.

Finally, the Stock Exchange Law of 14/8/1983 and its amendments set registration conditions that affect CRD. Companies that wish to be listed on the KSE must meet a number of accounting requirements set out by KSE. It requires companies to fully disclose with an appropriate level of transparency certain risk-related information. For example, the capital market registrants have to provide explanatory information that relates to their companies' circumstances and activities to raise investors' confidence. The KSE requires more detailed requirements that emphasis risk reporting. Specifically, the potential registrants must supply financial statement users with a report from the company's board of directors that includes (1) a statement of the significant events and unexpected circumstances that the company has experienced from its incorporation up to the date of submitting the application for listing; (2) the board of directors' assessment, supported by figures, of the company's performance and achievements compared to the board expectations; and (3) any significant developments affecting the prices of the company's shares such as catastrophes, fires, mergers, the issue of new shares, the discontinuance of a production line, voluntary liquidation or lawsuits filed or unexpected events against the company will.

LITERATURE REVIEW

Prior research studies investigating the association between risk disclosure and corporate, specific characteristics are very few and have been undertaken mostly in the western countries. This is perhaps due to the mandatory measures being imposed earlier on the companies in those countries to disclose their risks. A general review of the relevant literature indicates that there are three groups of research approaches according to how the dependent variable is measured. The first group uses content analysis based on counting sentences to quantify risk disclosure (Elzahar and Hussainey, 2012; Dobler et al., 2011; Oliveira et al., 2011a; Amran et al., 2009; Deumes and Knechel, 2008; Beretta and Bozzolan, 2004; Lajili and Zeghal, 2005; Linsley and Shrives, 2006; Konishi and Mohobbot, 2007). The second group uses words as a recoding unit to measure risk disclosure (Abraham and Cox, 2007). The third group uses self- risk disclosure indices (Lopes and Rodrigues, 2007; Deumes and Knechel, 2008; Hassan, 2009). This study used sentences as a recording unit. Therefore, the focus is on those prior studies using content analysis based on counting sentences to quantify risk-related disclosure.

Beretta and Bozzolan (2004) investigated risk disclosure in reports of 85 Italian stock exchange companies by focusing on the Management Discussion and Analysis (MDA)

sections only. They identified 75 different risk information items being disclosed in the MDA section. They found that companies in general avoid communicating the expected impact in quantitative terms of these risks and the economic directions of the companies. They indicated that companies are also reluctant to indicate whether the future risks disclosed will impact them either positively or negatively. These companies were more inclined to report past and present risks. They also investigated the impact of company size and industry type on risk disclosure. They reported that no association existed between these variables and risk disclosure.

Lajili and Zeghal (2005) examined risk disclosure in the annual reports of TSE 300 Canadian companies. They used content analysis to measure risk disclosure. They reported that 85 percent of the sampled companies made disclosures in the MDA section only. They also found that 82 percent disclosed in the notes to the accounts and 67 percent disclosed in both sections. They indicated that financial risk is the most frequently disclosed risk by the companies and included information relating to operations in foreign currencies. Specifically, risk management tools in the form of hedging using forward options, futures and swap contracts were the most often mentioned. Trailing behind financial risk was credit risk followed by market risk, which deals with companies' reactions to competition. The study also found that the disclosures were almost always qualitative in nature and lacking in specificity and depth.

Linsley and Shrives (2006) examined the relationship between corporate-specific characteristics and risk disclosure by using a sample of companies in the UK. They used content analysis to measure risk disclosure. A total of 6,168 risk sentences were identified and consistent with the prior study by Lajili and Zeghal, with financial risk as the most frequent type of disclosure found within the sample. This was followed by strategic risk and integrity risk. Most of the disclosures were qualitative in nature. They also reported that there was a positive association between company size and risk disclosure but no relationship between leverage and risk disclosure. They concluded that stakeholders were not given enough information by higher risk companies.

Konishi and Mohobbot (2007) examined factors influencing the level of risk disclosure in 100 non-financial Japanese companies listed on the Tokyo Stock Exchange. They applied a content analysis approach based on sentences to measure risk disclosure. Using multiple regression analysis, they reported that company size associated positively with risk disclosures. However, no significant relationship existed between risk disclosures and other corporate characteristics (leverage, profitability and industry membership). They also found that most of the companies disclosed descriptive risk information but were reluctant to quantify risk.

Deumes and Knechel (2008) examined managers' economic incentives for voluntary risk management reporting using a sample of publicly traded firms in the Netherlands between 1997 and 1999. They used content analysis to measure the extent of risk disclosure by identifying six reportable items. They also investigated the association between risk disclosure, economic incentives and corporate specific characteristics. They reported a negative relationship between the extent of risk disclosure and block holder ownership and managerial ownership, and a positive relationship between the extent of disclosure and financial leverage. They also found company size and profitability were positively associated with risk disclosure. In addition, industry classification was positive and significant indicating that companies from the trade sector were significantly more transparent about risk disclosure.

Amran et al. (2009) investigated the relationship between Malaysian corporations' characteristics and risk disclosures incorporated in 100 non-financial company annual reports. Repeating the methodology employed by Linsley and Shrives (2006) in the UK

setting, Amran et al. (2009) relied on counting the number of sentences dedicated to the discussion of risk information as a proxy for the level of risk reporting. They used stakeholder theory to link corporations' characteristics to the level of risk disclosure and explain their empirical findings. They reported that company size, leverage and industry type were associated with risk disclosure.

Taylor et al. (2010) attempted to provide insights on the Financial Risk Management Disclosure (FRMD) patterns of Australian listed resource companies for the 2002–2006 period leading up to and immediately following adoption of the IFRS. They reported that company size and leverage were significant and positively associated with FRMD patterns. In contrast, overseas stock exchange listings of companies were significantly negatively associated with FRMD patterns. The findings showed that the introduction of IFRS changes corporation's willingness to communicate risk information.

