Corporate Governance and Voluntary Disclosure in Corporate Annual Reports of Malaysian Listed Firms

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Abstract

This study investigates empirically the extent of corporate governance and voluntary disclosure by listed firms in Malaysia. The governance factors examined are Board size, proportion of independent non-executive directors (INDs) on board, outside share ownership, family control, and percentage of audit committee members to total members on the board. Our results suggest a positive association between Board size and voluntary disclosures and between proportion of INDs and voluntary information. However, the extent of voluntary disclosure is negatively related to family control, and the ratio of audit committee members to total members on the board is not related to voluntary disclosures.

The findings of our study have policy implications for Malaysia as well as for other East Asian countries because of the similarities in the socio-cultural environment and ownership structure of firms in these countries.

Keywords

Corporate Governance
Voluntary Disclosure
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Introduction

This paper presents empirical evidence on the association between corporate disclosure and governance structure. Prior research has analysed corporate disclosure from an agency perspective and hypothesises that corporate disclosure is related to information asymmetry between management and investors (Diamond and Verrecchia,1991; Lang and Lundholm, 1993 and 1996). Moreover, prior research mostly investigates the link between disclosure and firm-specific characteristics. Examples include Firth (1979), Cooke (1989, 1992 and 1993), Wallace (1988), Lang and Lundholm (1993), Wallace, Naser, and Mora (1994), Ahmed and Nicholls (1994), Hossain, Tan, and Adams (1994), and Wallace and Naser (1995). However, there has been little research linking corporate disclosure to governance structures. Issues of corporate governance, transparency and disclosure have been the focus of researchers in the region only in recent years, particularly after the East Asian financial crisis in 1997.

It has been argued that the East Asian crisis is not only the result of the loss of investor confidence, but more importantly, is due to the weak corporate governance in many firms in this region (Tan, 2000; Mishra, Randoy and Jensen, 2001; Mitton, 2002). The lower transparency in emerging markets results in higher levels of asymmetric information and decreases in firm value (Jensen and Meckling, 1976). Firm value, on the other hand, is largely influenced by disclosure policy and governance environments. Lobo and Zhou (2001) indicate that firms wishing to enhance their value may do so by the comprehensive disclosure of information. Investors are usually ready to pay higher premiums for higher disclosure (Mitton 2002).

More specifically, disclosure helps investors come closer to the company's affairs and hence, reduces the gap between management and investors. The agency theory implies that

firms increase disclosure to avoid potential pressures from regulatory authorities. In order to improve the quality of disclosure, regulatory authorities in Malaysia adopted comprehensive disclosure requirements. Mere adoption of disclosure rules does not ensure higher level of disclosure. What is needed more is the effective institutional mechanism, i.e., corporate governance, to supervise and monitor managers not only to reduce agency cost but also to uphold a firm's image and reputation to the public.

This paper has three main objectives. The first objective is to explain accounting and corporate reporting in a developing country, Malaysia. Studying the level of voluntary disclosure in Malaysia provides additional insights into corporate reporting and enhances our understanding of accounting and disclosure practices of an emerging economy in East Asia. Our second objective is to provide an overview of the corporate governance structure in Malaysia. The third objective is to investigate how governance structure influences a firm's disclosure behaviour. This paper predicts that improved monitoring may lead to higher information disclosure, and thereby may narrow the gap between disclosure expectations and disclosure practices. Additionally, strong governance leading to improved disclosure is a key tool in capital market development. In particular, it creates confidence among the shareholders/investors who then pay higher prices for the stock, and hence, enhances the ability of a firm to raise capital from the security markets (Mitton 2002).

The corporate governance variables examined in our paper include board size (Zahra, Neubaum, and Huse, 2000), the proportion of independent non-executive directors on board (Fama and Jensen, 1983; Chen and Jaggi, 2000; Ho and Wong, 2001), family control (Chen and Jaggi, 2000; Ho and Wong 2001; Mishra et al., 2001), and the proportion of audit committee members to total members on the board (Ho and Wong, 2001). A firm's board of directors may be considered as the cornerstone of the governance system (Jensen and Meckling, 1976). Zahra, et al. (2000) argue that the size of the board can influence management to process information quickly and effectively about corporate

entrepreneurship. More importantly, they have found a positive association between board size and firm performance. No evidence exists so far regarding the association between board size and disclosure of information in CARs. Family control is considered in this paper to be a governance variable since substantial numbers of Malaysian firms are family owned and family controlled (Tan, 2000). The role of family control on corporate disclosure is unexplored, and hence, needs special attention. Mishra et al., (2001), for example, find a positive association between founding family control and firm value. However, no evidence so far has suggested that there is a relationship between corporate disclosure and family control.

The influence of audit committees on the extent of disclosure is also a new governance mechanism investigated in our research. Previous research has provided support for the positive association between the presence of an audit committee and financial disclosure (Ho and Wong, 2001). Since 2000, listed firms in Malaysia are required by law to establish audit committees. Accordingly, all listed firms are assumed to have audit committees. Therefore, our paper is particularly interested in determining the association between the proportion of audit committee members to total members on the board and the level of voluntary disclosure. It predicts that a higher proportion of audit committee members will influence managers to reduce information asymmetry.

Our results suggest a positive association between board size and voluntary disclosures, indicating a board's capability to influence managers to disclose more voluntary information. The association between the proportion of independent non-executive directors (INDs) on the board and voluntary disclosure is also positive in the study. This suggests that the inclusion of more INDs on the board increases the possibility of providing more voluntary information in the CARs. Another important variable that can influence managers' decisions is the amount of outside share ownership. Our study finds a positive relation between amount of outside ownership and the level of voluntary disclosure. However, the extent of voluntary disclosure is negatively related to family control. This

indicates that family owned firms have less incentive to provide more information to external users. The findings of our study have policy implications for Malaysia as well as for other East Asian countries because of similarities in the socio-cultural environment and ownership structure of firms in this region.

