VOLUNTARY CORPORATE DISCLOSURE AND CORPORATE GOVERNANCE ATTRIBUTES: A MALAYSIAN PERSPECTIVE

PUSPALILA MUNIANDY

UNIVERSITY OF MALAYA
2004
Voluntary Corporate Disclosure and Corporate Governance
Attributes: A Malaysian Perspective

Puspalila Muniandy

Bachelor of Accounting (Honours)
University of Malaya
Malaysia
1989

Submitted to the Faculty of Business and Accountancy,
University of Malaya, in partial fulfilment
of the requirements for the Degree of
Master of Business Administration

May 2004
VOLUNTARY CORPORATE DISCLOSURE AND CORPORATE GOVERNANCE ATTRIBUTES: A MALAYSIAN PERSPECTIVE

PUSPALILA MUNIANDY

2004
ACKNOWLEDGEMENT

I would like to express my sincere appreciation and heartfelt thanks to Dr. Zakiah Saleh for her invaluable advice and guidance as well as patience in tolerating with my erratic timing.

Most of all this paper is dedicated to my husband, Surash, for giving me the courage and support in making that bold move to step into the academic world after a 14 year absence spent in the working world. To my loving children, Priyadarshni and Sonea, who may have suffered to a certain degree when I decided to go back to school.

A final acknowledgement must be made to my family, who has always been there for me whenever I needed them.

Last but not least to all my friends who have helped me during the course of my study in University Malaya.
ABSTRACT

Companies are under tremendous pressure to disclose more now than ever before with the emergence of corporate governance. However corporate governance is much more than mere adherence to regulations.

This study examines empirically the extent of voluntary disclosure in the 1998 and 2002 annual reports of 30 public listed companies in Malaysia. This paper also attempts to understand determinants of voluntary disclosure in order to encourage companies to disclose more. Thus the impact of three corporate governance attributes such as independent non-executive directors, the existence of dominant personalities (role duality) and the percentage of family on board was studied.

Using an unweighted disclosure index for measuring the extent of voluntary disclosure, the results indicate that the percentage of family members on board is significantly and negatively related to the extent of voluntary disclosure.
# TABLE OF CONTENTS

ACKNOWLEDGEMENT ................................................................. i

ABSTRACT .................................................................................. ii

TABLE OF CONTENTS ............................................................... iii

LIST OF TABLES ......................................................................... v

CHAPTER 1: INTRODUCTION ................................................... 1

1.1 Background of Study .......................................................... 1

1.2 Problem Statement ............................................................ 2

1.3 Purpose and Significance of Study ....................................... 2

1.4 Research Questions ............................................................ 3

1.5 Scope and Limitations of Study ............................................ 3

1.6 Organization of the study .................................................... 4

CHAPTER 2: LITERATURE REVIEW ........................................... 5

2.1 Introduction ......................................................................... 5

2.2 Corporate Governance and Malaysian Corporate Performance ........................................... 5

2.3 Evolution of the Malaysian Code of Corporate Governance ........................................... 7

2.3.1 Content of the Code ....................................................... 8

2.3.2 Related Developments .................................................. 8

2.4 Disclosure and Disclosure Studies ...................................... 9

2.4.1 Definition of Voluntary and Mandatory Disclosures ........................................... 10

2.4.2 Different Methods of Measuring Disclosures ........................................... 11

2.5 Development of Disclosure Index ....................................... 12

2.6 Determinants of Corporate Voluntary Disclosure .................. 15

CHAPTER 3: RESEARCH METHODOLOGY ............................... 19

3.1 Introduction ......................................................................... 19

3.2 Extent of Voluntary Disclosure and Corporate Governance Attributes ........................................... 19

3.3 Type and Sources of Data .................................................... 20

3.4 Sample Selection ............................................................... 20

3.5 Developing the disclosure index ........................................... 22
3.6 Disclosure index ............................................................................................................. 23
3.7 Hypothesis development ............................................................................................... 25
  3.7.1 Independent non-executive directors and voluntary disclosures ... 25
  3.7.2 Impact of role duality on voluntary disclosures .................................................. 26
  3.7.3 Impact of family members on board on voluntary disclosures ...... 27
3.8 Statistical Methods ....................................................................................................... 27
3.9 Summary ......................................................................................................................... 29

CHAPTER 4: DISCUSSION AND RESULTS ..................................................................... 30
  4.1 Introduction ................................................................................................................... 30
  4.2 Summary Statistics of Sample .................................................................................... 30
  4.3 Descriptive Statistics .................................................................................................. 31
    4.3.1 Comparison of Overall Disclosure Score between 1998 & 2002 ... 32
    4.3.2 Analysis Of Disclosure Based On Classification ............................................. 33
  4.4 Association Testing between Total Disclosure Score and Corporate Governance Attributes ..................................................................................................................... 37
    4.4.1 Board Composition and Extent of Voluntary Disclosure ..................... 37
    4.4.2 Role Duality and Extent Of Voluntary Disclosure .............................................. 38
    4.4.3 Family Members On Board and Extent of Voluntary Disclosure ... 39
  4.5 Regression Model and Assumptions Testing ............................................................... 39
  4.6 Summary ......................................................................................................................... 42

CHAPTER 5: CONCLUSION ......................................................................................... 44
  5.1 Introduction ................................................................................................................... 44
  5.2 Summary ......................................................................................................................... 44
  5.3 Summary of Findings .................................................................................................... 45
  5.4 Conclusions ................................................................................................................... 47
  5.5 Implications .................................................................................................................... 47
  5.6 Limitations of This Study ............................................................................................. 48
  5.7 Suggestions for Additional Research ........................................................................... 49

BIBLIOGRAPHY .............................................................................................................. 50

APPENDICES .................................................................................................................. 55
# LIST OF TABLES

Table 2.1: Key Economic Indicators ................................................................................. 6
Table 3-1: Results of previous studies referred to in developing disclosure index .............................................................................................................................. 22
Table 3-2: Summary of The Operationalization of Independent Variables ................. 25
Table 3-3 Variable Specifications for Regression .............................................................. 28
Table 4-1: Number of companies classified by industry ................................................. 30
Table 4-2: Frequencies ..................................................................................................... 32
Table 4-3: Disclosure Frequencies By Classification ...................................................... 34
Table 4-4: Top Three Items Disclosed in 1998 & 2002 ................................................. 36
Table 4-5: Comparison of Aggregate Voluntary Disclosure Scores .............................. 36
Table 4-6: Pearson’s Correlation Analysis ...................................................................... 38
Table 4-7: Multiple Regression Results ......................................................................... 41
Table 4-8: Results of previous studies and current study using multivariate analysis ................................................................................................................................. 43
Table 5-1: Top Two Items Disclosed in 1998 and 2002 ............................................... 46
Table 5-2: Least Disclosed Items in 1998 and 2002 ......................................................... 46
Table 5-3: Results of Pearson's Correlation Analysis .................................................... 46