Dobler et al. (2011) attempted to examine the relationship between risk disclosure and corporate-specific characteristics in the US, Canada, UK and Germany. They used content analysis of 160 annual reports. They reported that a consistent pattern where risk disclosure is most prevalent in management reports, concentrates on financial risk categories, and comprised little quantitative and forward-looking disclosure across sample countries. In terms of risk disclosure quantity, U.S. companies generally dominated, followed by German companies. Cross-country variation in risk disclosure attributes were only partly linked to domestic disclosure regulation, suggesting that risk disclosure incentives play an important role. While risk disclosure quantity appeared to be positively associated with company risk in the US and Canada, they found a negative association with leverage for Germany. This coincided with a "concealing motive" implied by an insider role of banks in the German financial setting.

Oliveira et al. (2011a) investigated the association between risk disclosure and corporate-specific characteristics in annual reports of a sample of companies in Portugal. They used content analysis to measure the extent of risk disclosure. Applying multivariate regression analysis, they reported that company size and leverage were positively associated with risk disclosure.

Elzahar and Hussainey (2012) investigated the impact of corporate-specific characteristics on the extent of risk disclosure in 72 companies in the UK. A content analysis was used to quantify risk disclosure. They used multiple regression analysis to examine such a relationship. They reported that company size and industry were positively associated with risk disclosure. However, they found that leverage, liquidity, profitability and cross-listing were not significant in explaining variations in risk disclosure.

Mousa and Elamir (2013) attempted to investigate risk disclosures using a sample of 46 listed companies in Bahrain stock market. The study also investigates determinants of risk disclosures. Multiple regression analysis was used to test the relationship between risk disclosure and ten independent variables as the determinants of risk disclosures. They found that corporate risk disclosures are very limited in annual reports of the companies sampled. They also reported that company size, company listing, issuance of shares, and profitability are significantly associated with risk disclosure. However, other variables (leverage, Beta of the company, liquidity, foreign ownership, percentage of free float and industry) were insignificant.

These referenced studies provided evidence that various corporate-specific characteristics affect risk disclosure. They used a group of characteristics containing key variables: industry type, company size, profitability, liquidity and leverage. Auditor type and complexity were ignored by prior studies although these variables are believed to influence risk disclosure. In addition, none of these studies explored corporate risk disclosure in

Kuwait. This study did provide evidence on the types of risk reported by Kuwaiti companies and the factors influencing risk disclosure.

Theory

Prior research argued that a joint consideration of disclosure theories should be of great help in explaining a particular phenomenon by providing richer insights into the understanding of corporate disclosure practices; thus disclosure theories should be considered as complementary rather than competing (Carpenter and Feroz, 1992). Similarly, Morris (1987) argued that there is a consistency between both agency theory and signaling theory. He suggests that a combination of them could provide a better prediction of disclosure for more accounting reporting. Therefore, agency and signaling theories were used together in this study to explain the determinants of CRD. According to agency theory, to reduce agency problems, managers have to present relevant information to prove their acting in the interests of the shareholders and debt holders (Healy and Palepu, 2001). The provision of reliable information about risk by the management (the insider who has risk information) to the investors and debt holders (the outsiders who usually do not have that information) will reduce the information asymmetry problem.

Signaling theory explains managers' incentives to disclose more information in the accounting reports (Hughes, 1986; Haniffa and Cooke, 2002). Based on this theory, managers disclose adequate information in the financial reports to convey specific signals to current and potential users. Hughes (1986) argued that this kind of communication is credible to the investors because managers with fraudulent signals will be penalized. In this study, both agency and signaling theories were used to identify the potential drivers of risk information in the annual reports. In developing the research hypotheses, the potential association between specific-corporate characteristics and risk reporting was tested.

The use of multiple theories strengthens the explanations behind CRD practices in an emerging capital market since a single theory may not fully explain these practices, given the specific social and institutional features of that market (Naser et al., 2006; Lundholm and Winkle, 2006; Lopes and Rodrigues, 2007).

HYPOTHESES DEVELOPMENT

Based on the results of prior theoretical and empirical research, the special characteristics of the capital market in Kuwait and data availability, seven independent variables were included in the study model. These are: (1) company size, (2) leverage, (3) profitability, (4) liquidity, (5) complexity, (6) auditor type and (7) industry type.

Company Size

Company size is one of the most important variables in explaining variation in disclosure. It is included in almost every disclosure study, either as a variable of interest or as a control variable (Ahn and Lee, 2004; Haniffa and Cooke, 2002; Barako et al., 2006; Ezat and Al-Masry, 2008; Desoky, 2009).

Several reasons are provided to explain the significant relationship between company size and corporate disclosure. According to agency theory, larger companies need to disclose more information to different users, which leads to a decline in agency costs, and to reduce information asymmetries (Watts and Zimmerman, 1983; Inchausti, 1997). According to signaling theory, larger companies rely on external finance. Hence, they have incentives to disclose more risk information to send a good signal to investors and creditors about their ability to manage risk. In addition, larger companies have sufficient resources to afford the cost of additional risk disclosures. Brammer and Pavlin (2008) argued that larger companies tend to be more visible to relevant public groups because they may have a monopolistic

ability in the market (Watts and Zimmerman, 1986; Linsley and Shrives, 2006; Abraham and Cox, 2007). It is likely that larger companies will show higher level of CRD as a way to enhance corporate reputation through disclosure and to improve investors' confidence (Amranet al., 2009; Branco and Rodrigues, 2008). Accordingly, the following hypothesis is tested:

H1. Larger companies are more likely to have a higher level of CRD in their annual reports than smallercompanies.

