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Corporate Governance and Voluntary Disclosure: Empirical Studies the Public-Listed Companies in Bursa Malaysia

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ABSTRACT: *This paper investigates the links of corporate governance attributes with the level of voluntary disclosures in the public-listed firms in Bursa Malaysia for the year 2018. Regression analysis was used to examine the relationship between firms' voluntary disclosure and independent variables consisting of board's size, board's independence and audit committee size. The study revealed that only board's size has a significant relationship with firms' voluntary disclosure. In contrast, the extent of corporate voluntary disclosure is insignificant with regard to 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, public-listed companies, Bursa Malaysia.*

I. INTRODUCTION

The corporate governance had become crucial issue and was discussed around the world and it is no unique case for Malaysian public-listed firms as well. Thus, poor corporate governance is one of the main components the causes of Asian financial crisis in 1997. Most of the countries around the world have had introduced the corporate governance codes and Malaysia is not an exception. The Malaysian Code on Corporate Governance was introduced in March 2000 and Bursa Malaysia (formerly known Kuala Lumpur Stock Exchange) adopted the provisions of the code in its listing rules effective January 2001. According to Akhtaruddin, Hossain& Yao (2009), the corporate governance codes are mechanisms that help firms attain their corporate objectives while disclosure is an essential tool for firms to report their performance and for investors to assess corporate performance.Generally, the importance of the disclosure information in the annual reports has been highlighted as one of the important aspects of the good corporate governance.Xue (2008) and Tian and Chen (2009) contended that information disclosure is important as it is the heart of corporate governance and furthermore stated the voluntary information disclosure is essential to signal the performance of the firms, reduce the information asymmetry, clarifying the conflict of interests between the shareholders and management and to make corporate insiders more accountable. In the annual report, there are various types of information disclosed and the main is the disclosure on voluntary financial accounting information which widely sought especially by investors. This voluntary information from annual reports will enhance transparency, reduce opportunistic behaviors and information asymmetry and management cannot hold the important information for their own benefits (Marshall, Brown &Plumlee, 2009). Hence, the aim of this paper is to investigate the impact of corporate governance characteristics on the voluntary disclosure among public-listed company in Malaysia.

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

CORPORATE GOVERNANCE

The financial crisis exposed a number of poor corporate governance practices in Malaysia especially lack of transparency, financial disclosure and accountability, allegations of cronyism and poor legal protection of minority investors against expropriation by corporate insiders (Claessens, Djankovic, Fan & Lang, 1999 ; Johnson and Mitton, 2003). Hence, The Finance Committee on Corporate Governance (FCCG) was established in Malaysia to improve disclosure practices, together with increased institutional shareholder activism, are essential in establishing good corporate governance (Abdul Wahab, How &Verhoeven, 2008). Under, FCCG the two important recommendations were initiated which first was the establishment of the Malaysian Code on Corporate Governance (MCCG) as part of the Listing Requirements of the Bursa Malaysia Securities Berhad, which identifies a framework for best practices in corporate governance (Bursa Malaysia, 2013). The second was the establishment of the Minority Shareholders Watchdog Group (MSWG), whose main objective is to monitor and combat abuses by insiders against the minority (MSWG, 2013). This event could be considered the results of pressure by the government that could lead to effective monitoring by institutional investors. 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.

Board Size

Board size refers to the number of members serving on a firm's board. The size of the board may affect its ability to be an effective monitor and guide. The study by Htay, Rashid, Adnan &Meera(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. Meanwhile, Schiehll, Terra & Victor (2013) studied show board size and the presence of compensation committee are significantly associated to the degree of voluntary disclosure among the Brazilian firms'. 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. 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