This study is organised as follows. Section 2 discusses corporate governance and the disclosure environment in Malaysia. Section 3 outlines prior research and the hypothesis development. Section 4 discusses the study sample and the research design. Section 5 presents and discusses the results. Section 6 contains the sensitivity tests. Finally, the conclusions, limitations, and implications of the study are discussed in Section 7.

Corporate Governance and the Disclosure Environment in Malaysia

Corporate governance has become an important issue in this region in the last decade as a result of the East Asian crisis in 1997 and the incidence of corporate failures. The East Asian crisis raises questions about corporate governance, transparency and the disclosure environments in producing relevant and reliable information. It has been argued that corporate governance is the act of protecting shareholders from expropriation by managers (Mitton, 2002). It benefits shareholders through increased disclosure of information, which results in higher firm value and lower asymmetric information.

Mitton (2002) also suggests that better stock performance is associated with firms that have higher disclosure quality. He considers disclosure quality as an important element of corporate governance and argues that disclosure standards play a critical role in corporate governance. John and Senbet (1998) note that corporate governance refers to those mechanical devices and structures that act as a check on managerial self-centred behaviour.

Corporate governance, in fact, provides a framework for internal control that reduces agency problems. It is argued that under intensive monitoring environments, managers' opportunistic behaviours, information asymmetry and intention to withhold

information for their own benefits are likely to be reduced, leading to an improvement in corporate disclosure (Ho and Wong, 2001).

Many countries around the world have introduced corporate governance codes and Malaysia is not an exception. The Malaysian Code on Corporate Governance was introduced in March 2000. Bursa Malaysia, formerly known as the Kuala Lumpur Stock Exchange (KLSE), adopted the provisions of the code in its listing rules, effective January 2001. These codes focus on the importance of transparency, accountability, internal control, board composition, and directors' remuneration. 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.

Corporate disclosure and reporting by listed firms in Malaysia are largely influenced by the Companies Act of 1965 and accounting standards approved by the Malaysian Accounting Standards Board (MASB). The Companies Act required publicly listed firms to prepare and submit annual accounts before the annual general meeting for approval in line with rules embedded in the Ninth Schedule of the Act. The primary feature of the regulation is that it provided guidelines about the contents to be included and the valuation of the respective items. Under the Companies Act of 1965, company directors are solely responsible for the preparation of annual accounts. The accounts must be audited by certified auditors before being presented to the shareholders at the annual general meeting. Publicly listed firms are also required by Bursa Malaysia to comply with its listing rules on disclosure and reporting.

The government of Malaysia has implemented a number of measures to enhance their standards of reporting and disclosure. The Financial Reporting Act was promulgated in Malaysia in 1997. The Malaysian Accounting Standards Board (MASB) was established under the Financial Reporting Act of 1997 to develop and issue accounting standards. Before its establishment, the accounting standards in Malaysia were governed by two accounting professional bodies: the Malaysian

Institute of Accountants (MIA), and the Malaysian Association of Certified Public Accountants (MACPA). The MIA was set up in 1967 by the government as a statutory body to regulate the accounting profession. Accountants must be admitted as members of MIA. The MIA is the only accountancy body empowered by law to regulate the accountancy profession in Malaysia. The MACPA was established by the private sector in 1958 to provide services to its members in the highest professional manner. The role of developing and issuing accounting standards is now carried out by the MASB. The Financial Reporting Foundation (FRF) was created under the Financial Reporting Act of 1997 to provide financial support to the MASB. The FRF has the responsibility to oversee MASB's performance. It also acts as an initial source of views for the MASB on accounting standards. The Financial Reporting Foundation has no direct responsibility for setting accounting standards.

The accounting standards describe methods of accounting or disclosure for all adopted accounting statements. These statements are expected to give a true and fair view of the firm's financial position and results. All listed firms must abide by the accounting standards adopted by the MASB, and hence, the accounting standards are mandatory only for the firms listed on the Bursa Malaysia. Compliance with the mandatory disclosures by listed firms does not tell much about corporate disclosure. However, no regulatory bodies focus on lead disclosures, i.e., the forward-looking information. Listed firms are encouraged to report relevant and material information in addition to the mandatory information necessary to enable existing and potential investors to measure their performance. But firms usually do not provide voluntary information unless the perceived benefits outweigh the costs (Hossain et al. 1994).

It is apparent from the review of the literature that disclosure is an important way for firms to create confidence among present and potential investors. Disclosure seems to be associated with corporate governance, i.e., firms with good governance are likely to disclose more information to attract a premium on their share price. Although several previous studies have examined the relationship between governance structures and firm value, few studies have examined the relationship between governance variables and disclosure of information (Chen and Jaggi 2000). The current paper focuses on the influence of corporate governance mechanisms on the extent of voluntary disclosures.

The Hypothesis and the Variables

The primary objective of this study is to examine the association between governance variables and the level of voluntary disclosures in annual reports of Malaysian firms. To examine the association, each firm in our sample has been identified by focusing on five governance variables. These governance variables are board size, independent non-executive directors, ownership structure, family control, and audit committee. The theoretical framework relating to these five governance variables and the testable hypotheses are discussed below.