Previous disclosure studies have often found that company size has a positive association with disclosure levels (Behbahani et al., 2013; Barako et al., 2006; Ahmed and Courtis, 1999). With respect to prior CRD studies, the association between company size and risk disclosure is mixed. For example, while Linsley and Shrives (2006), Konishi and Mohobbot (2007), Lopes and Rodrigues (2009), Vandemele et al. (2009) and Mousa and Elamir (2013) found a positive association between company size and levels of CRD, Hassan (2009) and Rajab and Handly-Schachler (2009) found an insignificant association between the two variables. Beretta and Bozzolan (2004) found a similar relationship between the quantity of risk disclosure and company size.

Leverage

Leverage refers to the use of finance resources such as debt and borrowed funds to increase the return on equity (Ezat and Al-Masry, 2008). Leverage has been used as a proxy for risk in many disclosure related studies (Oliveira et al., 2011b). Leverage may also affect the level of CRD. Based on agency theory, agency costs are higher in highly leveraged firms. To reduce these costs, companies need to disclose more information to satisfy the need of creditors (Jensen and Meckling, 1976). Moreover, managers tend to provide more risk management information to send a good signal to debt holders regarding the corporate ability to meet its obligations (Oliveira et al., 2011b).

Iatridis (2008) argued that company managers with a higher level of risk are more likely to disclose risk-related information than those with a lower level of risk because it may disorient investors and government authorities away from the company's genuine risks, particularly when such a company financial situation is unfavorable. Similarly, Linsley and Shrives (2006) argued that companies with higher levels of risk may disclose greater amounts of risk-related information because companies' managers are willing to explain the causes of high risk. It is also argued that managers also have a personal interest to disclose risk-related information to signal to wider stakeholders how they efficiently manage these risks (Lopes and Rodrigues, 2007; Abraham and Cox, 2007). Accordingly, the following hypothesis is tested:

H2. Companies with higher leverage are more likely to have a higher level of CRD in their annual reports than companies with lower leverage.

A body of research reported evidence that corporate leverage level is significantly and positively associated with the extent of voluntary disclosure (Haniffa and Cooke, 2002; Barako et al., 2006). However, other studies did not establish a significant relationship between leverage and the quantity of disclosure (Hanniffa and Cooke, 2002; Hossain et al., 1994). Empirical evidence on the association between leverage and corporate risk disclosure is mixed. Deumes and Knechel (2008), Hassan (2009), Marshall and Weetman (2007), and Taylor et al. (2010) found a positive relationship between the two variables. Konishi and Mohobbot (2007), Abraham and Cox (2007), Linsley and Shrives (2006), Rajab and Handley-Schachler (2009), Amran et al. (2009) and Mousa and Elamir (2013) found an insignificant association between the two variables.

Profitability

Prior studies provide mixed evidence on the association between profitability and the level of corporate disclosure (Ahmed and Courtis, 1999). Agency theory expects that managers of companies with high profitability would tend to provide more risk information in the annual reports to justify their present performance to the shareholders. Applying signaling theory, it could be argued that those companies that are better at risk management will have higher levels of relative profitability and that they would want to signal their superior risk management abilities to the market place via disclosures in the annual report. Accordingly, it can be hypothesized that:

H3. More profitable companies are more likely to have a higher level of CRD in their annual reports than smallercompanies.

Prior risk disclosure studies reported conflicting results. Mousa and Elamir (2013) reported a negative relationship between profitability and risk disclosure level, while Elshandidy et al. (2011) report a positive association.

Liquidity

Liquidity refers to the ability of companies to convert their assets into cash with a minimum loss of value (Ezat and Al-Masry, 2008). Prior studies show that liquidity is an important variable explaining variation in corporate disclosure (Behbahani et al., 2013). According to signaling theory, companies' managers will disclose more information if their liquidity ratios are high to distinguish their skills in managing liquidity risks compared with other managers in companies with lower liquidity ratios. Depending on this debate, the hypothesis is:

H4: Companies with higher liquidity are more likely to have a higher level of CRD in their annual reports than companies with lower liquidity.

Although prior research on the association between liquidity and corporate disclosure is limited, the results are mixed. For example, Ezat and Al-Masry (2008) found a positive significant association between this variable and disclosure whereas Wallace et al. (1994) found a negative association. However, Mangena and Pike (2005) and Barako et al., (2006) found no association between disclosure levels in the annual reports and liquidity. In risk disclosure literature, the results are also consistent with signaling theory. For example, Marchall and Weetman (2007) and Elshandidy et al. (2011) found that high liquidity firms provide more risk information to send positive signals to investors.

Complexity

Structural complexity has been suggested to be a factor in explaining the variation in the extent of disclosure. It was measured in terms of the number of subsidiaries, number of business segments or number of trading outlets. Cooke (1989) argued that companies with more subsidiaries will have more sophisticated reporting systems that will enable greater disclosure overall in their corporate annual reports. It can be argued that such companies may also make risk disclosures. McKinnon and Dalimunthe (1993) argued that companies with a large number of subsidiaries are likely to have more following analysts and are likely to be more visible to investors. These companies are more likely to disclose more information such as risk information in their annual reports to satisfy analysts and investors and to make them able to understand and evaluate the activities and performance of these companies. Thus, it is hypothesized that:

H 5: Companies with more complexity are more likely to have a higher level of risk disclosure in their annual reports than companies with less complexity.

Empirical evidence shows no association between complexity and voluntary disclosure (Haniffa and Cooke, 2002; Ng and Koh, 1994), while McKinnon and Dalimunthe (1993) found that complexity was positively associated with voluntary disclosure of segment information. The influence of this variable on risk disclosure has not been examined before. This study did examine the relationship between complexity and risk disclosure.