The effectiveness of the corporate governance in reducing agency problems between management and shareholders depends significantly on the composition of the board directors. According to Adam and Mehran (2003), the increases in the proportion of outside directors on the board should increase firm performance as they are more effective monitors of managers. Chen and Jaggi (2000) suggest that inclusion of independent directors on the board will increase the compliance with disclosure requirement and the board will be more responsive to investors. Furthermore, Cheng and Courtenay (2006) examines the relationship between board monitoring and level of voluntary disclosure showed that the firms with higher proportion of independent directors on board are associated with higher level of voluntary disclosure. It's supported by Htayet. al. (2012) showed evidence that information disclosure is elements to reduce the cost of capital and provides more transparent information to investors and higher number of independents directors on board results in more voluntary financial information disclosure. Finally, the studied by Clemente and Labat (2009) revealed the significant impact of independent directors on the amount of voluntary reported information among listed Spanish firms. There only a few studied show insignificant relationship between board independence and voluntary disclosure such as Matoussi and Chakroun (2008) found that board independence does not lead to more voluntary disclosure among Tunisian listed firms.Moreover, Agrawal and Knoeber (1996) found out that outside representation on the board is insignificantly related to the firm value. 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

The audit committee has an important role in corporate governance by improving the decision making of the board and enhancing the monitoring of management and accountability to shareholders (Ho and Wong, 2001). Furthermore, audit committee is a fundamental part of corporate governance with the aim of promoting high standards performance and disclosure.According to Rezaee (2002), the evolution of audit committees shows that many companies voluntarily created audit committees to provide more effective communication between the board of directors and external auditors. Furthermore, the study by Barako (2007) showed that the presence of audit committee is the main criteria that influence the voluntary release of information.MuhamadSori&Mohamad (2008) found that independent audit committees would pursue good corporate governance because an independent audit committee will behave in the same way with stakeholder's interest and able to protect stakeholder's benefit. Moreover, the effective audit committees are the corner-stone of public's confidence in corporate governance and financial reporting (Hunt and Carey, 2001). However, a study by Akhtaruddin et al. (2009) showed that the total ratio of audit committee members on the board is not related to voluntary disclosures. Thus, the following hypothesis is examined:
H3: There is a positive relationship between audit committee size and firm's performance among financial institutions in Malaysia.

III. METHODOLOGY

Research design

This study comprised 252 companies that published their annual reports during the year ended 31 December 2018. Out of 719 public-listed companies were selected only 252 companies representing the final samples. The samples selected from each industry accounted for approximately 35 % of the population from ten sector excluding companies operating in financial sector. The value of 35 % was derived after the overall sample size (n=252) was divided by the total population (n=719). Since listed companies are categorized differently according to industry type, and the number of companies for each industry was not the same, stratified random sampling was utilized in this research.

Measurement of Variables

The Disclosure Index

The voluntary disclosure checklist was prepared to evaluate voluntary disclosure. It based on checklists developed by previous researcher (Matoussi and Chakroun (2008); Clemente and Labat (2009); Eng and Mak (2003) and Ho and Wong (2001). In this study, the voluntary disclosure checklist instrument is divided into three different categories; strategic information, non-financial information and financial information. According toMeek, Roberts & Gray (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 forty two (42) of disclosure items were used in the final list with items relevant to the Malaysian context. 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.

Table 1:Summary of the Operationalization of Variables

Variables	Measurement
Voluntary Disclosure Index	$\frac{\text{Disclosure score}}{\text{Number of items in the checklist}}$
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.

Method of Data Analysis

This study uses content analysis to measure voluntary disclosure. The Statistical Package for Social Sciences (SPSS) is used to find the extensiveness of the voluntary information disclosed by the public-listed companies in their annual reports. The techniques such as descriptive statistics, correlation analysis and multiple regressions 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 and audit committee size 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 = β0 + β1BSZ + β2BID + β3ACS + ε

Where;

TVDX = Total Voluntary Disclosure Index
β1BSZ = Board's Size
β2BID = Board's Independence
β3ACS = Audit Committee Size
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.

