EXPLORING THEORETICAL EXPLANATIONS OF VOLUNTARY DISCLOSURE BY QUANTITATIVE AND QUALITATIVE INVESTIGATION: EVIDENCE FROM MALAYSIA

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DECLARATION

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ABSTRACT

This thesis explores disclosure theories through examining voluntary disclosure in Malaysian corporate annual reports. The objectives of the study are; (i) to evaluate the extent of voluntary disclosure in relation to new corporate governance regulations, (ii) to determine changes in factors influencing voluntary disclosure in annual reports following the actions of the Malaysian government in response to the 1997 financial crisis, (iii) to assess the relative applicability of established disclosure theories in explaining managerial motives for voluntary disclosure in a developing country and (iv) to use interview-based research to complement results from statistical analysis.

The contribution of this study is four-fold. Firstly, it shows how theories originating in developed countries help explain managerial decisions on voluntary disclosure in a developing country. The analysis of statistical results and interview findings leads to the development of a model of theoretical interpretation of factors influencing voluntary disclosure in annual reports.

Secondly, contrary to expectations, this study finds that none of the three variables representing new governance initiatives, namely the proportion of independent directors, an independent chairman and financial year-end is statistically significant in explaining voluntary disclosure in annual reports. The statistical results show that traditional influences such as director ownership and domination of family members on the board continue to influence voluntary disclosure.

Thirdly, interviews contribute to validation of statistical results in respect of selected tested variables and disclosure indices for specific companies. Interviews also enhance the interpretation of statistical findings and help in unravelling other factors influencing voluntary disclosure especially those not easily captured in a statistical model.

Fourthly, the combination of qualitative interview technique, quantitative multiple regression analysis and link to theories presents a methodological extension to research in accounting disclosure practice.

LIST OF ABBREVIATIONS AND ACRONYMS

AGM	Annual General Meeting
CA	Companies Act
CMP	Capital Market Masterplan Malaysia
CPA	Certified Public Accountant
CSR	Corporate Social Responsibility
EMP	Eighth Malaysia Plan
EPS	Earnings per share
FRA	Financial Reporting Act
FRF	Financial Reporting Foundation
GDP	Gross Domestic Product
GRQ	General research question
HKSA	Hong Kong Society of Accountants
IAS	International Accounting Standard
KLSE	Kuala Lumpur Stock Exchange
MACPA	Malaysian Association of Certified Public Accountant
MASB	Malaysian Accounting Standard Board
MCCG	Malaysian Code on Corporate Governance
MIA	Malaysian institute of Accountants
MICG	Malaysian Institute of Corporate Governance
MICPA	Malaysian Institute of Certified Public Accountants
MSWG	Minority Shareholder Watchdog Group
NDP	National Development Policy
NEAC	National Economic Action Council
NEP	National Economic Policy
NTA	Net tangible assets
NVP	National Vision Policy
OPP	Outline Perspective Plan
PAT	Profit after tax
PR	Public relations
PwC	PricewaterhouseCoopers
RCG	Report on Corporate Governance
ROCE	Return on capital employed
SC	Securities Commission
SCA	Securities Commission Act
SIR	Securities Industry Regulation
SOCPA	Saudi Organization of Certified Public Accountants
SPM	Speech of the Prime Minister
SRQ	Specific research question
UK	United Kingdom
US	United States
VIF	Variance Inflation Factor

CHAPTER 1: INTRODUCTION, MOTIVATION, OBJECTIVES AND STRUCTURE OF THE THESIS

1.1 Introduction

Voluntary disclosure in annual reports has been the subject of a great deal of empirical research (e.g. Chow and Wong-Boren, 1987; Cooke, 1989 & 1991; Hossain et. al., 1994 & 1995; Wallace et al., 1994; Wallace and Naser, 1995; Raffournier, 1995; Inchausti, 1997; Ho and Wong, 2001a; Haniffa and Cooke, 2002; Chau and Gray, 2002; Ferguson et al., 2002; Naser et al., 2002; and Eng and Mak, 2003). Although much attention has been given to the area in the academic literature, more research is needed to further understand and unveil factors influencing corporate disclosure behaviour, particularly in developing economies and emerging markets. Investigation of different categories of variables may help in identifying factors that may be peculiar or specific to a particular type of environment and determining variables that dominate corporate disclosure policy. This in turn can provide a broader basis to gauge the extent to which extant theoretical frameworks, mainly developed in the US and UK, are able to explain disclosure practice outside those countries.

