Board Composition, Audit Committees, Ownership Structure and Voluntary Disclosure: Evidence from Bahrain

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Abstract
The primary objective of this study is to examine the association between board composition, the existence of audit committees, ownership structure and the level of voluntary disclosure in the annual reports of listed companies in Bahrain Stock Exchange. Information was generated using content analysis of annual reports. A disclosure check list consisting of thirty items were identified from previous research and a self-constructed voluntary disclosure index was developed. Descriptive statistics, correlations and regression analysis were used to test the research hypotheses. Contrary to expectations and consistent with some previous empirical studies, the results indicate that there is no relationship between the extent of voluntarily disclosure and both, board composition and audit committees, but there is a negative and weak relationship with ownership concentration. The paper concludes that further explanation of why companies voluntarily disclose information is still needed.
Keywords: Voluntary disclosure index; Board composition; Audi Committee; Ownership structure; Bahrain.

1. Introduction

Mandatory disclosure rules ensure equal access to basic information (Lev 1992), but this information has to be augmented by firm's voluntary disclosures and information production by intermediaries (Cheng and Courtenay, 2006). There are major market incentives to disclose information voluntarily and managers' attitudes to disclosure change according to the perceived relationship of the costs and benefits involved (Gray et al., 1990 and Healy and Palepu, 1995). By increasing the level of disclosure to the users, companies can lower their capital costs, gain investor confidence and improve the marketability of shares (Meek et al., 1995; Kristandl and Bontis, 2007; and Apostolos and Konstantinos, 2009). According to Ho and Wong (2001) the Asian financial crisis in the late 1990 not only resulted from a loss of investor confidence but also from a lack of effective corporate governance and transparency in many of Asian financial markets and individual firms. Apostolos and Konstantinos (2009) state that **"poor corporate governance is one of the main causes of financial crises. Most of the world crises is because of the lack of sound corporate governance and honest executives"**.

Good corporate governance should strengthen the internal control procedures of the corporation and ensure timely, accurate, and comprehensive disclosure of all material matters including financial condition, performance, ownership and governance of corporation.

The accounting literature sheds some light on the association between the level of voluntary disclosure and board composition, audit committees and ownership structure. However, previous empirical studies on this issue yield mixed results. For example, Adams and Hossain (1998), Chen and Jaggi (2000), Li et al. (2008) and Gisbert and Navallas (2013) found significant positive association between voluntary disclosure and the proportion of independent non-executive directors on the board. Similarly, Al-Janadi et al. (2013) examined the impact of corporate governance mechanisms on voluntary disclosure in Saudi Arabia. They found that non-executive directors, board size, and Chief Executive Officer (CEO) duality have a significant contribution in providing quality voluntary disclosure. Ling and Chai (2012) results indicate that firms with concentrated ownership structure have higher extent of voluntary disclosure.

On the other hand, Haniffa and Cooke (2002), Eng and Mak (2003), Gul and Leung (2004) and Barako et al. (2006) found a negative relationship. Moreover, Ho and Wong (2001), Cheng and Courtenay (2006) and Wan Mohamad (2010) did not find a significant relationship between board independence and voluntary disclosure. Nasir and Abdullah (2001) did not find any association between the existence of an audit committee and voluntary disclosure and Donnelly and Mulcahy (2008) found no evidence that ownership structure is related to voluntary disclosure.

The main purpose of this study is to provide answers to the following two questions.

1. What information do listed companies in Bahrain voluntarily disclose in their annual reports?
2. Is the level of voluntary disclosure associated with board composition, the existence of an audit committee and ownership structure?

The motivation for this study stems from the importance of information disclosure as one of the important aspects of good corporate governance. Disclosing information is necessary since investors mainly rely on the information disclosed in the annual reports and voluntary information disclosure will enhance transparency, signals the performance of the corporation, clarifies the conflict of interest between the shareholders and the management and reduces opportunistic behavior and information asymmetry (Tian and Chen, 2008 and Verrecchia, 2001).

Most developing countries, and Bahrain is not an exception, do not have strong policy on voluntary disclosure. Therefore, this study fills up the gap by examining the association between corporate governance mechanisms and the extent of voluntary disclosure in the annual reports. In addition, previous research examines the impact of corporate governance mechanisms on the level of voluntary disclosure in USA, Europe and Asia. There has been limited published rigorous research on corporate governance in the Gulf region in general and in Bahrain in particular where differences in corporate governance codes and ownership structure lead to differences in agency relations, and as a result, in the role of independent directors and voluntary disclosure.

The paper is organized as follows. The next section provides a review of previous research on the level of voluntary disclosure and corporate governance mechanisms. Subsequent data and methodological considerations are followed by analytical results distilled from the firms' annual reports. The last section summarizes the results, draws conclusions in light of the study's limitations and suggests recommendations and areas for further research.

2. Literature Review and Hypotheses Development

2.1 Board composition, size and duality of leadership

The constituents of the board are important as they are charged with the management on behalf of the absentee owners and they effectively monitor managers' performance and reduce agency costs. Agency theory argues that in order to protect the shareholders' interests, the board need to be effective. The effectiveness of the board is influenced by board composition and quality, size, duality of Chief Executive Officer (CEO) and chairman position, board diversity, and board culture (Brennan, 2006).

