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Corporate Governance, Ownership and Voluntary Disclosure: Evidence from Trading and Services Sectors in Bursa Malaysia

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Abstract: This paper examines the relationships of corporate governance characteristics and ownership with the level of voluntary disclosures in the annual reports the fifty (50) trading and services sector among public-listed firms in Bursa Malaysia for the year 2012. Regression analysis was used to examine the relationship between firms' voluntary disclosure and independent variables consisting of board's size, board's independence, audit committee size and managerial ownership. The study revealed that only managerial ownership has a significant relationship with firms' disclosure. In contrast, the extent of corporate voluntary disclosure is insignificant with regard to board's size, board's independence and audit committee size. This study provides evidence for regulatory bodies such as Bursa Malaysia and Securities Commission Malaysia to look further and enhancing the corporate governance framework in order to grasp the benefits behind the enactment of corporate governance in Malaysia.

Keywords: Corporate Governance, Voluntary Disclosure, Trading and Services Sectors.

INTRODUCTION

Generally, the corporate governance comprise of interrelationship among the firms' management, board, shareholder and other stakeholders. It always used to explain how the firms were managed, examined and accountable by various party either inside or outside. Furthermore, the topic of corporate governance was debated and becoming crucial issues around the world. The well-known corporate scandals such as Worldcom, Enron, Tyco and others had exposed the weakness and poor of corporate governance elements which caused financial and economic crisis that affects the firms' performance. The information asymmetry and agency conflicts which exist between the management and stakeholder are also play a major role in creating these frauds and scandals. The better corporate governance system in the firms would assist them to enhance the company reputation and performance. Hence, the parties who interested to the success of the firms would depends on the information released by the firms in making their decisions. The agency theory stated by having a proper corporate governance system will strengthened the firms and it will also could enhanced the disclosure information on firms' performance. Moreover, the corporate governance has becoming significant to ensure the sound financial reporting, avoid fraud and misrepresent of information. Thus, one of the important aspects of good corporate governance was the important of the disclosure information in the annual reports. Transparency, trust and disclosure which form the integral part of corporate governance can make pressure to improve financial performance (Rogers, 2006). Beasley (1996) had emphasized the crucial role of full disclosure to avoid financial reporting fraud which keep occurred in recent years. Similarly, studied by Guan, Sheu and Chu (2007) found that the regulatory authorities of securities markets and information intermediaries have exerted great effort to advocate corporate governance thus lessening the occurrence of adverse selection and agency problem as a result of the information asymmetry. The firms, financial institutions and market integrate the economy activity in order to sustain, increase confidence and protect the interest of stakeholder especially shareholders.

Many studies among developed and developing countries have been carried out to examine the relationship between corporate governance and extent of voluntary disclosure (Ho and Wong, 2001; Chau and Gray, 2002; Haniffa and Cooke, 2002; Barako *et al.*, 2006; Mangena and Tauringana, 2007). These studies have focused on examining different corporate governance characteristics and the effect on voluntary information disclosure in annual reports. As these assertions were revealed based on limit of knowledge is motivated to consider this firms in this study; due to the fact that no previous studies were keen to examine the impact of corporate governance characteristics and the extent of voluntary disclosure among trading and services sector among public-listed companies in Bursa Malaysia. Thus, this study attempts to answer whether board's size, board's independence, audit committee size and managerial ownership size affects the extent of voluntary disclosure in annual reports. Thus, the paper proceeds as follows. The following section provides a detailed discussion concerning the literature review and hypotheses development. Following a discussion on the research methodology, the results of the study are reported and the final section concludes the paper.