Board Size

Board size may influence the level of voluntary disclosure. The level of disclosure is a strategic decision made of the board of directors. As a top-level management body, the board of directors formulates policies and strategies to be followed by managers. It has been argued that a greater number of directors on the board may reduce the likelihood of information asymmetry (Chen and Jaggi, 2000). Research emphasises the importance of strategic information and resources in a highly uncertain environment. Birnbaum (1984) suggests that uncertainty and the lack of information may be minimised by a larger board.

The size of the board is believed to affect the ability of the board to monitor and evaluate management and small board encourages faster information processing (Zahra, et al., 2000). Further, the ability of directors to control and promote value-creating activities is more likely to increase with the increase of directors on the board. With more directors, the collective experience and expertise of the board will increase, and therefore, the need for

information disclosure will be higher. We hypothesise:

H₁*: The number of directors on a board is positively related to the level of voluntary disclosure.*

Independent Non-executive Directors

The effectiveness of the corporate governance in reducing agency problems between management and shareholders depends significantly on the composition of the board of directors. A board is generally composed of inside and outside members. Inside members are selected from among the executive officers of a firm. They either belong to the management group or are the family that owns the firm. Outside directors are members whose only affiliation with the firm is their directorship. Empirical evidence on the importance of non-executive directors has been mixed. Kosnik (1990) argues that board performance is associated with the composition of directors. Outside directors are arguably more effective than inside directors in maximising shareholders' wealth. In contrast, Klein (1998) suggests that inside directors can contribute more to a firm than outside directors due to their firm-specific knowledge and expertise. The results of Agrawal and Knoeber (1996) suggest that outside representation on the board is not positively related to firm value. Ho and Wong (2001) do not find an association between the number of outside nonexecutive directors and the extent of voluntary disclosure. Goodstein, Guatam and Boeker (1994) highlight the importance of outside board members in carrying out the board's decision control function. Pearce and Zahra (1992) report that more outside directors on a board increase a firm's environmental uncertainty. Daily and Dalton in their study (1994) suggest that bankrupt firms tend to have a lower proportion of outside directors.

Leftwich, Watts and Zimmerman (1981) demonstrate that firms can expect more voluntary disclosure with the inclusion of a larger number of independent non-executive directors on the board. Further, inclusion of independent non-executive directors on corporate boards improves the

comprehensiveness and quality of disclosure (Forker, 1992; Chen and Jaggi, 2000). The presence of outside directors plays a critical role in corporate governance in the release of adequate information. A firm may have a higher level of disclosure if the board consists of more outside directors. These observations and arguments as a whole suggest the following hypothesis:

H₂: *A higher proportion of independent non-executive directors on a board is positively related to the level of voluntary disclosure.*

Ownership Structure

According to the efficient monitoring hypothesis, increased outside ownership serves to monitor managers' actions and reduces the likelihood that managers will withhold information for their self-interest. Information disclosure is likely to be greater in firms where ownership is dispersed widely (Hossain et al., 1994). This view thus predicts a positive relation between outside ownership and disclosure. Therefore we hypothesise that:

H₃: *A higher proportion of outside share ownership is positively related to the level of voluntary disclosure.*

Family Control

The level of information disclosure is likely to be less in family-controlled firms because the demand for information is less compared to firms that have wider ownership (Chau and Gray, 2002). Family control as a governance variable has particular significance in the current investment scenario as the vast majority of the firms in East Asia are owned and controlled by families (La Porta, Lopez-de-Silanes, Shleifer and Vishny, 2000; Tang, 2000; Ho and Wong, 2001). Mishra et al. (2001), for example, find a positive association between founding family control and firm value. They suggest that founding family CEOs can enhance firm performance when their cash flow rights are more aligned with their control rights or when family influence does not create shareholder entrenchment. In contrast, Ho and Wong (2001) find a negative relation between family controlled firms and the level of voluntary disclosure. Family controlled firms have

concentrated power and are very reserved in making voluntary disclosures but tend to adhere to rules and regulations (Tan 2000). The following hypothesis is thus formulated:

H₄: *Family control is negatively related to the level of voluntary disclosure.*

Audit Committee

The presence of an audit committee significantly influences the magnitude of corporate disclosure (Ho and Wong 2001). The composition of audit committees with insiders and outsiders is also an important factor in examining the level of disclosure. Since 2002, audit committees in Malaysian listed companies have been mandated by the Bursa Malaysia. Further, the majority of the audit committee members must be non-executive directors. They are expected to enhance corporate transparency and disclosure. Forker (1992) regarded the audit committee as an effective monitoring tool to improve disclosure and reduce agency costs.

It is expected that the size of the audit committee is associated with the level of disclosure and vice versa. This leads to the proposition that a higher proportion of audit committee members to total members on the board will enhance the quality of information disclosed. This leads to the following hypothesis:

H₅: *A higher proportion of audit committee members to total members on a board is positively related to the level of voluntary disclosure.*

Data Collection and Research Design

Development of a Voluntary Disclosure Index

Previous research has examined the disclosure behaviour of firms using a disclosure checklist. The disclosure checklist developed by Meek, Roberts and Gray (1995) was used to examine the voluntary disclosure of firms in developed countries. Chau and Gray (2002), and Ho and Wong (2001) have also used this disclosure checklist with some modifications

to examine the voluntary disclosure of Hong Kong and Singapore firms. The level of voluntary disclosure of the sample firms in this study was measured using a disclosure index that was developed in consultation with the disclosure checklist used by Chau and Gray (2002), Ho and Wong (2001), and Ferguson, Lam and Lee (2002).