Auditor Type

Auditor type has been suggested as a factor in explaining variations in 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 behavior by managers. Jensen and Meckling (1976) 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 Big Five or Six formerly) international auditing firms, and smaller audit firms are the rest (DeAngelo, 1981; Hossian et al., 1994; Owusu-Ansah, 1998). Chalmers and Godfrey (2004) argued that these larger and well-known auditing firms tend to encourage companies to disclose more risk information to maintain the audit firms' reputation and avoid reputational costs to them. The international Big 4 auditing firms are more likely to pressure their clients to disclose risk information in their annual reports to assure the shareholders about the quantity of risk that their companies face.

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 with high quality. Auditing firms may also use the information disclosed by their clients as a way of signaling their own quality (DeAngelo, 1981).

In Kuwait, company law requires every joint stock company 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).

Based on the above reasons, It can be expected that companies audited by one of the local audit firms with an international affiliation (Big Four) are more likely to have a higher level of risk disclosure than companies audited by local audit firms without an international affiliation (non-Big Four). This leads to another hypothesis:

> *H6: Companies audited by one of the local audit firms with an international affiliation (Big Four) are more likely to have a higher level of risk disclosure in their annual reports than companies audited by one of the local audit firms without an international affiliation (non-Big Four).*

Empirical evidence on the association between auditor and disclosure is inconclusive. A number of studies found a positive association (Singhvi and Desai, 1971; Malone et al., 1993; McNally et al., 1982; Raffournier, 1995; Inchausti, 1997). However, Hossain et al. (1994) and Haniffa and Cooke (2002) Camfferman and Cooke (2002) reported no such association. This is the first study examining the impact of auditor type on risk disclosure.

Industry Type

Prior studies have shown that the industry where the company belongs affects its disclosure (Thompson and Zakaria, 2004; Amran et al., 2009; Konishi and Mohobbot, 2007). Companies that operate in different industries are expected to experience different kinds of risk. An industry may be subjected to special regulations due to its nature, thus increasing the risk exposure of companies aligned to it. Lopes and Rodrigues (2007) argued that according to signaling theory, companies operating in the same industry are more likely to have the same level of risk disclosure to avoid negative appreciation by the market. In addition, signaling theory adds that in certain situations companies adopt certain disclosure practices not necessarily because these practices are effective in communicating information, but to imitate other companies in the same industry. Therefore, they signal to stakeholders that they are adopting the state-of-art disclosure practices similar to other companies in the same industry (Craven and Marston, 1999; Aly et al., 2010). The amount of information disclosed by firms may vary according to its industry type. Therefore, it can be argued that CRD varies in accordance to the industry type without specifying a direction to such a relationship.

It can also be argued that different industries would be influenced by different and unique constraints in their business environment. Consequently, risks types and levels will differ among sectors according to the complexity in value creation activities and the extent of risk exposure in each sector environment. Based on signaling theory and prior risk reporting studies, the following hypothesis is formulated:

H7. The level of CRD in annual reports differs among industrial sectors.

Prior research investigated the relationship between disclosure levels and the industry type reported mixed results. For example, some studies found an insignificant relationship between the two variables (Wallace et al., 1994; Aljifri and Hussainey, 2007). Others found a relationship between sector type and corporate disclosure (Cooke, 1992; Mangena and Pike, 2005). In risk reporting studies, Oliveira et al. (2011a), Beretta and Bozzolan (2004) and Rajab and Handley-Schachler (2009) found that risk reporting differs among different industry sectors whereas Konishi and Mohobbot (2007) and Mousa and Elamir (2013) found no such differences.

METHODOLOGY

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

Data Sample

The data sample for the study was drawn from companies listed in the KSE because they were the largest companies. The 2012 Companies Guide published by the KSE revealed that on 31 December 2012, 196 companies were listed on the stock exchange. There were 74 financial and insurance companies that were excluded from the study because of materially different types of business operations together with different frameworks for risk disclosure practices according to their regulations (Oliveira et al. 2013; 2011a; Linsley and Shrives, 2006; Beretta and Bozzolan, 2004). This approach has been followed by a number of previous risk disclosure studies (e.g., Elzahar and Hussainey, 2012; Oliveira et al., 2013; 2011; Linsley and Shrives, 2006; Beretta and Bozzolan, 2004). The remaining sample was 122 non-financial companies. Given the small size of the population, the study aimed to include all non-financial listed companies.

Search engines (www.google.com and www.yahoo.com) were used if web sites addresses were not available from the Companies Guide. Ninety-two companies' annual

reports were obtained through accessing companies' web sites. For the remaining 30 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 2012 annual reports was addressed to the general manager or chief executive officer of each of the 30 remaining companies. After follow-up letters were sent, 27 companies responded to the request for their annual reports. To prevent undue disturbances caused by fiscal year differences, 6 companies were excluded because of different financial year ends. Similarly, to maintain homogeneity of the sample companies, 4 non-Kuwaiti companies were removed.

The final sample was 109 companies representing 89% of the non-financial companies. This high response rate may reflect the willingness of Kuwaiti companies to supply their annual reports to non-shareholders. The annual reports for the year 2012 were chosen because they were the most recent data available on the listed companies at the start of the study and at the time of developing the CRD index. Table 1 summarizes the final sample.

TABLE 1
Selection of the sample companies

Description	No. of listed companies
Companies included in the list of the market as of 31 December 2012	196
Financial companies included in list of the market as of 31 December 2012	74
Non-financial companies included in list of the market as of 31 December 2012	122
Companies' annual reports for 2012 were collected	119
Companies ending year that is not calendar year.	6
Non-Kuwaiti companies excluded	4
Final sample	109

Dependent Variable

This study used content analysis to measure the level of risk disclosure in the annual reports (the dependent variable). This method was selected because the study focuses on the extent or amount and not the quality of the risk disclosures and it is a widely adopted method in corporate disclosure studies. This was consistent with prior risk disclosure studies (Elzahar and Hussainey, 2012; Oliveira et al., 2013; 2011a; Linsley and Shrives, 2006; Rajab and Handley-Schachler, 2009).