One of the most significant governance issues currently faced by corporations is board composition (Milliken and Martins, 1996). It refers to the proportion of outside directors to the total number of directors (Shamsher and Annuar (1993). There are two main categories of directors: executive and non-executive independent directors. A non-executive director is a director who is not involved in the day to day operations and management of the business. Although the executive directors have specialized skills, expertise on the firm's activities and valuable knowledge of the firm's operating policies, independent non-executive directors are needed on the board in monitoring as well as controlling the actions of the opportunistic executive directors (Jensen and Meckling, 1976). Outside directors thus act as the check and balance mechanism in enhancing boards' effectiveness and play a significant role in company's monitoring system (Fama and Jensen, 1983). They contribute to the new ideas, independence, objectivity, provide advice in strategic decisions and act as a powerful tool for constraining managers' behavior (Weir, 2003 and Clemente and Labat, 2009). This is largely attributed to their expertise and being independent of management (Rosentein and Wyatt, 1990). Both the Sarbanes Oxley Act and the relevant stock market rules on corporate governance assume that non-executive directors are more effective in monitoring management (Agrawal and Chadha, 2005).

Higher level of board independence would lead to improved transparency and responsibility by means of more voluntary disclosure under the principle of accountability to the company and shareholders for any decision and its consequences. This suggests a higher and stronger monitoring and controlling role of independent directors (Williamson, 1984; and Hussain, 2009). Non-executive directors would enhance the monitoring of the quality of firm disclosures and would reduce the benefits from withholding information (Forker, 1992). This will improve disclosure quality in financial statements and therefore, reduces the information asymmetry between managers and investors through greater information transparency. Therefore, firms whose boards are dominated by independent directors are expected to disclose more information and have less likelihood of accounting fraud and earnings management (see: Leftwich et al., 1981; Beasley, 1996; Peasnell et al., 2000; Adams and Hussain, 1998; Chen and Jaggi, 2000; Klien, 2002; and Leung and Horwitz, 2004).

The relevant role of non-executive directors in the governance process has led most corporate governance codes to recommend the presence of a majority of independent directors on the board. Weir and Laing (2003) and Donnelly and Mulcahy (2008) found that boards dominated by a higher proportion of independent directors have significantly positive association with the level of voluntary disclosure (see also Nasir and Abdullah, 2001; Lim et al., 2007; Huafang and Jianguo, 2007; Clemente and Labat, 2009; and Yuen et al., 2009). However, non-executive directors are also argued to play limited role, as advisors than active decision makers (Mace, 1971). As such, Eng and Mak, 2003; Gul and Leung, 2004 and Barako et al., 2006 found a negative relationship between independent directors and the level of voluntary disclosure.

Size of the board (i.e., number of board members) may affect the extent of voluntary disclosure. Florackis and Ozkan (2004) and Cheng (2008) argue that boards with more than seven or eight members are unlikely to be effective. Larger board size results in less effective coordination, communication and decision making. In addition, the agency problems associated with larger boards are higher than smaller ones. In this regard, Byard and Weintrop (2006) found that financial disclosure decreases with board size. Thus, the smaller the board is, the higher the disclosure score of corporate information.

Finally, agency theory assumes that role duality (i.e., Chairman is also Chief Executive Officer-CEO) reduces the ability of directors to monitor CEO which increases agency problems that affect board independence (Haniffa and Cooke, 2002). Thus, the independence of the board by separate leadership is necessary so that the board will be able to put pressure on the CEO and management in disclosing more information, about the company, which is in line with the interests of the shareholders. Ho and Wong (2001) and Gul and Leung (2004), Lakhal (2005) and Byard and Weintrop (2006) found a significant relationship between the level of voluntary disclosure and separation between Chairman and CEO.

2.2 Audit Committee

Financial problems experienced by certain companies in recent years highlighted the shortcomings in the work of internal audit department. This underlined the urgent need for boards of directors to play a bigger role in enhancing control and monitoring of their companies through an independent audit committee. The audit committee is a standing sub-committee of the board and tends to consist of a minimum of three non-executive directors enjoying neutrality and independence. The Bahraini code of corporate governance states that the audit committee shall meet four times a year and have at least three members and a majority of the members including the chairman shall be independent non-executive directors. The Sarbanes Oxley Act of (2002) requires firms to maintain audit committees whose members are all independent directors and at least one of them with financial expertise. Similarly, executive directors are not allowed to be members of the audit committee in the UK.

Boards of directors are increasingly delegating responsibility for financial reporting to the audit committee. As such, the primary purpose of the audit committee is to ensure the quality of the financial reporting process and monitor the application of the rules and regulations governing financial and non-financial activities. The committee is also responsible for the activities of the internal audit department and has responsibility for the appointment of company's auditors and agreeing their remuneration, oversees a company’s audit process and internal accounting controls and ensure auditors observe independence requirements in the preparation of annual reports (Hussain, 2009).