LITERATURE REVIEW

Corporate Governance in Malaysia

Malaysian corporate governance issue has become an interesting topic following Asian financial crisis in 1997/1998 (Wan Yusoff, 2010). In Malaysia, the crisis first began with a fall in the Malaysian' ringgit's value and continue to drop in the stock prices of listed firms (Wong, Sundaram and Chin, 2005). A number of factors have been associated with the financial crisis in Asia. Issues concerning the role and function of regulators and the need for improved disclosure and good corporate governance are among the issues that most generate analysis and debate by the public (Buniamin *et al.*, 2008). One of the school of thought attributed the crisis to poor corporate governance including ineffective boards of directors, weak internal control, poor audit, lack of inadequate disclosure and legal enforcement characteristics in corporate governance (Claessens & Djankov, 1999; Liew, 2006). In Malaysia, the corporate image has been tarnished by a number of corporate collapses occurred such as Renong, Perwaja Steel Bhd and Transmile Bhd due to bad corporate governance. The poor corporate governance, a low level of transparency in disclosing information by public-listed companies on Bursa Malaysia and the ineffectiveness of regulatory agencies in enforcing legislation in punishing offenders and protecting minority shareholders are all partly blamed as reasons attributing to the collapse of several Malaysian companies (Abdullah, 2001; Haniffa and Hudaib, 2006). Furthermore, in the case of Malaysia the reason of investor confidence eroding was suggested to be brought by the Malaysian's poor corporate governance standards and a lack of transparency and quality of disclosure in the financial system (Haniffa and Cooke, 2002).

However, the financial crisis has provided added momentum to corporate governance reforms in Malaysia (Wan Yusoff, 2010). It is need to maintain corporate governance standard, increase transparency and improve investor relations while the market regulatory agencies such as Securities Commission (SC) and Bursa Malaysia should press for more effective enforcement of legislation (Haniffa and Hudaib, 2006). Additionally, Liew (2006) had studied and concluded that Malaysian companies and the country in general, had strived to reform corporate governance in response to negative publicity and criticism from the international community in the aftermath of the 1997/1998 Asian crisis. It was argued that awareness of corporate governance in Malaysia only became stronger following the 1997/1998 financial crisis (Abdullah, 2006). Since then, the development of Malaysian corporate governance have progressed steadily and ongoing basis (Wan Yusoff, 2010). The success of Malaysian corporate governance reforms was reflected in a survey conducted by PricewaterhouseCoopers (PwC) and Kuala Lumpur Stock Exchange (KLSE) in 2002. The survey concluded that Malaysian corporate governance standards have improved since the issue of the MCCG in 2000. Another recent survey, the Malaysian corporate governance score was 77.3%, which is higher than several other Asian countries and comparable to other developed countries such as Australia, Singapore and Hong Kong (McGee, 2008).

Board size and voluntary disclosure

Board size refers to the number of members serving on a firm's board. The size of board will affect the capability of the board to monitor and evaluate the management. Jensen (1983) highlighted the board of directors is less effective monitor because as it grows in size, the control over management will be decreased. Furthermore, a smaller board of directors will be more responsible for monitoring operations of a firm than a larger board of directors (Vaefas, 2000). The study by Lakhal (2003) in French showed that the size of board of directors is not significantly associated to the decision of the result of voluntary disclosure. Similarly, Htay *et al.* (2012) found the larger board size will cause more voluntary disclosure and supported by Abeysekera (2010) assumes that larger board ensures communication to the investors through through proper and better voluntary disclosures. Finally, Victor *et al.* (2013) studied show board size and the presence of compensation committee are significantly associated to the degree of voluntary disclosure among the Brazilian firms'. Consistent, with the majority of empirical findings indicating a positive association between board size and firm voluntary disclosure, thus this study hypothesizes the following:

H1: There is a positive relationship between board size and firm voluntary disclosure.

Board independence and voluntary disclosure

Generally, the outside director were considered more independent compared with insider directors and more manageable to monitor the performance effectively (Fama, 1980). It has been suggested that boards dominated by outsiders or non-executive directors could alleviate the agency problem by monitoring and controlling the opportunistic behavior of management (Jensen and Meckling, 1979). In conceptual terms, it is generally agreed that effective boards have a high proportion of outside directors (Zahra and Pearce, 1989). According to John and Senbet (1998) in their study have showed that the independent of the board is tested by the number of external or non-executive directors. Hence, the larger proportion of non-executive directors created the more independent of the board. Moreover, Chen and Jaggi (2001) conducted a study to examine the relationship between independent non-executive directors, family control and financial disclosure and the results showed positive relationship between proportion of independent non-executive directors and comprehensiveness of financial disclosures. Finally, the larger proportion of non-executive directors on the board, the more effective it will be in monitoring managerial opportunism thus the firms can be expected to have more disclosure (Haniffa and Cooke, 2002). Based on the above discussion, the following hypothesis is developed:

H2: There is a positive relationship between board independence and firm voluntary disclosure.