Content analysis is one of research methods used to analyze text data (Krippendorff, 2004). It is a means of categorizing items of text and can be used where a large amount of qualitative data needs analyzing. It involves coding words, phrases and sentences against a particular schema of interest (Bowman, 1984). Content analysis is defined as a research method that uses a set of procedures to make valid inferences from text (Weber, 1990). Such an inferential process varies according to the interest of the investigator. This research technique permits a replicable and valid inference from data based on the context (Krippendorff, 2004). To ensure the replicable manner of inference, a set of interrogation instrument, checklist and decision rules is crafted. It is used to determine the presence of certain words, concepts, themes, phrases, characters or sentences within texts or sets of texts and to quantify this presence in an objective manner.

Risk disclosure categories. This study investigated risk disclosure by analyzing the annual reports. This study undertook an extensive review of financial reporting standards, risk disclosure literature, and the Kuwaiti regulatory requirements to develop risk disclosure

categories and a list of CRD items (ICAEW, 1997, 2000; Alfredson et al., 2007; Beretta and Bozzolan, 2004; Lajili and Zeghal, 2005; Linsley and Shrives, 2006; Abraham and Cox, 2007; Lopes and Rodrigues, 2007; Robb et al., 2001; Cabedo and Tirado, 2004; Linsley and Lawrence, 2007; Ahmed et al., 2004).The risk disclosure categories and items are outlined in Appendix. The risk disclosures were grouped into seven categories: general risk information; accounting policies; financial instruments; derivative hedging; reserves; segment information with financial and other risks; and commodity risk. These categories were used to calculate the dependent variable: CRD.

Scoring risk disclosure items and risk disclosure. This study used "sentences" as a basis for coding and as the recording unit consistent with most studies (Oliveira et al., 2011a; Milne and Adler, 1999; Beretta and Bozzolan, 2004; Rajab and Handley-Schachler, 2009; Lajili and Zeghal, 2005; Linsley and Shrives, 2006). Milne and Adler (1999) suggested that sentences are more reliable than words and pages in capturing thematic approaches and is deemed more reliable as a coding method. Information in graphs and tables was coded after establishing specific decision rules based on methods used by Linsley and Shrives (2006) and Beattie and Thomson (2007).

Following Linsley and Shrives (2006, p. 388), a board definition of risk was adopted to identify risk disclosures. Therefore, sentences were coded as risk disclosures if the reader was informed of "any opportunity or prospect, or of any hazard, danger, harm, threat, or exposure, that had already impacted/or may impact upon the company, as well as the management of any such opportunity, prospect, hazard, danger, harm, threat or exposure." However, disclosures should be explicitly stated and they cannot be implied, so any disclosure was not recorded as a risk disclosure when it was too vague. Any disclosure that was repeated was considered as a risk disclosure sentence each time it was mentioned. Similar to Linsley and Shrives (2006), each sentence was highlighted if it contained risk information and was ignored if it contained no risk information or was too vague with reference to risk. The irrelevant information was decided to be ignored after being reexamined as suggested by Weber (1990). An aggregated score for risk disclosure for each firm was calculated by counting the number of risk-related sentences in the Kuwaiti annual reports.

Content analysis is inevitably subjective and therefore the coding method needs to be reliable for valid conclusions to be drawn. To ensure reliability of the coded output, this study used the inter-rater or inter-observer method, where two coders were involved in analyzing the same set of material. In this study, the researcher and two others independently operating were the coders. They analyzed five sets of annual reports. The results of the content analysis done by both coders were then correlated to determine the extent of agreement. Scott's Pi measure of inter-rater reliability was 0.80 a level considered acceptable in analysis of corporate report disclosures (Hackston and Milne, 1996).[‡] This prior coding helped refine a set of pre-established decision rules which were then applied to the entire sample. Then the researcher performed coding for the entire sample.

Independent Variables

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

[‡] Scott's # is the accepted standard for inter-coder reliability that is the widely used measure for the extent to which independent coders evaluate a characteristic of a text and reach the same conclusion. In other words, it measures the extent to which the different judges tend to assign exactly the same rating to each object.

Regression Model

This study used the following multiple ordinary least squares (OLS) regression model to examine the relationship between CRD in the annual reports and corporate specific characteristics:

$$CRD_j = B_0 + B_1 Size_j + B_2 Leverage_j + B_3 Profitability_j + B_4 Liquidity_j + B_5 Complexity_j + B_6 Auditor_j + B_7 Industry1 + B_8 Industry2 + B_9 Industry3 + B_{10} Industry4 + B_{11} Industry5 + B_{12} Industry6 + B_{13} Industry7 + B_{14} Industry8 + e_j$$

Where CRD = the corporate risk disclosure scores for sampled companies, B = the intercept, and j = number of companies (1,….109).

TABLE 2

Summary of the dependent and independent variables

Variable	Proxy
Dependent variable	
Corporate Risk Disclosure	Total number of sentences related to all categories
Independent variables	
Company size	Natural log of total assets
Leverage	Total debt/ total assets
Profitability	Return on equity = net profit/total shareholders' equity
Liquidity	Current assets/current liabilities
Complexity	Number of subsidiaries
Auditor	Dummy variable coded 1 = a company audited by local auditor with international affiliation (Big Four), 0 = a company audited by local auditor without international affiliation (non-Big Four)
Industries	
Industry 1	Oil and gas. Dummy variable coded 1 = oil and gas company, 0 = otherwise
Industry 2	Basic materials. Dummy variable coded 1 = Basic materials company, 0 = otherwise
Industry 3	Industrials. Dummy variable coded 1 = Industrial company, 0 = otherwise
Industry 4	Consumer good. Dummy variable coded 1 = Consumer good company, 0 = otherwise
Industry 5	Health care. Dummy variable coded 1 = Health care company, 0 = otherwise
Industry 6	Consumer services. Dummy variable coded 1 = Consumer services company, 0 = otherwise
Industry 7	Telecommunications. Dummy variable coded 1 = Telecommunications company, 0 = otherwise
Industry 8	Real estate. Dummy variable coded 1 = Real estate company, 0 = otherwise
Industry 9	Technology. Dummy variable coded 1 = Technology company, 0 otherwise

(Source of information for the dependent variable was a company's annual report whereas sources for independent variables were a company's annual report or an annual companies guide published by the KSE. Data are related to financial year-end.)