The accounting scandals and corporate bankruptcies around the world have raised questions about an audit committee’s actual effectiveness in constraining earnings management (Klien 2002). Therefore, composition and operational characteristics of audit committees are viewed as important characteristic of the audit committee effectiveness. Five characteristics have been proposed: independence, expertise, assiduousness, external commitment of audit committee members, and senior executive director presence on the audit committee. A major characteristic of the audit committee effectiveness is its independence (Klien, 2002). Thus, the committee shall have the resources and authority necessary for its duties and responsibilities without seeking the approval of the board or management. Nevertheless, the fact that the audit committee is a sub-committee of the board could hinder its effectiveness as it cannot bypass the board. Al Ajmi (2009) found that auditor independence is considered by clients as one of the prerequisites for a good-quality audit because non-audit services were found to affect auditor independence and hence impair audit quality. He also found that credit and financial analysts perceive bigger auditing firms to be more independent of the management of their clients. This will result in more pressure to reduce the amount of information withheld (Bradbury, 1992).

The existence of an audit committee enhances quality report, increases disclosure quality, improves the internal control system and, as a result, more reliable financial reporting (Collier, 1993; Forker, 1992; McMullen, 1996 and Ho and Wong, 2001). Moreover, Barako et al. (2006) and Yuen et al. (2009) found that the presence of an audit committee has a positive and significant association with the level of voluntary disclosure.

2.3 Ownership structure

The firm’s ownership structure is associated with different levels of disclosure (Gelb, 2000). Information is expected to increase with higher levels of ownership diffusion where non-controlling shareholders cannot be easily constrained by majority shareholders to acquire a greater level of transparency and information disclosure (Raffournier, 1995). The number of shareholders is a measure of dispersion of shareholder control. An increase in number of shareholders results in a decrease in the number of shareholders with a block ownership. As the number of shareholders increases, one would expect disclosure to increase if it can provide a solution to the additional monitoring problems associated with dispersion in ownership. Monitoring problems that could be solved by issuing public accounting reports would increase with the increase in number of owners (Schipper, 1981).

Agency theory underlies that widely held firms are more likely to disclose information due to the effort of managers to prove that they do not act self-centered. Thus, companies with wide share diffusion are expected to present a higher level of disclosure. As per the Bahraini code, a substantial shareholder (or block holder ownership) is one who holds 5% or more of common stock issued by the company. The decrease in number of block holder ownership is expected to increase the level of voluntary disclosure (Petilli and Prencipe, 2007). Therefore, companies with a larger number of shareholders are more likely to provide additional information to satisfy the information needs of diverse shareholders.

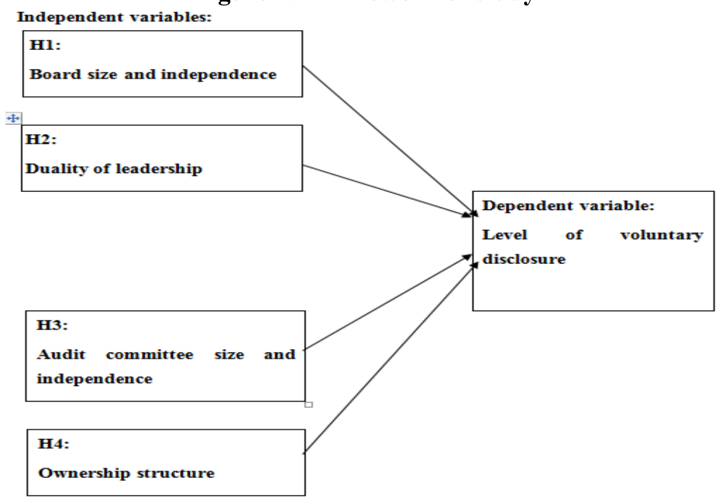
Gray (1988) argues that where a firm's shares are closely held, there is a preference for confidentiality so that disclosure is restricted to those who are closely involved with the management and financing of the firm. This indicates that controlling owners are likely to be less dependent on transparency in information disclosure and they can obtain information directly from informal channels. Hence, a company with centralized ownership structure will be reluctant to disclose additional information.

On the other hand, Fama and Jensen (1983) propose that when there is a diffusion in ownership, the potential for conflicts between the principal and the agent is greater. It is also argued that agency problems can be mitigated through the involvement of large shareholders in monitoring or controlling activities that potentially lead to these problems (Noe, 2002). Large shareholders are expected to have greater incentives to monitor management as their wealth is tied to the performance of the firm. Therefore, outside block holders are predicted to demand more information to be disclosed in the annual reports to reduce information asymmetry among the small shareholders. In this regard, Malone et al., (1993); Cooke, (1989), Nasir and Abdullah, (2001) and Haniffa and Cooke, (2002), Chau and Gray (2002) and Ho et al. (2013) found a significant and positive association between the ownership diffusion and the extent of voluntary disclosure in the annual reports.

Additionally, a number of previous empirical studies report a negative relationship between ownership concentration and voluntary disclosure (Yuen et al,, 2009; Barako et al., 2007; Chang and Courtenay, 2006; Chen and Jaggi, 2000; Chau and Gray, 2002; and Hossain et al. (1994)). Moreover, Huafang and Jianguo (2007) found that higher block-holder ownership is associated with increased disclosure. In addition, Haniffa and Cooke (2007), Donnelly and Malcahy (2007) and Eng and Mak (2003) did not find evidence on a significant relationship between ownership structure and voluntary disclosure. Finally, Clemente and Labat (2009) suggest that minority shareholders represented by independent directors are the ones requiring and demanding higher levels of voluntary information disclosure. However, they found that ownership concentration does not affect the level of information that listed companies disclose in their annual reports.