A total of 91 items were identified in compliance with voluntary disclosure items provided by listed firms in Malaysia. These items were then compared with listing requirements for Bursa Malaysia and a mandatory disclosure checklist prepared by a Big-4 accounting firm (KPMG) in Malaysia. Some items were excluded in this process. For example, earnings per share, dividend per share, research and development costs were treated as mandatory information as per the MASB, and hence, excluded. Finally, the disclosure index settled at 74 information items, which were financial, non-financial as well as strategic in nature. A copy of the disclosure checklist is provided in *Appendix 1*.

We employed an unweighted approach for the study. This approach is most appropriate when no importance is given to any specific user-groups (Cooke, 1989; Hossain et al., 1994). The items of information are numerically scored on a dichotomous basis. According to the unweighted disclosure approach, a firm is scored "1" for an item disclosed in the annual report and "0" if it is not disclosed. The total voluntary disclosure index (TVDX) is then computed for each sample firm as a ratio of the total disclosure score to the maximum possible disclosure by the firm. The disclosure index for each firm is then expressed as a percentage.

One potential problem with this approach is that a firm may be penalised for not disclosing an item of information although there is no information to disclose on it. In order to overcome this problem, an information item was coded as "not applicable" when no similar information could be found in any part of the annual report. For firms having not applicable items, the use of a relative index is suggested (Owusu-Ansah, 1998).

The relative index approach is the ratio of what a firm actually disclosed to what the firm

is expected to disclose (for example, if the maximum possible disclosure score for a firm is 72, excluding two irrelevant items, and the firm did disclose 56 out of the 72 items in the annual report, then the TVDX is = 56/72 = 0.78). This approach has been used in several prior studies (Cooke, 1989; Wallace et al., 1994; Wallace and Naser, 1995; Owusu-Ansah, 1998; Ho and Wong, 2001; Chau and Gray, 2002).

Typically the extent of voluntary disclosure depends largely on the items of information included in the disclosure checklist. Selection of information items is thus a very critical factor in the measurement of corporate disclosure. A disclosure checklist incorporates significant items of information that managers are expected to provide in CARs in order to satisfy the information needs of different user-groups (Ho and Wong, 2001; Chau and Gray, 2002). The employment of the disclosure index approach is therefore considered effective to capture voluntary disclosures by the sample firms.

Regression Model and Variables Defined

We employ the ordinary least squares (OLS) regression to examine the relationship between explanatory variables and voluntary disclosure. The following regression equation is estimated for our study:

$$TVDX = \alpha + \beta_1 BSZE + \beta_2 PIND + \beta_3 POSO + \beta_4 FC + \beta_5 PAC + \beta_6 NAF + \beta_7 TA + \beta_8 TCE + \beta_9 TNE + \beta_{10} LEV + \beta_{11} PRFT + \varepsilon$$

Where:
TVDX = Total voluntary disclosure index for each sample firm
BSZE = Board size
PIND = Proportion of independent non-executive directors
POSO = Proportion of outside share ownership
FC = Family control
PAC = Proportion of audit committee members
NAF = Nature of audit firms
TA = Total assets
TCE = Total capital employed
TNE = Total number of employees

LEV = Leverage
PRFT = Profitability
α = the constant, and ε = the error term

Measurement of Independent Variables

Data on board size, composition of board members, ownership structure, family control, and audit committee were collected from the 2002 annual reports. The number of members on a board represents board size. We divided the number of independent non-executive directors on the board by the total number of directors on the board to compute the proportion of independent non-executive directors to total number of directors. Ownership structure is the percentage of outside share ownership in the firm. The percentage of inside share ownership (CEO and executive directors) is computed first to arrive at the outside shareholdings. There has been no rule set thus far to classify firms into family controlled and non-family controlled.

Prior research (Chen and Jaggi, 2000) classified firms as family controlled if 10% or more of their outstanding common shares belong to a family and at least one family member is on the board. Our survey of Malaysian firms listed on Bursa Malaysia reveals that a family member or members on the board mostly holds around 25% or more of their paid up capital in both direct and indirect forms. Based on this finding, we employed 25% as the cut-off point to classify firms as family controlled.

A binary scheme is used to denote the appearance of family firms. We have assigned "1" for a family controlled firm and "0" otherwise. Another variable, the percentage of audit committee members, is found by dividing the number of members on the audit committee by the total members on the board.

Measurement of the Control Variables

We also used variables to control for factors that could affect firms' disclosure behaviour. The control variables used in this study are based on prior research (Firth, 1979; Cook, 1989; Lang and Lundholm, 1993; Ahmed and Nicholls, 1994; Hossain et al. ,1994; Wallace et al., 1994; Wallace and Naser, 1995; Owusu-Ansah, 1998).

Table 1: List of Variables, Labels, Expected Signs and Relationship in the Regression