FINDINGS AND ANALYSIS

Descriptive statistics

Table 3 shows the descriptive statistics for the corporate risk disclosure and its categories. The results indicate that the total sentences of risk disclosure are 1,461 sentences with a mean 19.87. The most common category for risk disclosure is financial and other risks (303 sentences) followed by reserves (282 sentences) with a maximum of 21 and 12 respectively and a minimum of 1 sentence. These results indicate that the sample companies disclosed more financial risks and reserves than other categories. This was because such information was more likely to help readers understand the financial risks facing the companies and the reserves to protect the companies. Therefore, it can be argued that managers of companies disclose this information to signal to both the shareholders and the market that they are able to protect the companies. However, the lowest risk disclosure category is commodity risk (74 sentences) with a maximum of 10 and a minimum of 0. This indicates that companies did not disclose detailed information about pricing risk, tabular presentation and sensitivity analysis.

The findings also show that the sample companies disclosed only 212 sentences of information concerning general risk information. Only one company disclosed 18 sentences and 21 companies disclosed only 1 sentence of general risk information. This low disclosure in general risk information could be related to that managers may not disclose such information as they see this information as not important to users and may not provide users with important information. With respect to accounting policies, although disclosure of accounting policies is mandatory and important for users, the managers of the sample companies disclosed low information (198 sentences). It can be argued that the quantity of risk disclosures for all categories of risks was very limited. For example, the mean for the total risk disclosure is 19.87.

TABLE 3

Descriptive statistics for corporate risk disclosure (CRD) and its categories

	No. of sentences in all sample companies	Mean	Max	Min
General risk information	212	10.75	18	1
Accounting policy	198	7.59	14	1
Financial instruments	191	4.88	11	0
Derivatives hedging	201	6.01	13	0
Reserves	282	8.23	12	1
Financial and other risks	303	11.91	21	1
Commodity risk	74	2.72	10	0
Total	1,461	19.87		

Table 4 shows the descriptive statistics for the independent continuous variables. The results indicate that there is a wide range of variation within the sample as indicated by the minimum and maximum values. Total assets (company size measure), for example, has considerable dispersion in the scores, as represented by the minimum, maximum and the standard deviation.

For the categorical independent variables, there were 69 companies that were audited by a local audit firm affiliated with one of the Big Four and 40 were clients of local audit firm not affiliated with one of the Big Four. For the industry, there were 7 oil and gas, 5 basic materials, 30 manufacturing, 7 consumption goods, 3 health caring, 16 consumption services, 3 telecommunications, 34 real estates, and 4 technology companies.

TABLE 4
Descriptive statistics for independent continuous variables

	Mean	Minimum	Median	Maximum
Independent variables				
Company size(KD million)*	184.00	296.45	3.98	2610.58
Leverage	0.42	0.21	0.03	3.59
Profitability	0.25	0.11	-0.02	0.81
Liquidity	3.93	0.12	1.72	21.60
Complexity	2.30	0.00	0.00	19.00

*One $US = 0.285 KW Dinar. Table 2 summarizes the independent variables and their proxies.

Ordinary least square (OLS) multiple regressions were used to test the interrelations between the various independent and control variables and CRD. Thus, before conducting regression analysis, multicollinearity was tested. One reason for doing this was to indicate whether multicollinearity could cause estimation problems. Table 5 contains a Pearson correlation matrix for the continuous variables. The table shows that the highest correlation was between company size and complexity (0.411). Other variables were also correlated, but probably no correlation was sufficient to impair the regression results since the pair-wise correlation coefficients are less than 0.80 (Gujarati, 2003).

TABLE 5
Pearson correlation coefficients matrix for continuous independent variables

	Company size	Leverage	Profitability	Liquidity
Leverage	0.064			
Profitability	0.081	0.010		
Liquidity	0.355*	-0.066*	-0.163	
Complexity	0.411**	0.125	0.104	-0.113

** Significant at the 0.01 level (two-tailed).* Significant at the 0.05 level (two-tailed).
For definition of the independent variables, see Table 2.

However, another method that is widely used to detect multicollinearity is the Variance Inflation Factor (VIF). This was reported in Table 6. 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). Further analysis to see whether the multiple regression assumptions were violated was also carried out. The normality, linearity and homoscedasticity assumptions were determined based on the analysis of residuals, plots of the studentized residuals against predicted values, and Q-Q plot. The analysis showed that the untransformed data violated the regression assumptions. Therefore, the data was transformed into normal data using Blom's transformation (Cooke, 1998). The data was re-checked for violation. The problem was then eliminated.

TABLE 6
Regression Results

Independent variable (expected sign)	Risk disclosure Coefficient		VIF
Company size (+)	0.094	+++	1.912
Leverage (+)	0.051		1.129
Profitability (+)	-0.012		1.112
Liquidity (+)	0.010	+	1.192
Complexity (+)	0.140	+++	1.431
Auditor (+)	0.081	++	1.264
Industry 1 (oil and gas)	-0.021		1.357
Industry 2 (Basic materials)	0.016		1.607
Industry 3 (Industries)	0.312	*	
Industry 4 (Consumer good)	0.010		
Industry 5 (Health care)	0.091		
Industry 6 (Consumer services)	0.017		
Industry 7 (Telecommunications)	0.009		
Industry 8 (Real estate)	-0.116	**	
Constant	0.278	**	
Adjusted R^2	0.311		
F	4.159		
Prob. (*F*)	< 0.001		

+++ t test (one-tailed) significant p < 0.01; ++ t test (one-tailed) significant p < 0.05; + t test (one-tailed) significant p < 0.10, * t test (two-tailed) significant p < 0.10, ** t test (two-tailed) significant p < 0.05. For industry variables, eight dummy variables were included to nine industries; the results for industry 9 (technology) were captured in the constant term. For definition of the independent variables, see Table 2.