In summary, previous empirical studies show contradicting results regarding the association between the level of voluntary disclosure and corporate governance mechanisms, particularly with the significant role of board composition and audit committees. Figure 1 below shows the framework of the study.

Figure 1: Framework of study



2.4 Research Hypotheses

Based on the aforementioned review of the literature, the following research hypotheses can be developed.

H1: There is a positive relationship between board size and the proportion of independent non-executive directors on the board and the extent of voluntary disclosure.

H2: There is a negative relationship between the Chairman duality of leadership (CEO) and the extent of voluntary disclosure.

H3: There is a positive relationship between audit committee size and independence and the extent of voluntarily disclosure.

H4: There is a positive relationship between diffused ownership of shares and the extent of voluntarily disclosure.

3. Research Method

The population surveyed in the study consists of all listed companies operating in Bahrain. All companies were selected for the study, a total of (48) companies as per Bahrain Stock Exchange (BSE) in February 2013. The breakdown of the sample companies is presented in Table 1.

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Table 1. Companies traded on the BSE

No.	Company type	No.	%
1.	Commercial banks	7	14.6
2.	Investment sector	14	29.2
3.	Insurance sector	6	12.5
4.	Services sector	8	16.7
5.	Industrial sector	2	4.2
6.	Hotels and tourism sector	6	12.5
7.	Overseas companies	5	10.3
	Totals	48	100.0

A motivation for choosing listed companies is that the agency theory problems in small closely-held companies may be less severe between owners and managers but more severe between controlling managers and absentee owners. The information was generated from the latest annual reports of the companies (2013 reports), which were obtained through their websites on the internet. Annual reports are a highly useful source of data as managers commonly signal what is important through the reporting mechanism. Guthrie and Petty (2000) view them as a communication tool that allows a corporation to connect to various stakeholders.

The reports were subject to content analysis which is potentially one of the most important research techniques in the social sciences (Kripendorff, 2004). Each report was examined in all its details to ensure that firms were not penalized for non-disclosure of irrelevant items (see Cooke, 1989 and 1992). Special attention was given to the Board of directors report to shareholders, chairman's statement, CEO statement/message and auditor's report. The information generated cover the board composition (i.e., size of the board, proportion of independent directors and concentration of CEO and chairman), the size and composition of audit committee and degree of ownership structure. In addition to the annual reports, phone calls were made with the managing directors of some companies to clarify certain ambiguities.

To provide initial insights into voluntary disclosure, descriptive statistics were initially employed. Pearson correlation and multiple regression were then used to test the hypotheses. Correlation among variables was tested at the .05 level of significance.

3.2 The measurement of variables

3.2.1 The dependent variable - The voluntary disclosure index (VDI)

The annual reports of the firms selected for the study are checked against a self-constructed voluntary disclosure index based on Meek et al. (1995), Chau and Gray (2002) and Ghazali and Weetman (2006). The final disclosure checklist consists of four major categories; company profile, board structure and board committees; employee related issues; and stakeholders interests. Under each category, there are certain disclosure items. The checklist is developed based on relevant disclosure requirements of Bahraini companies, relevant literature and with reference to the several important corporate governance principles and recommendations of Organization for Economic Cooperation and Development (OECD). Only items of information not required by law or accounting standards are included. A total of (30) items are used in the final list and the voluntary disclosure index is based on this checklist.

A commonly used method in developing disclosure indices is simple dichotomous score where each disclosure item is given a score of 1 if it is reported or 0 if it is. Inapplicable items to all companies such as environment protection were excluded. This approach was used by previous studies but the limitation of it is that it does not reflect the relative importance of each item and assumes that all items have the same weight and informational interest for users (e.g., Cormier and Magnan, 2000; Clemente and Labat, 2009 and Matoussi and Chakroun, 2005). There has been no attempt to assess the information needs of users and all items were weighted equally, assuming that each has the same information content to the users. This choice may or may not affect the measured index (see Naser and Nuseibeh, 2003 and Chow and Wong-Boren, 1987). The reason why dichotomous scores were used is that the data were collected through careful examination of the annual reports of the companies, rather than asking respondents to rate the relative importance of each disclosure item. The voluntary disclosure index for each company was computed by dividing the total amount of actual scores given for disclosure items by the total number of disclosure items. The maximum score was 0.77. Two levels of voluntary disclosure were used in the study. High if it is 0.5 or more and low if it is less than 0.5.

3.2.2 The independent variables

1. Board size (BS) and composition (BC). Special reference was given to the number of board members, the proportion of independent non-executive directors in relation to the total number of directors on the board and duality of leadership, i.e., CEO is also Chairman of the board (DUAL).
2. Audit committee. Special attention was given to the size (ACS) (i.e., the number of audit committee members) and the number of independent members on the committee (IMAC).
3. Ownership structure (OWN). Ownership could be by state, and state-related institutions, managerial

ownership and individual ownership. The study focuses on individual ownership; government ownership is excluded. Ownership is measured by the number of shareholders holding the total number of shares issued and outstanding. Block holder is a shareholder who owns 5% or more of total number of shares issued. It is divided into two groups of shareholders: those who hold less than 5% and those with block ownership holding 5% or more.