The need for more rigorous analysis of corporate disclosure behaviour has been emphasised many times in the literature. Wallace and Gernon (1991) call for more evaluation of the cultural impact on accounting systems around the world. Review studies have also identified the relationship between disclosure, corporate governance and management incentives to be a potentially useful area for further research (Healy and Palepu, 2001; and Core, 2001). These studies show that corporate disclosure is still a fertile area to be researched and that there is an opportunity to contribute to current knowledge by identifying additional factors and managerial motives for corporate voluntary disclosure.

Empirical research into accounting disclosure in developing capital markets in particular has indicated the importance of ownership structure (Chau and Gray, 2002;

and Eng and Mak, 2003), corporate governance (Chen and Jaggi, 2000; Ho and Wong, 2001a; Haniffa and Cooke, 2002; and Eng and Mak, 2003) and culture (Haniffa and Cooke, 2002). These findings give support to the view that national differences in disclosure levels are driven largely by differences in corporate governance and sources of finance (Choi et al., 2002; p. 146). High ownership concentration and family-owned businesses in many emerging market countries mean that public disclosure is less developed because insiders are closely informed about the company's financial position and activities.

1.2 Motivations of study

Fields et al. (2001) highlight the need to have a comprehensive theory that can help provide guidance to researchers in structuring empirical experiments, in identifying appropriate variables and in formulating alternative hypotheses. Healy and Palepu (2001) conclude that prior research supports the view that managers' financial reporting and disclosure choices are associated with contracting, political costs and capital market considerations. The authors however, add that more work is needed to understand why companies engage in voluntary disclosure. The above studies show the importance of theories in the academic research process, from planning the research design to explaining the observed practice. This provides the motivation to explore theoretical explanations of factors influencing voluntary disclosure in annual reports.

Fields et al. (2001) suggest that further progress in tests of accounting choice can be made by improving research design and exploring new methodologies. Examining corporate voluntary disclosure practice entails understanding managerial behaviour and motives. Employing a different research approach may contribute to a better understanding of issues related to voluntary disclosure. Explaining managerial behaviour and motives by qualitative research lose the rigour of quantitative research but may provide insights into other 'qualitative' factors influencing voluntary disclosure. This provides the motivation to examine voluntary disclosure in annual reports by qualitative method.

A company's decision to engage in voluntary disclosure might be a response to innovation, globalisation or changes in business and capital market environments (Healy and Palepu, 2001). The financial crisis of 1997 in South-East Asia provides an unusually severe instance of significant environmental change. The crisis which adversely affected most East Asian economies caused severe loss of investors' confidence in the Malaysian stock market. The aftermath of the crisis saw the Malaysian government taking measures to boost the economy and regain investors' confidence in the Malaysian capital market. The National Economic Action Council (NEAC) was set up in January 1998[1] to formulate plans for ensuring sustainable growth of the nation. The NEAC recommended that restoring market confidence could be achieved by improving and enhancing corporate governance, accountability and transparency.

In recognition of the need to enhance the standards of corporate governance in Malaysia, the government established a High Level Finance Committee in March 1998 to look into the issue of corporate governance in Malaysia. At about the same time the Malaysian Institute of Corporate Governance (MICG) was incorporated to promote awareness of the concept of corporate governance in Malaysia.[2] The Malaysian Code on Corporate Governance (MCCG) was published in 1999, setting out principles of best practice for good corporate governance. Compliance with the MCCG at that time was not mandatory, but the revised Listing Requirements of the Kuala Lumpur Stock Exchange (KLSE), announced in January 2001, require companies with financial years ending after 30 June 2001 to disclose in their annual reports the extent to which they have complied with the MCCG.