Audit committee size and voluntary disclosure

The audit committee plays significant role in corporate governance by refining the decision making by the board and improves the monitoring of organization and responsibility to investors (Ho and Wong, 2001). It is an operating committee of the board of directors which charged with oversight of financial reporting and disclosure plus provides a useful link between both internal and external auditors and the board. According to Mallin (2006), the board should establish an audit committee of at least three members, or in the case of smaller companies, two members, who should non-executive directors. The presence of audit committee will affect the effectiveness of corporate governance and level of corporate disclosure. There has been mixed results in studying the association between audit committee and voluntary disclosure. Akhtaruddin *et al.* (2009) found that the total audit committee size in the firms does not had an effect to voluntary disclosure. However, the studied by Barako (2007) the result showed that the existence of audit committee would had an impact to the voluntary disclosure in the firms. Similarly, Mohamed and Sulong (2010) showed the evidence the positive relationship between the proportion of non-executive directors in audit committee and level of disclosure. Furthermore, the audit committee independence is positively linked to the effectiveness in noticing a mistake in the financial reporting process (Mallin, 2006). Based on the above discussion, the following hypothesis is developed:

H3: There is a positive relationship between audit committee size and firm voluntary disclosure.

Managerial ownership and voluntary disclosure

Managerial ownership can be defined as the proportion of ordinary shares held by the chief executive officer (CEO) and executive directors and include their deemed interests (Eng and Mak, 2003). Jensen and Meckling (1979) highlighted that separation ownership plays an important role in raising the agency problem and the control might be mitigated as a result of increasing the managerial ownership in order their interest to be taken into account with those of other stakeholders. On the other hand, an increase in managerial ownership leads to decreased agency costs and consequently information disclosure demand to monitor managers would be reduced. Guan *et al.* (2007) examined the companies in Taiwan found that the extent of voluntary disclosure is negatively associated with the level of managerial ownership. Similarly, Huafang and Jianguo (2007) found the listed companies in China had no relation between managerial ownership and the level of voluntary disclosure. Moreover, Baek *et al.* (2009) found the negative relationship between the level of management ownership and discretionary disclosure. In Malaysia, Hossain *et al.* (1994) suggested a negative relationship between management ownership structure and level of voluntary disclosure among Malaysian public-listed companies while in Bangladesh the study by Rouf and Abdullah (2011) showed that the managerial ownership is negatively related to voluntary disclosures among the firms. In contrast, study by Li and Qi (2008) showed that the firm that have a high level of voluntary disclosure with the high management ownership. Hence, it showed that manager who holds shares in the company are more concern about benefits of shareholders and motivate to contribute greater towards the company. Based on the above discussion, the following hypothesis is developed:

H4: There is a negative relationship between managerial ownership and firm voluntary disclosure.

RESEARCH METHODOLIGY

Sample and data collection

The population for this study consists of 50 the trading and services sectors public listed on the Main Board of Bursa Malaysia based on annual reports end of the year 2012. In order to accomplish the study, the annual reports of the companies in the sample are used to examine the accessibility and the extent of the voluntary discloure information. The annual reports for the 2012 were selected for examinations, as 2012 was the latest financial year for which the published annual reports for the companies were available at the time when the data collection started.

Measurement of Variables

The Disclosure Index

The voluntary disclosure checklist was prepared to measure voluntary disclosure. It based on checklists developed by previous researcher such as by Matoussi and Chakroun (2008). In this study, the voluntary disclosure checklist instrument are divided into three different categories; strategic information, non-financial information and financial information. According to Meek *et al.* (1995), the strategic and financial information are important to be included since previous studies show it is relevant to investor. Furthermore, the non-financial information is directed more toward a firms' social accountability and aimed a broader group of stakeholder.