3.2.3 Regression model

Based on the above definition of dependent and independent variables, the regression model for this study is

$$VDI=\beta0+\beta1BS+\beta2IMB+\beta3DUAL+\beta4ACS+\beta5IMAC+\beta6OWN$$

Where,

b = Coefficient of each independent variable
VDI = Voluntary disclosure index
BS = Board size in terms of the number of directors on the board
IMB = The number of independent non-executive directors on the board
DUAL=Duality of leadership, i.e. Chairman is also CEO
ACS = The number of audit committee members
IMAC=The number of independent directors in audit committee
OWN=The number of shareholders holding 5% or more of company shares

3.2.4 Reliability test of voluntary disclosure scores

The disclosure domains together with their items were tested for internal consistency. One of the most commonly used measures of reliability is Cronbach's alpha (Coakes, 2005). The value of Cronbach's alpha ranges between 0 and 1, whereby value closer to 1 implies higher internal consistency reliability (Sekaran, 2003 and Sekaran and Bougie, 2010). The reliability test results show that the Cronbach's alpha value is 0.63 for the four dimensions in the voluntary disclosure score, suggesting that the data in the study may not be subjected to random measurement error which could reduce the power of the empirical tests in the study (Gul and Leong, 2004).

4. Results

4.1 Voluntary disclosure index

Table 2 shows statistics for the voluntary disclosure index for the (48) companies. The overall mean index is (0.48) suggesting that, on average, the sample companies disclose (14.4) of the (30) items comprising the general index. This value is higher than the results reported in other studies Lim et al. (2007) and Cheng and Courtenay (2006) who scored an average index of .18 and .14 respectively and for a mean disclosure index of 0.25 by Clemente and Labat (2009). It appears that the highest disclosed items are company's products or services, general corporate information and management analysis. The lowest disclosed items are: appointment of directors, assessment of board members, amount spent on training and company human resource policy.

Table 2. Checklist of voluntary disclosure items

No.	Disclosure items	No.	%
	A. Company profile		
1.	General corporate information	43	89.6
2.	Management analysis	39	81.3
3.	Organization structure	24	50.0
4.	Corporate strategy& future prospects	29	60.4
5.	Market share	24	50.0
6.	Review of operations	28	58.3
7.	Products/services/activities	45	93.8
8.	Segmental information	41	85.4
	B. Board structure and committees		
9.	Qualifications of each director	28	58.3
10.	Frequency of board meetings	23	47.9
11.	Roles and responsibilities of the board	29	60.4
12.	Remuneration of directors	30	62.5
13.	Board committees	36	75.0
14.	Roles and responsibilities of committees	21	43.8
15.	Interests of directors in shares	21	43.8
16.	Number of each committee meetings	21	43.8
17.	Independence of committee members	15	31.3
18.	Reports on committees' work	11	22.9
19.	Names and number of board committee members	11	22.9
20.	Appointment of directors	4	8.3
21.	Assessment of board members	8	16.7
22.	Attendance of committee meetings	37	77.1
23.	Related party transactions	16	33.3
24.	Risk management	31	64.6
	C. Employee related issues		
25.	Employees training and development	15	31.3
26.	Amount spent on training	0	0
27.	Amount of employees' benefits	21	43.8
	D. Stakeholders interests		
28.	Contribution to community	22	45.8
29.	Company human resource policy	2	4.2
30.	Relationships with customers, creditors & investors	16	33.3

Overall mean **48.0**

4.2 Descriptive statistics of independent variables

Hussain and Millan (2002) analyze the existing state of corporate governance in Bahrain through a questionnaire survey addressed to listed companies. They found that some companies have independent boards of directors and separate roles of chairman and CEO. It was not clear how effective the nominations process is and directors tend to be entrenched. They also found that the majority of companies have internal audit department and risk management control. This was before the issuance of the code of corporate governance in Bahrain in 2010. Further progress has been made with the issuance of the code which was applied beginning of (2011).

The Bahraini code of corporate governance specifies the size, roles and responsibilities of directors and ensures independence of board members. It recommends that at least one-half of company's board should be non-executives and at least three of these persons should be independent. The code also requires that the board should form a nominations committee of at least three members which shall identify persons qualified to become members of the board. This is in addition to the condition that the Chairman should not be the CEO.

Tables 3 shows summary statistics of the study variables. It shows that the majority of firms have independent directors on the board. In thirty seven companies (90%) the Chairman of the board is not CEO. Table 4 shows that the mean value is 1.97 which indicates that a majority of companies have separate leadership structure although the minimum value shows that there are few companies which have combined leadership structure (4 companies). Gul and Leung (2004) results reveal that external directors with wide professional expertise act as an important control mechanism in companies where chairman and CEO responsibilities rely on the same person. Thirty six firms have audit committees with a size between 3-4 members. As per the code, the members of the audit committee consist of both independent and dependent directors. Table 3 also shows ownership structure with majority of shareholders are block holders.