Efforts to further enhance corporate governance in Malaysian companies are also evident in the survey conducted jointly by the KLSE and PricewaterhouseCoopers Malaysia (PwC Malaysia). The 1998 survey basically examined the state of corporate governance in Malaysia companies (KLSE/PwC, 1998).[3] It was reported in

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[1] Source: National Economic Action Council Report, http://www.neac.gov.my 16/07/02

[2] Source: http://www.micg.net/pages/about MICG.htm 06/11/01

[3] A second survey was carried out by the same bodies in 2002. The key findings of the survey with regards to the development of corporate governance structures in Malaysian corporations are reported in section 3.5.4.2.

the survey that 94% of the respondents perceived that reforms to the then Corporate Governance regime was necessary. Among the reasons identified for reforms were the need to maintain and restore investors' interest and confidence in the equity market, the need to increase transparency, the need to protect minority shareholders' interests and the need to make directors and management more accountable to shareholders and the investing public.

The introduction of the MCCG and the survey undertaken jointly by the KLSE and PwC Malaysia show the importance attached by the Malaysian government on issues relating to corporate governance in the country. These factors can be expected to encourage listed companies to adopt best practice on corporate governance. The 1998 Survey also reported that 90% of the respondent companies had two or more independent non-executive directors on the board. Board composition, specifically the minimum proportion of independent directors on the board was subsequently included in the Best Practices recommended in the MCCG (MCCG, 1999). The finding of the 1998 Survey in respect of independent directors provides the motivation to examine whether companies that adopted the Best Practices recommended in the MCCG were also more transparent in reporting their activities and performance.

Additionally, the mandatory disclosure of the Statement of Corporate Governance in corporate annual reports for financial years ending after 30 June 2001 gives an opportunity to investigate whether a new regulation encouraging transparency in one area of disclosure (corporate governance) has led to greater transparency in other types of voluntary information disclosure. Examination of company annual reports after the 1997 financial crisis can also give some indication on whether the regulatory actions of the Malaysian government subsequent to the economic changes in South-East Asia reduced the dominant family influence on voluntary disclosure in Malaysia. [4]

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[4] Haniffa and Cooke (2002), using data from 1995 found the proportion of family members on the board to be a significant variable explaining voluntary disclosure in Malaysian company annual reports.

Fields et al. (2001) argue that the regulation of accounting affects the quality and quantity of financial disclosures. There has been a significant development in the regulatory framework for financial reporting in Malaysia. In 1997 the Malaysian Accounting Standards Board (MASB) was established under the Financial Reporting Act (FRA) to issue legally binding accounting standards for application by Malaysian incorporated companies. Until the establishment of the MASB, enforcement of accounting standards was undertaken by the professional accountancy bodies.[5] However, members of the professional accountancy bodies were more likely to be auditors or employees rather than directors of non-complying companies (Susela, 1999). With the introduction of the Securities Industry (Compliance with Approved Accounting Standards) Regulation (SIR) 1999, directors of listed companies who fail to comply with accounting standards issued by the MASB commit an offence and the Securities Commission (SC) is empowered to take action against these directors.[6] The new regulatory framework governing financial reporting in Malaysia which came into effect in 1997 provides an opportunity to investigate whether the establishment of a new regulatory regime has had any significant impact on the extent of voluntary disclosure in annual reports.