Variables Labels in the OLS	Description of variables	Expected sign and relationship
TVDX	Total voluntary disclosure index. A firm's score divided by total possible score	Index
β_1 BSZE	Board size represents the total number of members on each board	(+) BSZE has a significant positive relationship with the level of voluntary disclosure.
β_2 PIND	Proportion of independent non-executive directors indicates the percentage of independent non-executive directors to total directors on board.	(+) PIND has a significant positive relationship with the level of voluntary disclosure.
β_3 POSO	Outside share ownership represents the percentage of outside share ownership to total shares outstanding of the firm.	(+) POSO is positively related to the level of voluntary disclosure.
β_4 FC	Family controlled. 1 for family controlled firms; 0 otherwise.	(-) FC is negatively related to the level of voluntary disclosure.
β_5 PAC	Percentage of audit committee members indicates size of the audit committee as a percentage of total members on the board.	(+) PAC has a significant positive relationship with the level of voluntary disclosure.
β_6 NAF	Nature of audit firms. 1 for local audit firms affiliated with Big-4; 0 otherwise	(+) NAF has a significant positive relationship with the level of voluntary disclosure.
β_7 TA	Total assets represents the size of the firms measured in log of total assets	(+) TA is associated positively with the level of voluntary disclosure.
β_8 TCE	Total capital employed is used as proxy of firm size and measured as log of total capital employed.	(+) TCE is associated positively with the level of voluntary disclosure.
β_9 TNE	Total number of employees represents the size of the firm	(+) TNE is associated positively with the level of voluntary disclosure.
β_{10} LEV	Leverage represents the relationship between a firm's long term debt and its book value of equity.	(+) LEV has a significant positive relationship with the level of voluntary disclosure.
β_{11} PRFT	Profit represents the relationship between earnings after tax and interest and total capital employed during the year under consideration.	(+) PRFT has a significant positive relationship with the level of voluntary disclosure.

These variables are firm size, leverage, profitability, and nature of audit firms. Firm size is measured as log of total assets and log of total capital employed. The total number of employees worked during the year is also used to measure firm size. Capital employed is the total of net worth and long-term loans.

Alternatively, it can be defined as total of fixed assets (net of depreciation) and net working capital, or total net assets less current liabilities. Leverage has been measured as the ratio of long-term liabilities to book value of equity and profitability as the ratio of return to capital employed.

Previous research (Ahmed and Nicholls, 1994; Wallace and Naser, 1995) provides evidence on the association between the type of audit firm and the level of disclosure. The research suggests that audit firms provide more information in the CARs due to their affiliation with the Big-4 international audit firms compared to audit firms without affiliation to the Big-4. We have used the same logic in our study to examine whether differences exist between these two types of audit firms in the disclosure of voluntary information. Consistent with prior research, we have scored "1" for a firm having a link to a Big-4 audit firm, and "0" otherwise.

Sample Selection and Data Collection

The sample for this paper is drawn from firms listed on the Bursa Malaysia at the end of 2002. Specifically, our sample includes firms listed on the Main Board of the Bursa Malaysia. The total number of firms enlisted on the Main Board of the Bursa Malaysia at the end of 2002 was 562. Because of their regulated and financial natures, firms under infrastructure projects, hotel, plantation, mining, trusts, closed-end funds and finance are excluded from the population.

From the list of 442 firms we randomly selected one out of every four firms listed, and hence a sample of 110 firms was selected. Of the sample firms we could download 94 annual reports for 2002 from the Bursa Malaysia website (www.bursamalaysia.com/). Another 11 firms' annual reports for 2002 were collected from the

USM (University Science Malaysia) library. The sample for the study finally stands at 105.

Table 2: Composition of the Sample by Industry Type

Industry	Frequency	Percent
Construction	7	6.7
Technology	8	7.6
Consumer Products	18	17.1
Industrial Products	35	33.3
Trading/ Services	21	20.0
Properties	8	7.6
Total	**105**	**100.0**

Table 2 reports the sample distribution by industry type. As can be seen from the table, the majority of the sample firms dealt in industrial products (33.3%), followed by trading/ services (20.0%), consumer products (17.1%), properties (15.2 %), technology (7.6%) and construction (6.7).

Results and Discussion

Results of Descriptive Statistics

Table 3 reports descriptive statistics for the sample firms. The results from the disclosure index indicate (TVDX) the highest score achieved by a firm is 75.7% and the lowest score is 35.1% with a standard deviation of 8.9%. The firms are widely distributed with regard to voluntary disclosure. The statistics on outside share ownership (POSO) indicate that a substantial portion of firm's shares (66.6%) are held by outside shareholders. The mean of the proportion of independent non-executive directors (PIND) to total directors on the board is 38.3%, which indicates that a significant number of directors are independent non-executive directors. The average board (BSZE) size is 7.9 with maximum and minimum sizes of 14 and 4 respectively. Members of the audit committee (PAC) comprise around 46.0% of members on the board.

The leverage ratio shows that on average the ratio of debt to equity is 40%, meaning that

long-term debt occupies a significant portion of the capital structure. The statistics on the return on capital employed (PRFT) indicate that a small portion of the sample firms show negative returns, while the maximum return is 33.3%. Again, the mean return for the sample firms is 3.8%. The average firm size is (Ringgit Malaysia) RM1495.9 million and RM1020.6 million respectively in terms of total assets (TA) and total capital employed (TCE). The firm size, proxies by total assets, total capital employed, and total number of employees (TNE) indicating that the sample firms are widely distributed.

Results of Multicollinearity Test

Since this study is concerned with the individual effect of the explanatory variables on the extent of voluntary disclosure, we test the presence of multicollinearity using the correlation matrix. The Pearson correlation analysis appears in Table 4. The analysis suggests that only one correlation coefficient of the two empirical indicants of firm size, total assets (TA) and total capital employed (TCE), is greater than the threshold level of 0.80.

We also use the Variance Inflation factor (VIF), another effective method of testing the multicollinearity in the regression model. The VIF figures of all the independent variables are below 2.0 and 2.5 except for firm size, proxies by log of total assets and log of total capital employed, which exceeds the threshold VIF value of 10. Both correlation and VIF results support the presence of multicollinearity in these two control variables. In order to examine the effect of multicollinearity, we conduct regression tests by excluding these two variables from the model and the regression is run.

The results (not reported here) indicate that all the experimental variables remained statistically significant with signs as predicted. Thus, the existence of multicollinearity in these two control variables has not provided any threat to the results obtained in the regression equation. Consequently, we keep these two control variables in our regression model.