Table 3. Summary statistics of independent variables

	A. Number of independent directors	F	**%**
1.	One	4	10.0
2.	Two	2	5.0
3.	Three	8	20.0
4.	Four	7	17.5
5.	Five or more	19	47.5
	Totals	40	100.0
	B. Duality of leadership (i.e., CEO is Chairman)	F	%
1.	Yes	4	9.8
2.	No	37	90.2
	Totals	41	100.0
	C. Number of audit committee members	F	%
1.	Two	1	2.7
2.	Three	19	51.4
3.	More than three	17	45.9
	Totals	37	100.0
	D. Number of independent members on audit committee	F	%
1.	One	7	19.0
2.	Two	5	13.5
3.	Three	25	67.5
	Totals	37	100.0
	E. Ownership structure*	F	%
1.	Less than 1%	35	73
2.	1% - less than 5%	35	73
3.	5% - Less than 10%	25	52
4.	10% - less than 20%	27	56
5.	20% - less than 50%	12	25
6.	50% and above	11	23

***Multiple responses were allowed**

4.3 Board Size and Independence

Table 4 shows that the board has a mean size of (8) ranging from a minimum of 5 to a maximum of 15. This may be considered as a reasonable board size. Effective number of board size should not be more than 7 or 8 members to avoid less effective coordination, communication and decision making (Florackis and Ozkan 2004). Small board size could lead to more participation by board members which would result in a positive impact on the monitoring function and decision making capability of the board.

Table 4 also shows that the number of independent directors ranges between 1 and 6 members with a mean of (4.2). Board independence and size are closely related as the larger the board the larger to be the number of independent directors (Matolcsy et al., 2004; Denis and Sarin, 1999 and Lim et al. 2007).

Table 4. Summary statistics of the variables

Variable	**Mean**	**Minimum**	**Maximum**	**SD**	**N**
a. Disclosure index	0.50	0	1	0.505	48
b. Number of board members	8.25	5	12	2.158	48
c. Number of independent directors	4.2	1	6	1.667	40
d. Duality of leadership	1.97	1	2	0.300	41
e. Audit committee size	2.38	2	4	0.644	37
f. Independent members in AC	2.5	1	3	1.290	36
g. Block ownership	1.42	1	2	.498	48

4.4 Correlation matrix analysis

Table 5 shows the correlation between the variables. There is no significant relationship, at the .05 level, between disclosure index and board size, number of independent directors and block ownership. Board size and number of independent directors have a significant relationship, indicating that more members on the board result on more independent directors. The code of corporate governance in Bahrain recommends that board size should not exceed 15 members. Also audit committee size and number of independent members in the committee are negatively correlated at the .01 level implying that having more audit committee members will result in less independent members in the committee. Independent members on audit committee are able to create pressure in disclosing more voluntary information. However, this negative correlation may be related to the code of corporate governance in Bahrain. The code recommends that audit committee members should be at least three and majority is independent members. There is no mention of how many the independent members should be. So, one may infer that one independent member with accounting and finance experience in the committee may be enough. If all audit committee members are independent, the committee may not be able to have easy access to the accounting records.

Table 5. Pearson correlation matrix of disclosure index and corporate governance mechanisms

Variable		Disclosure index	Board size	Independent directors	Audit com. size	Independent members	Duality of leadership	No of shareholders
a. Disclosure index	Pearson Correlation	1	.211	.220	.187	-.152	.040	.000
	Sig. (1-tailed)		.075	.078	.103	.188	.401	.500
	N	48	48	43	47	36	41	48
b. Board size	Pearson Correlation	.211	1	.241	.108	.033	.116	.027
	Sig. (1-tailed)	.075		.059	.234	.423	.234	.426
	N	48	48	43	47	36	41	48
c. Independent directors	Pearson Correlation	.220	.241	1	-.019	-.009	.121	.088
	Sig. (1-tailed)	.078	.059		.451	.478	.231	.287
	N	43	43	43	42	36	39	43
d. Audit com. size	Pearson Correlation	.187	.108	-.019	1	-.414**	-.028	-.348**
	Sig. (1-tailed)	.103	.234	.451		.006	.431	.008
	N	47	47	42	47	36	40	47
e. Independent members	Pearson Correlation	-.152	.033	-.009	-.414**	1	-.150	.075
	Sig. (1-tailed)	.188	.423	.478	.006		.198	.333
	N	36	36	36	36	36	34	36
f. Duality of leadership	Pearson Correlation	.040	.116	.121	-.028	-.150	1	.162
	Sig. (1-tailed)	.401	.234	.231	.431	.198		.156
	N	41	41	39	40	34	41	41
g. Number of shareholders	Pearson Correlation	.000	.027	.088	-.348**	.075	.162	1
	Sig. (1-tailed)	.500	.426	.287	.008	.333	.156	
	N	48	48	43	47	36	41	48

**. Correlation is significant at the 0.01 level (1-tailed).

4.5 Linear regression results

All variables were put into multiple regression to test their relationship with the dependent variable, voluntary disclosure index. The results of the linear regression for voluntary disclosure are summarized under model 1 in Table 6 below. The R is 0.307 while the adjusted R squared is 0.094. This means that model 1 below is able to explain only 9 percent of the variance in the disclosure index. None of the variables shows a significant P value which states that there is no association between the level of voluntary disclosure and the independent variables.