1.3 Objectives of study

The four main objectives of this thesis are as follows;

Objective 1: *To evaluate the extent of voluntary disclosure in corporate annual reports in relation to new corporate governance regulations implemented in 2001*

The first objective is to investigate voluntary disclosure in Malaysian corporate annual reports following the implementation of new regulations on corporate governance in 2001. The mandatory disclosure of the Statement of Corporate Governance in annual reports for financial years ending after 30 June 2001 is

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[5] The Malaysian professional accountancy bodies are discussed in section 3.5.2.
[6] The role of the SC discussed in section 3.5.5.

expected to encourage companies towards greater corporate accountability and transparency. The new regulatory regime for financial reporting, in force since 1997, is also expected to have an impact on corporate disclosure policy. Comparisons are made to prior research on Malaysia using data pre-1997. The findings will contribute towards understanding the relationship between mandatory and voluntary disclosures and assessing the impact of regulatory changes on the extent of voluntary information disclosure in annual reports.

Objective 2: *To determine if there have been any changes in factors influencing voluntary disclosure in annual reports following the actions of the Malaysian government in response to the 1997 financial crisis*

The second objective is to identify factors which have significantly influenced voluntary disclosure in corporate annual reports. Comparisons are made to results in prior studies to determine if there have been changes in factors influencing voluntary disclosure in annual reports. The findings will contribute towards assessing the impact of regulatory changes on factors determining corporate disclosure in a developing country.

Objective 3: *To assess the relative applicability of established disclosure theories in explaining managerial motives for corporate disclosure in a developing country*

The third objective is to explain voluntary disclosure level in corporate annual reports using extant theoretical frameworks mainly originating from developed countries. This will contribute towards assessing the relevance and applicability of disclosure theories in explaining corporate disclosure practice in developing countries, particularly to Malaysia.

Objective 4: *To use interview-based research to complement results from statistical analysis*

The fourth objective is to use interview-based techniques to complement results from statistical analysis. Interviews are expected to enhance the interpretation of statistical findings and shed light on other factors influencing voluntary disclosure, especially those not easily captured in a statistical model. Thus, interview findings will contribute towards reinforcing statistical results and extending ideas on factors influencing voluntary disclosure in annual reports.

1.4 Research questions

The general research questions (GRQ) of this study are as follows;

GRQ1: *To what extent are aspects of ownership, corporate governance and business culture statistically significant in explaining the extent of voluntary disclosure in annual reports of companies included in the KLSE Composite Index?*

GRQ2: *What insights are offered by interviews with users and preparers of annual reports to further unravel factors influencing corporate disclosure decision and to enrich the interpretation of statistical findings?*

These GRQs are further divided into more specific questions as follows;

Specific Research Question One (SRQ1): What is the extent of annual reports voluntary disclosure of companies included in the KLSE Composite Index?

Specific Research Question Two (SRQ2): Which variables are statistically significant in explaining disclosure variability among these companies?

Specific Research Question Three (SRQ3): How may the variations in the level of annual reports voluntary disclosure of these companies be explained in terms of the Malaysian culture and economic environment and the relevant theoretical frameworks?

Specific Research Question Four (SRQ4): How does interview research with users and preparers of annual reports help the interpretation of statistical findings and help assess the relative applicability of theoretical models?

Specific Research Question Five (SRQ5): What are the perceptions of users and preparers of annual reports on issues related to voluntary disclosure in annual reports and how do interview findings lead to theoretical understanding?

1.5 Methodology and method

This study adopts a hypothetico-deductive approach to determine variables which are significant in influencing voluntary disclosure in Malaysian corporate annual reports. Hypotheses are formulated based on a theoretical framework, prior empirical findings and features of the Malaysian environment. These hypotheses are tested using multiple regression analysis. The study combines quantitative (regression analysis) and qualitative (personal interviews) techniques, and uses primary (interview findings) and secondary (corporate annual reports) data to answer the research questions of the thesis. The research methods are summarised below.