IV. 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)	252	0.76	0.93	0.85	0.06
Board's Size	252	6	13	9.30	2.21
Board's Independence	252	0.40	0.83	0.61	0.13
Audit Committee Size	252	2	8	3.92	0.99

Table 2 provides the descriptive statistics of the dependent and the explanatory variables. The result for the mean of level voluntary disclosure is 0.85 and indicated the sample companies disclosed about 85% of the 42 disclosure items. The voluntary disclosure index has the range from 0.76 to 0.93 revealed that there were rather small variations in voluntary disclosures practices among public-listed companies in Malaysia. The mean of boards' size is 9 directors with a maximum of 13 directors, meaning that the most of the public-listed companies had relatively high board size. According to Jensen (1983), large boards can make coordination, communication and decision making more than the small board. The mean of the board's independence is 0.40 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.

Table 3:The scores of different areas the voluntary disclosure items

	N	Min.	Max.	Mean	Std. Deviation
Corporate Governance Information	254	0.60	1.00	0.85	0.11
Accountability and Audit	254	0.92	1.00	0.96	0.04
Shareholders Director Remuneration	254 254	0.75 1.00	1.00 1.00	0.82 1.00	0.12 0.00

Strategic Information on Future Prospect	254	0.33	1.00	0.53	0.28
Social Reporting	254	0.00	0.75	0.60	0.24

Table 3 indicated the descriptive statistic for voluntary disclosure items. The highest means scores is director remuneration value 100% showed most of the public-listed companies is willing to disclose the information regarding directors' remuneration. Meanwhile the second highest of the disclosure is on accountability and audit which is 96%. Meanwhile, the mean of corporate governance and shareholders are 85% and 82% respectively. Finally, the lowest scores on disclosures items were mainly on social reporting and strategic information on future prospect with 60% and 53% respectively.

Table 4:Pearson Correlation Matrix

		Total Voluntary Disclosure (TVD)	**Board's Size (BSZ)**	**Board's Independence (BID)**	**Audit Committee Size (ACS)**
Total Voluntary Disclosure (TVD)	Correlation Coefficient Sig.(2-tailed)	1.000	0.112* 0.074	0.456 0.102	.-0.012 0.861
Board's Size (BSZ)	Correlation Coefficient Sig.(2-tailed)		1.000	-0.117 0.617	-0.768** 0.008
Board's Independence (BID)	Correlation Coefficient Sig.(2-tailed)			1.000	-0.235 0.437
Audit Committee Size (ACS)	Correlation Coefficient Sig.(2-tailed)				1.000

*Correlation is significant at the 0.05 level (2-tailed)
**Correlation is significant at the 0.01 level (2-tailed)

The correlation matrix in the Table 4, clearly showed the findings the Total Voluntary Disclosure (TVD) is significant only with Board's Size (BSZ) at .112(*) with p-value =.074.Thus, it supported the H1 that board size is positively correlated to company voluntary disclosure. The result is consistent from the previous studies done by Htay et al. (2011) and Abeysekera (2010). Hence, it's suggested that positive relationship between the board size and voluntary disclosure can be explained on the ground that larger board ensures sufficient communication to investors by making more voluntary disclosures. Meanwhile, for Board's Independence (BID) 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 and the Audit Committee Size (ACS), it seems that the size of the audit committee does not have an influenced on the firms' voluntary 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.

V. CONCLUSION

Generally, the public awareness has put more pressures on the public-listed companies in Malaysia to engage in voluntary disclosure. As a result, the pressure will push the companiestoreport the activities and disclosedtothepublic. Based on the descriptive statistics of the disclosure index, it can be concluded that the extent of voluntary disclosure in the annual reports of public-listed companies in Malaysia is considered low for the categories on social reporting and strategic information on future prospect. The findings of the study reveal that the level of voluntary disclosure has had a positive relationship with board size. However, the boards' independence and audit committee size were not statistically significant in explaining the level of firms' disclosure. The outcome from this study could be exploring more empirically the importance of corporate governance structures among public-listed companies in Malaysia. Future research on voluntary disclosure should seek to take into account other forms of disclosures such as stock market announcement, interim report and press rather than depends to annual reports. 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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