Table 6. Multiple regression results of the relationship between dependent and independent variables

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.183	.914		.200	.843
	Board size	.005	.047	.020	.101	.921
	Indepedent directors	.024	.068	.069	.356	.725
	Audit committee size	-.067	.191	-.078	-.351	.728
	Independent members in audit committee	-.066	.078	-.175	-.846	.405
	Duality of leadership	.273	.317	.162	.864	.395
	Number of shareholders	.043	.062	.138	.696	.493

Dependent Variable: disclosure index
R = 0.307; R = 0.094; Adjusted R squared=0.107

4.6 Hypotheses test

Hypothesis 1 test:

Akhtaruddin et al. (2009) found a positive association between board size and proportion of independent directors on the board and voluntary disclosure. This indicates a board's capability to influence managers to disclose more voluntary information. Moreover, large boards are viewed as an effective governance mechanism to enhance transparency and disclosure. The results in Tables 5 and 6 (Pearson correlation and multiple regression) between the dependent and independent variables show that there is no significant relationship at the .05 level between board size and the level of voluntary disclosure (.075). John and Senbet (1998) advocate that having more members on the board can help in enhancing monitoring capacities on the board. This, however, is offset by the incremental cost of poorer communication as well as inefficient decision making resulting from large numbers on board. The result is consistent with Lakhal (2005), Cheng and Courtenay (2006) and Matoussi and Chakroun (2009) who found that board size has no effect and is not associated with the level of voluntary disclosure.

With regard to independent directors, it is assumed that the existence of independent directors on the board facilitates a reduction in information asymmetry between owners and managers and eventually enhances the disclosure of information beyond the requirements of accounting regulations. It also has an impact on management decision to disclose information in annual reports. In this regard, Yuen et al. (2009) and Fama and Jensen (1983) found that companies with a higher proportion of independent non-executive directors will be more likely to make more voluntary disclosures. In addition, Zhou and Panbunyuen (2008) found that both members of the board (dependent and independent directors) have incentive to disclose information in the annual reports. Therefore, hypothesis 1 also suggests that high voluntary disclosure is expected when a company has a high percentage of independent non-executive directors on the board. However, results in Tables 5 and 6 do not show a significant relationship between voluntary disclosure and the proportion of independent directors (0.78). This result is consistent with Cheng and Courtenay (2006). An interpretation of the result in Bahraini context may be that independent directors may not be highly involved in the operations of the business and may lack knowledge and experience in financial reporting.

Hypothesis 2 test:

It was assumed that separate leadership structure is associated with an increased level of voluntary disclosure in the company's annual reports. Tables 5 and 6 show no significant correlation exists between disclosure index and duality of leadership. So, hypothesis 2 cannot be accepted. This result is consistent with the results of Norita and Shamsul Nahar (2004) who found that separate leadership structure is not associated with voluntary disclosure. An interpretation for this result may be the existence of a dominant CEO in the firm where there are no clearly defined limits on the disclosure requirements to the board. Alternatively, the chairman may be ineffective in carrying out his duties and bringing CEO for accountability (see HIH collapse in Australia).

Hypothesis 3 test:

The results of hypothesis three test (Tables 5 and 6) show that there is no relationship between audit committee size and independence and the extent of voluntary disclosure. So, the hypothesis that companies with larger audit committees and higher number of independent members on the committee are likely to have higher levels of voluntary disclose cannot be supported. This result is consistent with previous empirical studies. Nasir and Abdullah (2001) and Abdullah and Nasir (2004) found that audit committee independence is not associated with the level of voluntary disclosure. An explanation for this result is that the code of corporate governance in Bahrain recommends the creation of an audit committee. As such, the existence of an audit committee may not be to pressure the company to disclose more information. There are certain duties and responsibilities of the audit committee other than voluntary disclosure. Companies in Bahrain may create audit committees to provide more effective communication between the board of directors and the two check layers, the internal and external auditors. They may also be appointed by the board to fulfill shareholders requirements (Yuen et al., 2009). In addition, when all audit committee members are independent directors, the committee may not be able to have easy access to the accounting records. Therefore, more members of audit committee will be accompanied with more dependent directors.

Hypothesis 4 test:

Tables 5 and 6 show that there is no evidence of a relationship between diffused ownership and voluntary disclosure. This result is consistent with the previous literature, indicative of a positive relationship between ownership concentration and voluntary disclosure. Norita and Shamsul Nahar (2004) found that the extent of outside block ownership is positively associated with voluntary disclosure. Similarly, Nasir and Abdullah, 2001 and Noe, 2002) found that the presence of large outside block holders is significantly associated with higher levels of voluntary disclosure. An interpretation of this result is that it is based on the contention that large shareholders have the incentive to monitor management performance and demand more information. The argument is that if an individual has a substantial amount of interest in shares of a company (5% or more) he/she will be more interested in the company compared to shareholders who own smaller number of shares because dispersed ownership may have less incentive to monitor management (Kim et al. 2007). Thus, block holders might put pressure on management to disclose all important information.

