

CHAPTER 5: CONCLUSION

5.1 Introduction

The previous chapter reported on the extent of voluntary disclosures and several descriptive statistics were employed to study the trend in the disclosure level. Correlation Analysis and Multiple Regression tools were also employed to identify the corporate governance attribute that significantly affects the extent of voluntary disclosure by companies. The purpose of this chapter is to present the summary and conclusion of this study and to provide recommendations for future research.

5.2 Summary

The first part of the study seeks to examine if there is any significant change in the level of disclosure in corporate annual reports by companies listed on the KLSE before and after corporate governance requirements were made mandatory in 2000. For this purpose a longitudinal type of study was undertaken. The second part of the study seeks to understand further the possible determinants for corporate voluntary disclosures in annual reports in Malaysia. As such a cross-sectional type of study was undertaken to test the association between the three corporate governance attributes and the extent of voluntary disclosure for 2002.

The annual reports were selected from a population of the top 500 public listed companies ranked by sales/turnover as at September 2002. A disclosure checklist based on the previous studies was prepared to measure the extent of disclosure level. The disclosure checklist consists of 45 items divided into 3 classifications i.e.: -

- D. Strategic Information
- E. Key Non-Financial Information
- F. Financial Information.

A majority of past studies in the area of voluntary disclosure focused on firm specific attributes or corporate attributes. Recently as a result of corporate governance emerging as an issue of global significance many studies have diverted the focus to areas that relate to corporate governance attributes. Very limited studies pertaining to this area of research can be found in Malaysia. Probably one of the earlier researches relating to several corporate governance attributes and the extent of voluntary disclosure in Malaysia long before corporate governance was given much emphasis was by Haniffa & Cooke(2000). The method employed in this study is partially a replication of the methods used by Rahman A(2001) whereas the second part is a partial replication of the method adopted by Haniffa & Cooke (1990).

5.3 Summary of Findings

The descriptive statistics in this study revealed findings that there has been an overall improvement in the disclosure practice in 2002 as compared to 1998. This is seen by an increase in the mean from 24.6% in 1998 to 37.7% in 2002. The mean percentage in the board composition for the year 2002 is 38.41% thus indicating that more than one third of the composition of board comprises of Independent Non-Executive Directors. The mean for the third independent variable, family members on board, indicates that 11.47% of the board composition comprises of family members.

An analysis of disclosure carried out based on classification revealed findings shown below in Table 5-1 and Table 5-2: -

Table 5-1: Top Two Items Disclosed in 1998 and 2002

1998		2002	
INFORMATION ITEMS	% DISCLOSURE	INFORMATION ITEMS	% DISCLOSURE
Key Performance Indicators	69	Information About Directors	100
General Corporate Information	32	Key Performance Indicators	70

Table 5-2: Least Disclosed Items in 1998 and 2002

1998		2002	
INFORMATION ITEMS	% DISCLOSURE	INFORMATION ITEMS	% DISCLOSURE
Future Prospects	0	Future Prospects	1
Research Development/ Employee Information	3	Segmental Information	4

Pearson's Correlation Analysis was subsequently carried out to test the association between the Dependent Variable i.e. the total disclosure score for 2002 and the three Independent Variables i.e. corporate governance attributes. The results of this analysis can be seen in the table below: -

Table 5-3: Results of Pearson's Correlation Analysis

CORPORATE GOVERNANCE ATTRIBUTE	SIGNIFICANCE	ASSOCIATION	COEFFICIENT	**
Board Composition(No of NED)	Insignificant	Negative	-0.14	
Role duality	Insignificant	Negative	-0.09	
Family members on board	Significant	Negative	-0.53	

** Correlation is significant at the 0.01 level (2 tailed)

Finally a multiple regression analysis was carried out to measure the magnitude of the relationship between the three corporate governance attributes and the total disclosure score for 2002. The results of the analysis revealed R squared of 0.276 ($p = 0.003$) indicating that 27.6% of variation in the extent of disclosure is determined by the corporate governance attribute family members on board. In addition the result also signifies that this variable is statistically significant as $p =$

0.003 at 0.05 significance level. Furthermore the t value of -3.264 seems to indicate that this variable is a useful predictor since this value is well below the -2 range.

5.4 Conclusions

It is evident that there has been an overall improvement in the level of voluntary disclosure in corporate annual reports by companies listed on the KLSE after corporate governance requirements were made mandatory in 2000 but average total score of 38% for year 2002 is still low since companies tend to stick to disclosing only the minimum required information. More needs to be done in order to achieve the three tenets of DBR i.e. disclosure, due diligence and corporate governance.

When looking at the determinants of the extent of voluntary disclosure, the study found that despite of companies having a higher proportion of *independent non-executive directors* i.e. more than one third, this did not result in companies disclosing more information than necessary. The study also found that companies controlled by families tend to disclose lesser information as compared to those companies with a diffused ownership.

5.5 Implications

There are two important implications in this study. Firstly, the results of this study provide empirical evidence that regulatory bodies and policy makers in this country should introduce compulsory minimal disclosure requirements which could require disclosures of certain information which investors would want to see in view of it being a family controlled business. This is particularly important as vast majority of East Asia companies are normally owned and controlled by families.

Secondly, ensuring compliance to the regulatory requirements that at least one third of the board composition comprise of Independent Non-Executive Directors may not be all that effective if these Directors do not exercise the power and authority vested upon them by the law and stakeholders. The regulators and law makers must see to it that these Directors are adequately trained and educated to ensure that they act as effective monitoring devices to create that ideal environment of good corporate governance with increased disclosure and transparency level. Perhaps a pre-requisite qualification must be made compulsory and must be vetted and accepted by the regulatory body responsible for the particular business.

5.6 Limitations of This Study

One of the main limitations in this study is that it considered only three corporate governance attributes amongst numerous others that are available for testing. Due to the limitation of the time frame of this research the sample size was also restricted to 30 companies. The results may show a different set of findings if the sample size could be expanded.

Furthermore, items selected to be included in disclosure index is subjected to individual biasness. Disclosure scores too may differ as it is subjected to individual perceptions, which may vary from one individual to another.

Lastly further analysis must be undertaken into the nature of time lag involved, as it may be possible that companies may need longer time to implement and effect a particular change.

5.7 Suggestions for Additional Research

Future researches in this area of study should address those specific issues mentioned above such as: -

- Increasing the number of corporate governance attributes.
- Increasing the sample size.
- Expanding the time frame.
- Gauge the perception of regulating bodies and directors by way of interview.