Analysis and Discussion

This study used multiple ordinary least regression analysis to examine the relationship between CRD and corporate-specific variables. The multiple regression results are presented in Table 6. The results showed that F-ratio = 4.159, and p-value < 0.001. Therefore, the regression model was statically significant. The Adj R^2 suggests that approximately 31% of the CRD variation was explained by the independent variables. The R^2 (adj.) was similar to Mousa and Elamir (2010) in Bahrain (31%) but slightly lower than Oliveira et al. (2011a) in Portugal (32%) and Amran et al. (2009 in Malaysia (43%).

The results showed that the CRD was associated positively with company size (P-value < 0.01), liquidity (P-value < 0.10), complexity (P-value < 0.01) auditor type (P-value <0.05) and industry type (P-value < 0.05). Therefore, hypotheses H1, H4, H5, H6, and H7 were supported. The findings also showed that the association between CRD and other corporate-specific characteristics (leverage and profitability) was insignificant. Therefore, H2 and H3 were rejected.

The results showed that CRD was positively associated with company size. This result was consistent with prior CRD studies using annual reports (Oliveira et al. 2011a; Amran et al. 2009; Linsley and Shrives, 2006 Vandemele et al., 2009; Taylor et al., 2010; Rajab and handley-Schachler, 2009 Beretta and Bozzolan, 2004; Linsley and Shrives, 2006; Lopes and Rodrigues, 2007).This finding was also in line with agency and signaling theories. According to agency theory, larger companies disclose more risk information to satisfy different users, leading to a decline in agency costs, and to reduce information asymmetry. In addition, according to signaling theory, larger companies rely more on external finance. Hence, they have incentives to disclose more risk information to send a good signal to investors and creditors about their ability to manage risk.

The findings also showed that risk disclosure was positively associated with liquidity. A possible explanation for this result is that according to signaling theory, companies with high liquidity disclose more risk information because their managers may prefer to distinguish their skills in managing liquidity risks comparing with other managers in companies with lower liquidity ratios. The results also indicated that the higher the number of subsidiaries, the higher the level of risk disclosure in Kuwaiti annual reports. A possible reason for such a positive relationship between complexity and CRD could be that companies with more subsidiaries disclose more risk information in their annual reports because they may have more following analysts and are more visible to stockholders. So they try to satisfy both analysts and stockholders to make them able to better understand and evaluate the activities and performance of their companies.

Auditor type was also positively associated with risk disclosure. Companies audited by one of the local audit firms with an international affiliation (Big Four) disclosed more risk information in their annual reports than companies audited by one of the local audit firms without an international affiliation (Big Four). This finding was in line with agency and signaling theories. According to agency theory, large audit firms (Big Four) encourage their clients companies to disclose more risk information in their annual reports to reduce agency costs and to maintain the audit firms' reputation and avoid reputational costs to them. In addition, the choice of a Big Four audit firm serves as one indicator of a company's value that signals to investors that the contents of the annual reports are audited with high quality. Moreover, companies' managers disclose risk-related information to obtain legitimacy in international capital markets. DeAngelo (1981) suggested that auditing firms may also use the information disclosed by their clients as a way of signaling their own quality.

Finally, an industry effect was found in risk disclosure in Kuwait. The coefficients of industry indicated that risk disclosure for real estate (-0.116) was lower than both industries (0.312) and technology industries (0.278 the constant). Other industries were not significant. This result was consistent with prior CRD studies with the annual reports (e.g. Abraham and Cox, 2007; Rajab and handley-Schachler, 2009). A possible explanation for the findings is that the real estate industry is less likely in the public eyes due to the nature of its business. A follow-the-leader effect may also determine similar disclosure by companies in the same industry. In addition, companies from the real estate industry may fear incurring proprietary costs through disclosure to competitors. The findings also showed that the industries category reported more risk information than technology companies. This could be related to significant impact reflecting greater business threats and uncertainties that were faced by industrial companies during the financial crisis.

SUMMARY AND CONCLUSIONS

This study sought to empirically investigate the relationship between corporate-specific characteristics and risk disclosure in the annual reports of 109 non-financial companies listed in the KSE in 2012. This study used the manual content analysis approach to measure risk disclosure by counting the number of risk-related sentences in a sample of 109 annual reports. The risk disclosures were grouped into the following seven categories: general risk information; accounting policies; financial instruments; derivative hedging; reserves; segment information and financial and other risks; and commodity risk. A multivariate regression analysis was employed to test the association between risk disclosure and the corporate-specific characteristics. The dependent variable was the total number of risk-related sentences, while the independent variables were a set of corporate-specific characteristics.

The results indicated that the total sentences of risk disclosure were 1,461 sentences with a mean 19.87. The most common category for risk disclosure was financial and other

risks (303 sentences) followed by reserves (282 sentences). These results indicated that the sample companies disclosed more financial risks and reserves than other categories because such information was more likely to help readers understand the financial risks facing the companies and the reserves to protect the companies. However, the lowest risk disclosure category was commodity risk (74 sentences) as companies did not disclose detailed information about pricing risk, tabular presentation, and sensitivity analysis.

The findings also showed that the sample companies disclosed only 212 sentences information concerning general risk information. This low disclosure in general risk information could relate to managers not disclosing such information as they see this information as not important to users and not providing important information. With respect to accounting policies, although disclosure of accounting policies is mandatory and important for users, the managers of the sample companies disclosed low information (198 sentences). It can be argued that the quantity of risk disclosures for all categories of risks was very limited. For example, the mean for the total risk disclosure was 19.87 sentences.