5. Conclusion, limitations, and further research

This paper examines the relationship between the extent of voluntary disclosure of information and three variables: board composition, the existence of an audit committee and ownership structure. The findings of the study reveal that none of the independent variables showed any significant P value on voluntary disclosure. The results are consistent with some previous empirical studies which did not find significant relationship between corporate governance variables and disclosure of intellectual capital except for audit committee meetings (Hanifa and Cooke, 2002 and Gan et al., 2008). However, the results contradict with other studies (e.g., Hossain et al. 1994 and Chau and Gray, 2002). In addition, there is no relationship between voluntary disclosure and duality of leadership. Thus, there is no negative impact on information transparency when the chairman and CEO responsibilities are concentrated in one person. This may not be surprising if we consider the contradicting results of previous studies such as Haniffa and Cooke (2002) who found that only non-executive directors have significant effect on the extent of voluntary disclosure. Also, there no relationship between diffused ownership and voluntary disclosure. It can be seen that the findings from Bahrain are similar in some variables and differ in other variables. As such, it can be concluded that corporate governance mechanisms and ownership structure are poor predictors of voluntary disclosure in Bahraini context and alternative explanations of why companies voluntarily disclose information is needed. These findings can be good contribution to the literature.

5.1 Implications

The findings of the study have implications for both the regulators, policy makers and corporations. The study provides evidence to regulators in Bahrain to improve corporate governance, enhance the existence and independence of audit committees and optimize ownership structure. The current problems of financial markets put governance and audit committees under pressure to understand how financial crises affect their risk profiles. Thus, the regulatory agencies should provide some incentives to encourage companies to disclose more information. The study also provides practical implications for corporate governance standards setters. They should consider board composition, audit committees and ownership structure when asserting the optimal design of corporate governance mechanisms. Moreover, corporations should reconsider the extent of voluntary disclosure and transparency which lead to sound governance and enhance investors' confidence in financial reporting. This will reflect positively on the marketability of company's shares and reduces capital costs. In this regard, it is worth pointing out that the costs and benefits of voluntary disclosure vary across firms and may outweigh agency costs in many situations (see Donnelly and Mulcahy, 2008). Therefore, regardless of agency considerations and regulatory guidelines, firms will ultimately formulate their disclosure policy with reference to overall marginal costs and marginal benefits

The implications for current state of knowledge is that researchers should consider further explanations for the voluntary disclosure of information and the factors that drive companies to disclose. The results contribute to the body of knowledge in that further research is still needed on this issue. The results can also be used in accounting education where voluntary disclosure is related to core values of corporate governance such as transparency and accountability. Finally, the findings of the study have important implications for shareholders and other users who have interest in best practices of corporate governance.

5.2 Limitations

The findings of this study should be considered in light of the following limitations. First, the disclosure index does not cover all voluntary disclosure in corporations as employed and supported in previous studies. It is self-developed. As such, it may hinder comparison with the results of other studies. Voluntary disclosure changes across countries, depending on each country mandatory disclosure requirements. The selection of certain disclosure items may also influence the results (Lim et al., 2007). For example, board composition does not affect all types of voluntary disclosure but only the one that represents key decisions like strategy and forward looking information, while financial and non-financial data are not related to board composition. Second, the study analyzes one form of voluntary disclosure. It assumes that all voluntary disclosures are based solely on content analysis of the annual reports. In practice, listed companies may release information in other forms as well. They may release information through private meetings, the press, or interim reports (Yuen et al., 2009). This may be improved by conducting interviews or case studies to complement the findings (Gan et al., 2008). Third, The sample size may be small but it includes all listed companies in Bahrain (48 firms) and the results can be generalized with caution and care.

5.3 Areas for further research

Further research could examine the association between voluntary disclosure and other corporate governance variables and company characteristics such as managerial ownership, government ownership, the proportion of shares held by the executive directors and higher ratio of family members on the board, size of firm, financial leverage, nature of business operations, and profitability. These variables might influence firms to voluntarily disclose information in their annual reports. In this respect, Huafang and Jianguo (2007) found that managerial ownership (i.e., the total number of shares owned by the CEO and executive directors to the total number of shares issued), government ownership (i.e., the percentage of shares owned by the public sector to the total number of shares issued) are not related to disclosure, but foreign shares ownership is associated with increased disclosure.

In addition to independence of directors, the accounting and financial expertise of members of the board and audit committee has also received widespread attention from the media and regulators. The rules assume that members with no experience in accounting or finance are less likely to be able to detect problems in financial reporting (Agrawal and Chadha, 2005). In contrast, given the relatively short time that boards and audit committees spend reviewing a company's financial statements and controls, it is not clear that even members with expertise can discover accounting irregularities and may actually be less effective. Thus, the relationship between voluntary disclosure by a firm and financial expertise of board and audit committees can be examined. Further research could also examine whether board diversity is influenced by factors such as industry, size, listing status (firm listing/non-listing and corporate governance) and majority shareholders base (Gray et al., 2004).

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