The total of fifteen (15) items were used in the final list with items relevant to the Malaysian environment. Based on Matoussi and Chakroun (2008), the disclosure score is calculated using un-weighted approach, which gives the value of one if the item exists in the annual report of the company and value of zero otherwise. After obtaining the disclosure scale for each company this amount is then divided by the total number of items in the checklist to obtain the disclosure score for each company. To avoid any missing item in disclosure, annual reports of the fifty (50) companies were examined at least twice.

Table 1
Summary of the Operationalization of Variables

Variables	*Measurement*
Voluntary Disclosure Index	Disclosure score Number of items in the checklist
Boards' Size	Total number of directors on the board of directors.
Boards' Independence	Proportion of non-executive directors to the total number of directors.
Audit committee Size	Number of members serving on the audit committee.
Managerial Ownership	Number of shares held by managers Total shares outstanding

Method of Data Analysis

This study uses content analysis to measure corporate voluntary disclosure. The Statistical Package for Social Sciences (SPSS) is used to find the extensiveness of the voluntary information disclosed by the trading and services listed companies in their annual reports. The techniques such as descriptive statistics, correlation analysis and multiple regression are used in the analysis of different results and are discussed below.

Descriptive Statistics

The descriptive statistics will be used to study the board size, board independence, audit committee size and managerial ownership and used to describe the basic features of the data gathered from the study.

Regression Analysis

Based on the discussion of dependent and independent variables, the following regression model is developed:

$$TVDX = \beta 0 + \beta 1BSZ + \beta 2BID + \beta 3ACS + \beta 4MGO + \varepsilon$$

where;

TVDX = Total Voluntary Disclosure Index

BSZ = Board's size

BID = Board's independence

ACS = Audit committee size

MGO = Managerial ownership

ε = error terms

Correlation Analysis

This analysis technique used in hypothesis testing of the relationships among the independent variables and between independent variables and dependent variable. The significance of the correlation is tested at the 1% and 5% level in two-tail test. A Pearson correlation is used to test the correlation between the independent variables.

DATA ANALYSIS AND RESEARCH FINDINGS

Descriptive Statistics Analysis

Table 2
Summary of Descriptive Statistics

	N	*Min.*	*Max.*	*Mean*	*Std. Deviation*
Total Voluntary Disclosure Index (TVDX)	50	14.00	31.00	24.30	4.49
Board's size	50	5	13	8.24	1.94
Board's independence	50	0.22	0.67	0.43	0.10
Audit committee size	50	2	8	3.92	0.99
Managerial ownership	50	0.00	0.72	0.18	0.25

Valid N (listwise)

Table 2 provides the descriptive statistics of the dependent and the explanatory variables. The result for the mean of level voluntary disclosure is 24.3% and minimum is 14% and maximum is 31%. The mean of boards' size is 8 directors with a maximum of 13 directors, meaning that the trading and services sector has relatively high board size. According to Jensen (1993) and Yarmack (1996), large boards can make coordination, communication and decision making more than the small board. The mean of the board's independence is 0.43 which indicates that the number of non-executive directors sitting on the board is about average. Meanwhile, the mean value of audit committee size is 3.92 which is moderate composition and showed that most of the companies fulfill the requirements of Bursa Malaysia where an audit committee should comprise at least three directors which the majority of whom are independent. Finally, in term of managerial ownership, the maximum ownership is 71.06% and on the average only 18% of those companies controlled by managers and directors.

Correlation Analysis

The correlation matrix in the Table 3, clearly showed that the correlation among independent variables are less than 0.80, thus multicollinearity assumption is not violated and all the variables can be incorporated or embraces into subsequent regression analysis. The findings showed the Total Voluntary Disclosure (TVD) is significant with Board's Size (BSZ) at .313(*) with p-value =.027 and Managerial Ownership (MGO) at -.407(**) with p-value =0.003. However, the other variables such as Board's Independence (BID) and Audit Committee Size (ACS) do not significantly influence the company disclosure.

Multiple Regression Analysis

The coefficient of determination showed at Table 4 below shows R square is .25, which means that the four independent variables explain 25.0 % of the variance in the dependent variable (Total voluntary disclosure). In other words, it explained that 25.0 % of total voluntary disclosure can be explained by boards' size, boards' independence, audit committee size and managerial ownership. Meanwhile, the analysis of variance (ANOVA) indicated that this regression model using total voluntary disclosure is fit with this model since the significant level is less than 0.01 significant levels which is .001 with F-values of 3.05.