The results of multivariate analysis indicated that different factors influenced risk disclosure. The findings showed that the CRD was associated positively with size, liquidity, complexity and auditor type. In addition, the results reported significant differences among industries. However, the findings also showed that the association between CRD and other corporate-specific characteristics (leverage and profitability) were insignificant. These results were consistent with a number of prior risk disclosure studies. This study concluded that the findings were also consistent with both agency and signaling theories.

This study made three important contributions. First, it contributed to the understanding of the nature of risk disclosures and the determinants of such disclosures. Second, it also contributed to existing risk reporting literature by being the first to investigate the impact of corporate-specific characteristics on CRD using Kuwaiti companies' annual reports. Specifically, this study examined the degree to which corporate-specific characteristics affected companies' decisions to disclose risk information in their annual reports. Third, it also contributed to the literature on the relationship of company characteristics and disclosure practices in developed countries, by testing its application to a developing country like Kuwait.

Several limitations should be noted. First, the model explained 31% of the variation of risk disclosure. Although the model explained a significant part of the variation, there was still a material part unexplained, which represents the "noise" of the model. The impact of corporate governance characteristics on CRD was not considered, although the board of directors is formally responsible for disclosure in the annual reports. Three specific corporate governance variables relevant to Kuwait setting are the existence of audit committee and whether the company's chairman of the board of directors or other board members are from the royal family. The presence of a royal family member in a board of directors could influence voluntary disclosure. Future studies may examine the impact of corporate governance characteristics on risk disclosure.

Second, this study used content analysis to measure risk disclosure through creating risk disclosure scores by simply adding up the number of risk sentences. This approach ignored the usefulness of disclosures that can vary from sentence to sentence. It also ignored the underlying tone of disclosures (good news versus bad news). Future studies may investigate the usefulness of disclosures by determining the good news versus the bad news.

Third, this study relied only on annual reports to measure risk disclosure. However, information about risk can be provided in sources other than annual reports such as interim reports, press-releases, web sites, or a prospectus. This study could be duplicated to measure risk disclosures in other sources.

Fourth, this study investigates the influence of corporate-specific characteristics on risk disclosure by non-financial companies. Future studies may examine the financial companies to provide a bigger picture of the impact of corporate specific characteristics on risk disclosure in Kuwait.

Finally, the findings of the study may not be suitable to generalize to other countries. Such findings could be different from country to country due to industrial composition, economic status and reporting environment and regulations. Therefore, there is a critical need for additional risk reporting research to further close the gaps in the literature. Such studies could help in understanding managers' motivations behind risk disclosure. In spite of the noted limitations, the study did offer insights about risk disclosure in Kuwait.

This study suggests a number of other avenues for future research. In the field of corporate risk disclosure in the Middle East, research could extend this study over a longer period of time or alternatively involve comparative studies with other Arab countries such as the Gulf Co-Operation Council (GCC) member states. Such studies could investigate the changes in corporate risk disclosures across time and compare for potential variation in nations with different social, political and economic systems. This would also help validate the conclusions of this study and overcome the possibility that a small, single-period set may have biased results. This may also help researchers to understand why managers choose to disclose certain parts of risk information and why they withhold other parts. Additional research could be also undertaken to examine the economic consequences of risk reporting in annual reports (e.g., the effect on prices leading earnings, cost of capital, analyst following, and characteristics of analysts' forecasts).

The findings of this study have important implications for the regulators in Kuwait in their efforts to ensure information adequacy and increasing efficiency of the rapidly developing capital markets. Specifically, the reported results should be useful to accounting and risk regulators by providing information about the inadequacies of CRD in Kuwait and a more complete picture of risk components and determinants. The regulators should be particularly concerned about the disclosure needs of users of smaller, less liquid companies, less complicated that were not audited by one of the Big Four auditing firms. Managers may use the findings to match the amount of information in their annual reports with other companies to ensure funds sourcing. The study also provides information for managers to keep investors satisfied about the risk that their companies face. Investors may use the findings for understanding risk disclosure behavior of listed companies in Kuwait. It informs investors about the characteristics of Kuwaiti companies that disclose risk information in their annual reports. Such findings may assist them to diversify their investment portfolios.

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APPENDIX

Risk disclosure categories

General risk information

1. Competition in product market
2. Brand name erosion/change/ addition
3. New alliances and joint ventures
4. Relationship to governmentdevelopments plans
5. Customer acquisition processes
6. Recruiting of qualified and skilledprofessional
7. Change in regulations/overseas tax law
8. Events beyond balance sheet
9. Political environment
10. Natural disasters

Accounting policies

11. Use of estimates/judgments
12. Collateral assets against loans
13. Objectives of provisions/legalconstructive
14. Financial assets impairment
15. Other assets impairment
16. De-recognition of financial assets
17. Risk management
18. Detailed risk management
19. Objective of holding derivatives/instruments
20. Contingent liabilities
21. Contingent assets
22. Inventory lower of cost or market
23. Key sources of estimationuncertainty

Financial instruments

24. Classifying instruments by risks
25. Principal, stated value, face value
26. Reclassification of instruments
27. Cumulative change in fair value

Derivatives hedging

28. Hedging description
29. Change in fair value of assets or liability
30. Cash flow hedge

Reserves

31. Statutory
32. Legal
33. Contingency/general Segment information
34. Business major segments
35. Geographical concentration
36. Customer/(asset/liabilities)concentration

Financial and other risks

37. Operational risk/insurance risk
38. Market risk
39. Interest rate risk
40. Exchange rate risk
41. Liquidity risk
42. Credit risk

Commodity risk

43. Pricing risk
44. Tabular presentation
45. Sensitivity analysis