Results of Multiple Regression Analysis

Table 5 reports the results of the multiple regression analysis in our study. The table shows the association between disclosure levels and the experimental variables as well as the control variables. The coefficient of coordination (*R-square*), F ratio, beta coefficients and *t-statistics* for the regression model and summarised results of the dependent variable (the level of voluntary disclosure) on the explanatory variables can be seen in the table. The results indicate an *R-square* of .61, and an F value of 12.96, which is significant at the 0.001 levels. The adjusted R-square is 56%. Both of these values suggest that a significant percentage of the variation in voluntary disclosure can be explained by the variations in the whole set of independent variables.

The most significant corporate governance variable is board size. The coefficient for board size is 0.277 and positive. It is statistically significant at the 0.002 level which suggests that a larger board will provide more voluntary information than a smaller one. Thus, hypothesis 1 is supported. The percentage of independent non-executive directors on the board is another important explanatory variable in the regression model for which the coefficient is positive (0.159) and statistically significant at 0.045 level. The result thus suggests that firms with a higher proportion of INDs disclose more voluntary information. The next significant corporate governance variable is the percentage of outside share ownership. The regression coefficient for the variable is 0.357, which is positive and statistically significant at the 0.001 level. This provides support for hypothesis 3 that a higher proportion of outside share ownership is associated higher voluntary disclosure.

The coefficient on family control is negative (-0.187) but not significant at the conventional level, contrary to H_4. The coefficient on audit committee size as a percentage of total members on the board is also not insignificant, indicating that the size of the audit committee does not impact the level of disclosure. Therefore hypothesis 5 is not supported.

Table 3: Descriptive Statistics for All Variables

	Mean	Minimum	Maximum	Std. Deviation
TVD	53.20	35.14	75.68	8.9388
BSZE	7.97	4	14	1.77
PIND	38.28	12.50	71.43	10.0503
POSO	66.63	17.91	100	23.9432
FC	0.62	0	1	0.49
PAC	46.01	25.00	75.00	10.2979
NAF	0.67	0	1	0.47
TA	1495.94	76.87	27713.70	3442.9715
TCE	1020.59	63.01	22420.70	2603.4733
TNE	3258.57	61	65708	8444.13
LEV	0.40	0.00	4.14	0.6426
PRFT	3.76	-25.94	33.32	10.6474

TVDX	=	*Total voluntary disclosure index for the sample firms*
BSZE	=	*Total number of members on each board*
PIND	=	*Percentage of independent non-executive directors to directors on board*
POSO	=	*Percentage of outside share ownership to total shares of the firm*
FC	=	*1 for family controlled firms, 0 otherwise*
PAC	=	*Percentage of audit committee members to total members on board*
NAF	=	*1 for the audit firm affiliated with Big-4, 0 otherwise*
TA	=	*Natural log of the firm's total assets in millions of Malaysian Ringgit*
TCE	=	*Natural log of the firm's total capital employed in millions of Malaysian Ringgit*
TNE	=	*Total number of employees of a firm*
LEV	=	*Ratio of long-term debt to book value equity*
PRFT	=	*Return on capital employed*

With regard to control variables, our study suggests that firms that are larger in size in respect to number of employees (p value < 0.005), or firms that are more profitable (p value < 0.001) tend to have more voluntary disclosures.

The coefficient for the nature of audit firms is insignificant, and hence, unrelated to voluntary disclosure. This is consistent with the results reported by Wallace and Naser (1995) for Hong Kong firms. Similarly, leverage, another control variable did not provide any significant result that is consistent with Chen and Jaggi (2000). Finally, regression results for firm size (proxies by total assets and total capital employed) are also insignificant. This is inconsistent with Ho

and Wong (2001) and Ferguson et al. (2002) where they use total assets as a proxy for firm size.

Discussion of Test Results

The study examined a set of governance variables as determinants of voluntary corporate disclosure for the full sample. Using the regression model conclusions were made on the basis of the results obtained. The results are summarised and presented in Table 6. It was hypothesised that a greater number of directors on the board would signify a firm's ability to influence managers to provide more voluntary information in the corporate annual reports. The results support the hypothesis.

Table 4: Pearson Correlation Analysis Results (N= 105)

VARIABLES	TVD	BSIZE	PIND	POSO	FC	PAC	NAF	TA	TCE	TNE	LEV	PRFT
BSIZE	.268**	1.000										
PIND	.245**	-.183*	1.000									
POSO	.579***	-.016	.212*	1.000								
FC	-.575***	-.013	-.209*	-.742***	1.000							
PAC	-.059	-.623***	.410***	.094	-.072	1.000						
NAF	.249**	.057	-.021	.249**	-.180*	-.046	1.000					
TA	.391***	.240**	.163*	.239**	-.247**	-.007	.085	1.000				
TCE	.392***	.219*	.137+	.254**	-.244**	-.011	.099	.970***	1.000			
TNE	.370***	.029	.276**	.140+	-.122	.091	.001	.673***	.692***	1.000		
LEV	-.012	.007	.195*	-.024	.023	.057	-.144+	.334***	.217*	.237**	1.000	
PRFT	.253**	.161+	-.256**	-.027	-.155+	-.230**	.041	.005	.007	-.053	-.335***	1.000

* $p < 0.05$, two-tailed; **$p < 0.01$, two-tailed; *** $p < 0.001$, two-tailed; + $p < 0.1$, two-tailed.