Table 3
Pearson Correlation Matrix

		Total Voluntary Disclosure (TVD)	*Board's Size (BSZ)*	*Board's Independence (BID)*	*Audit Committee Size (ACS)*	*Managerial Ownership (MGO)*
Total Voluntary Disclosure (TVD)	Correlation Coefficient		.313*	.101	-.168	-.407**
	Sig.(2-tailed)	1.000	.027	.487	.245	.003
Board's Size (BSZ)	Correlation Coefficient	-.313*		-.113	-.561**	-.240
	Sig.(2-tailed)	.027	1.000	.437	.000	.094
Board's Independence (BID)	Correlation Coefficient	.101	-.113		.417**	-.060
	Sig.(2-tailed)	.487	.437	1.000	.003	.678
Audit Committee Size (ACS)	Correlation Coefficient	-.168	.561**	.417**		.032
	Sig.(2-tailed)	.245	.000	.003	1.000	.824
Managerial Ownership (MGO)	Correlation Coefficient	-.407**	-.240	-.060	.032	
	Sig.(2-tailed)	.003	.094	.678	.824	1.000

Table 4
Coefficients

Variables		*β*	*t-value*	*t-sig.*	*VIF*
Constant					
Board's Size		0.127	0.858	0.396	1.05
Board's Independence		0.124	0.957	0.344	1.06
Audit Committee Size		-0.205	-0.694	0.491	1.00
Managerial Ownership		-0.359	-2.978	0.005	1.04
R Square	0.25				
Adjusted R^2	0.17				
F value	3.05				
F significant	0.001				

Result of hypothesis testing

Board's size and voluntary disclosure

Based on the regression analysis, the board's size is found insignificant relationship with the firm voluntary disclosure since the p-value or significant level is 0.396 which is more than the threshold standard that indicates a p value should be ≤ 0.05 to be significant. Thus, the H1 is rejected.

Board's independence and voluntary disclosure

The result of board's independence is found to have insignificant relationship with the firm's voluntary disclosure as the significance value is equal to 0.344. In other words, with regards to this, the board's independence will decrease the firm's disclosure. Thus, the H2 is rejected.

Audit committee size and voluntary disclosure

The audit committee size has no significant influence on the firm's voluntary disclosure. The significance value is equal to 0.491 which is more than the threshold standard that indicates that a p value should be d" 0.05 to be significant. Thus, H3 is rejected.

Managerial ownership and voluntary disclosure

The result in this study appears board size have significant influence on the firm's voluntary disclosure. The significance value is equal to 0.005 which is less than the threshold standard that indicates that p value should be ≤ 0.05 to be significant. Thus, H4 is rejected.

CONCLUSION AND DISCUSSION

This study analyses the ownership structure (managerial ownership) and characteristics the corporate governance of the firm in relation to the firm's voluntary disclosure among trading and services firms' in Bursa Malaysia. The results based on the full regression model showed that only managerial ownership was associated with the extent of firms' disclosure. However, the boards' size, boards' independence and audit committee size were not statistically significant in explaining the level of firms' disclosure. The findings provide evidence that the higher percentage of ownership among board of directors and manager in the firms would increase the firm's voluntary disclosure. In view of the board size is negatively related to company disclosure suggesting that the majority of the firms seems to have a preference for small boards to avoid information asymmetry and large board most likely less effective among the board of directors' discussion on firms' disclosure. In other words, the higher number people on the board, the lesser voluntary disclosure by the firms. Similarly with boards' independence, the insignificant result for the board independence may be explained by the fact that directors are not really independence and they were selected not on the base of quality and performance. Meanwhile, for audit committee size, it seems that the size of the audit committee does not have an influenced on the firms' disclosure. It may due to since the CEO control or dominated audit committee activities thus it would be limited activities by the committee to perform effective to monitor the firms' disclosure. The outcome from this study could be a starting point for future research in order to explore empirically the importance of corporate governance structures among public-listed companies in Malaysia. The contradicting results in the current study suggest the need for further conceptual thinking about governance structure and firms' disclosure in developing countries particularly Malaysia.

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