TVDX	=	Total voluntary disclosure index for the sample firms
BSZE	=	Total number of members on each board
PIND	=	Percentage of independent non-executive directors to directors on board
POSO	=	Percentage of outside share ownership to total shares of the firm
FC	=	1 for family controlled firms, 0 otherwise
PAC	=	Percentage of audit committee members to total members on board
NAF	=	1 the audit firm is affiliated with Big-4, 0 otherwise
TA	=	Natural log of the firm's total assets in millions of Malaysian Ringgit
TCE	=	Natural log of the firm's total capital employed in millions of Malaysian Ringgit
TNE	=	Total number of employees of a firm
LEV	=	Ratio of long-term debt to book value equity
PRFT	=	Return on capital employed

Table 5: OLS Regression Results

Variable	Coefficient	Standard Error	Beta t values	Significance
BSZE	.277	.449	3.116	.002***
PIND	.159	.070	2.003	.045**
POSO	.357	.038	3.488	.001***
FC	-.187	1.883	-1.814	.073*
PAC	.039	.080	.426	.671
NAF	.110	1.293	1.607	.112
TA	-.041	.001	-.126	.900
TCE	.009	.001	.028	.977
TNE	.272	.000	2.850	.005***
LEV	.020	1.230	.223	.824
PRFT	.256	.065	3.286	.001***

* $p < 0.1$, two-tailed, **$p < 0.05$, two-tailed, *** $p < 0.01$, two-tailed*
TVDX   =   Total voluntary disclosure index for the sample firms
BSZE   =   Total number of members on each board
PIND   =   Percentage of independent non-executive directors to directors on board
POSO   =   Percentage of outside share ownership to total shares of the firm
FC   =   1 for family controlled firms, 0 otherwise
PAC   =   Percentage of audit committee members to total members on board
NAF   =   1 the audit firm is affiliated with Big-4, 0 otherwise
TA   =   Natural log of the firm's total assets in millions of Malaysian Ringgit
TCE   =   Natural log of the firm's total capital employed in millions of Malaysian Ringgit
TNE   =   Total number of employees of a firm
LEV   =   Ratio of long-term debt to book value equity
PRFT   =   Return on capital employed

R squire = 0.605
Adjusted R squire = 0.559
F value = 12.963
F significance = 0.000
Durbin- Watson test = 2.254

This finding is similar to Zahra et al. (2000) where they found that the size of the board increases the directors' ability to monitor managers in quick information processing. A large board is thus viewed as an effective governing mechanism to enhance transparency and disclosure.

Our findings suggest that firms with a higher proportion of outside share ownership tend to disclose more voluntary information. The agency theory on the relationship between ownership structure and disclosure of corporate information leads to the conclusion that firms

should follow an ownership structure that insists on corporate management being more transparent. This study lends support for a higher level of outside ownership to provide better corporate governance, and hence, a higher level of disclosure. This result is consistent with the evidence of Chau and Gray (2002).

The study also reports a positive association between the proportion of independent non-executive directors on the board and the extent of voluntary disclosure. The result is consistent with the studies of Leftwich et al. (1981), Fama and Jensen (1983), Forker (1992), and Chen and

Jaggi (2000), but inconsistent with the result of Ho and Wong (2001).

An important implication of this finding is that regulatory authorities should insist that listed companies in Malaysia include more independent non-executive directors on the board. Presently in Malaysia it is mandatory for listed firms to maintain at least one-third of the board as independent non-executive directors.

The results indicate that as expected, the association between family control and the level of voluntary disclosure is negative and significant, suggesting that family-controlled firms have little or no motivation to disclose information voluntarily. That is, family control reduces the level of voluntary disclosure. This is consistent with Chen and Jaggi (2000), and Chau and Gray (2002). This finding might have implications for other Asian countries where the boards are dominated by the majority of family members.

Table 6: Summary of the Regression Results

Variables Labels in the OLS	Expected Sign	Results
TVD	Index	Index
β_1 BSZE	(+)	Supported
β_2 PIND	(+)	Supported
β_3 POSO	(+)	Supported
β_4 FC	(-)	Supported
β_5 PAC	(+)	Not supported
β_6 NAF	(+)	Not supported
β_7 TA	(+)	Not supported
β_8 TCE	(+)	Not supported
β_9 TNE	(+)	Supported
β_{10} LEV	(+)	Not supported
β_{11} PRFT	(+)	Supported

We predicted that disclosure exhibits more voluntary information with the increase in size of an audit committee. The results do not support our prediction. This is inconsistent with Ho and Wong (2001) who found a positive association between the existence of an audit committee and the level of voluntary disclosure.

Sensitivity Analysis

The disclosure instrument provides an aggregate voluntary disclosure rating that is the total of the ratings for eleven components of disclosure: general business information, corporate strategy, corporate governance, financial information, financial review, acquisition and disposal, forward-looking information, employee information, social responsibility, and graphic discussion of business information. We examine the relation between each of these eleven components of disclosure and the corporate characteristics examined in this study.

This allows us to identify whether the observed relations between disclosure level and firm specific factors vary across these eleven components. The results (untabulated) indicate that our governance variables such as board size, fraction of independent directors, outside share ownership are significant across all eleven categories of disclosure. These results not only confirm our earlier findings but also support results documented in Gul and Leung (2004).

Summary, Conclusions and Implication for Further Study

The East Asian financial crisis has underlined the need for more disclosures in CARs. Regulatory authorities in this region believe that the time is ripe to undertake measures for improving transparency and accountability. However, mere adoption of rules and regulations to improve disclosure is not effective. It is the concerted efforts of those in charge with the direct responsibility of determining corporate policies and practices.

Corporate governance is admittedly a key factor for corporate disclosure and special attention from researchers is thus warranted. There has been little research to investigate corporate governance structure with the extent of voluntary disclosure. Our paper is an extension of previous research where a set of corporate governance variables is considered to examine their association with the level of voluntary disclosure.

The purpose of this study was to examine corporate governance factors and their influence on voluntary disclosure. These factors include board size, proportion of independent non-executive directors on the board, outside share ownership, family control, and the size of the audit committee as a percentage of the total members on board. In particular, our study aimed to determine which of these factors were significantly related to increased disclosure. We also controlled for the variables suggested in prior research as significant contributors to voluntary disclosure. These control variables included: firm size, leverage, nature of audit firms, and profitability. We used the disclosure index to measure voluntary disclosure on a sample of 105 Malaysian listed firms.

The results of our paper have several implications. The results of our study show that a larger board is associated with more voluntary disclosures. However, the percentage of audit committee members to total members on the board has proven to be not unrelated to voluntary disclosure. It suggests that the quality rather than size of the audit committee is generally effective in ensuring more corporate transparency. At present, the audit committee is formed with no less than three directors and must ensure that at least one member of the committee is a member of the MIA or has at least three years of work experience.

The findings of our study also support that a higher proportion of INDs is related to higher corporate transparency in the form of a higher level of disclosure. These findings may have implications for regulatory authorities to mandate an increased proportion of INDs on the board to secure higher levels of disclosure. We

predicted that voluntary disclosure is negatively related to family control. The results support this view. It indicates that family controlled firms are less transparent and more conservative in the release of information.

There are a number of limitations of our paper as well. First, our study is limited to non-financial firms in Malaysia. The results may not extend across all firms in Malaysia. Second, the researchers' constructed disclosure index has been used in the study. The index is very sensitive and can affect the results if the selected items of information improperly. Third, our study finds the existence of multicollinearity in two size control variables. However, that multicollinearity does not impact our primary findings. Information for other size control variables, such as market value, is not available for analysis. Fourth, the study considers only one year of data. The results may differ across different years if multiple years are considered for analysis. Finally, the study investigates the extent of voluntary disclosure leaving the other facet of disclosure i.e., mandatory disclosure. The higher levels of voluntary disclosures, therefore, do not necessarily mean higher transparency. The results of our study should be interpreted with these limitations in mind.

Future research on voluntary disclosure should seek to take into account all listed firms under the non-financial group. Additionally, studying the same research issues found here but in a different industry sector would be an interesting extension of this study. This may reveal interesting results in terms of variations within the industrial sectors. Future research should include market value as the control variable for firm size in the regression model.

Further, future research should focus on the issues we raise in this paper using a disclosure index, weighting in on financial analysts and investors' evaluations rather than a researcher-generated index.

Finally, this study covers the annual reports for a single year. Additional research is needed to assess the trends of voluntary disclosure and the quality of corporate governance over time.

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Appendix 1
Voluntary Disclosure Checklist

	General Corporate Information
1.	Brief history of the company
2.	Corporate structure
3.	Physical output and capacity utilisation
4.	Principal activities
	Corporate Strategy
5.	Statement of corporate strategy and objectives
6.	Action taken to achieve corporate objectives and strategy
7.	Statement of operating goals and strategy
8.	Action taken to achieve the goals and strategy
9.	Strategy to improve performance
	Corporate Governance
10.	Name of principal shareholders
11.	Category of shareholders
12.	List of Directors
13.	Shares held by directors of the company
14.	Age of the Directors
15.	Educational qualification of the executive directors
16.	Educational qualification of the non-executive directors
17.	Educational qualification of the independent non-executive directors
18.	Experience of the executive directors
19.	Experience of the non-executive directors
20.	Experience of the independent non-executive directors
21.	Position or office held by executive directors
22.	Other directorship held by executive directors
23.	Other directorship held by non-executive directors
24.	Other directorship held by independent non-executive directors
25.	Remuneration of the directors
	Financial Information
26.	Amount and sources of revenue
27.	Cost of goods sold for the period
28.	Operating profits/losses before extraordinary gains and losses
29.	Details of operating expenses
30.	Current assets and its composition
31.	Current liabilities and its composition
32.	Break up of receivables
33.	Sources of raw materials
34.	Dividend payout policy
35.	Retained profits
36.	Bank loans, mortgage and their uses
37.	Advertising information
38.	Foreign Currency information
39.	Intangible assets break-down
40.	Policies regarding the amortisation of intangible assets

Financial Review Information
41. Liquidity ratios
42. Debt/equity ratio
43. Return on capital employed
44. Return on shareholders' equity
45. Other key financial ratios
46. Comparative financial position for three to five years or more
47. Dividend per ordinary share for the period
48. Major markets of the products
49. Share price information
50. Discussion of the company's operating results for the past years
51. Explanation provided for change in sales
52. Explanation provided for change in operating income/net income
53. Explanation provided for change in market share
54. Discussion of competitive position of the company
55. Discussion of new product development

Acquisitions and Disposals
56. Acquisition and disposal of fixed assets
57. Reasons for acquisitions
58. Reasons for disposals
59. Capital expenditure for the period
60. Details of company investment

Projected Information
61. Projection of future profits
62. Projection of future sales
63. Forecast of cash flows
64. Planned capital expenditure

Employee Information
65. Total number of employees for the firm
66. Category of employees by sex
67. Policy on employee training
68. Amount spent on training
69. Number of employees trained

Social Responsibility Information
70. Information on safety measures
71. Environmental protection programs
72. Information on community services

Graphic Information
73. Graphic presentation of financial information
74. Graphic presentation of non-financial information