1.5.1 Data collection

Data for this research were obtained from an analysis of corporate annual reports and semi-structured personal interviews. The companies chosen for analysis were those included in the Composite Index on the KLSE. These companies were the top 100 most actively traded stocks and generally large in size. The final selection comprises 87 companies, after excluding 13 finance companies. The English language versions of the annual reports for the year 2001 for the selected companies were downloaded from the KLSE website. This represents the most recent source of data available at the start of the study. To complement the results from the statistical analysis, interviews were held with 27 market participants, comprising company financial controllers, audit partners, regulators, investment analysts and bankers. Each interview lasted for about forty-five minutes to one and a half hours.

1.5.2 The research instrument

A researcher-constructed checklist was used to measure the extent of voluntary disclosure in company annual reports. This checklist was drawn having regard to those employed in prior studies (e.g. Chow and Wong-Boren, 1987; Cooke, 1989 & 1991; Hossain et al., 1994; Leventis, 2001; and Haniffa and Cooke, 2002) and ensuring that mandatory items were excluded. Expert opinions were also sought from an investment analyst and a senior manager at the KLSE to refine the list so that it would reflect items that were considered important for disclosure in a Malaysian corporate annual report. With regards to the interview questionnaire, the questions were open-ended, formulated based on the research questions outlined in section 1.4 of this thesis. It was considered appropriate to use open-ended questions because such an approach gives freedom to the respondents to express their thoughts and views freely (Smith, 1972; p. 84 and Oppenheim, 1992; p. 112).

1.5.3 Analysis of annual reports

The extent of information voluntarily disclosed in annual reports was evaluated using scores based on an unweighted index (Cooke, 1989 & 1991; Meek et al., 1995; and Chau and Gray, 2002). To ensure that companies were not penalised for non-disclosure of irrelevant items each annual report was read in its entirety, following Cooke (1989 & 1991), Hossain et al. (1994 & 1995), Wallace et al. (1994) and Chau and Gray (2002). The voluntary disclosure index was derived by computing the ratio of actual scores awarded to the maximum possible score attainable for items appropriate to that company. Because examination of data revealed that the disclosure indices and continuous independent variables were not normally distributed, all continuous variables were transformed into normal scores, a method proposed by Cooke (1998). Univariate and multivariate analyses were undertaken to identify factors which significantly influenced voluntary disclosure in annual reports.

1.5.4 Analysis of interviews

The interview analysis was based on transcripts prepared after each interview. These transcripts were prepared based on notes taken during and immediately after the

interviews and listening to interview tapes. Analysis was made using content analysis (Easterby-Smith et al., 2001; pp. 105 - 108) to identify themes or keywords emerging from interview responses to each question. These themes and keywords were then arranged in a table to enable scoring of the frequency with which each appeared in the transcripts.

1.6 Contribution to knowledge

The contribution of this study is four-fold. Firstly, it shows how theories originating in developed countries help explain managerial decisions on voluntary disclosure in a developing country. The analysis of statistical results and interview findings leads to the development of a model of theoretical interpretation of factors influencing voluntary disclosure in annual reports. The relative strength of theoretical models is assessed by the ability of theories to explain factors or reasons suggested by interviewees and the frequency with which each factor or reason which can be linked to theories is mentioned by interview respondents.

Secondly, contrary to expectations, this study finds that there has been no significant change in the factors influencing voluntary disclosure in annual reports. Despite the measures taken by the government in the wake of 1997 Asian financial crisis to stabilise and strengthen the Malaysian capital market, traditional influences such as director ownership and domination of family members on the board continue to influence voluntary disclosure, while new governance initiatives are not significant in pointing companies towards greater transparency. The findings confirm prior results on the significance of director ownership and family members on the board in explaining voluntary disclosure in South East Asian developing countries. That has important policy implications as owner-managed and family businesses are common corporate attributes in these countries.

Thirdly, interviews held with market participants enhanced the interpretation of statistical findings. Interviewees suggested that the lack of demand for information in respect of family-controlled companies might be a contributing factor to the low

levels of voluntary disclosure in annual reports as these companies are usually smaller in size with fewer institutional and external investors. That implies that information costs theory provides an alternative explanation for voluntary disclosure in Malaysian companies. Additionally, interviews helped to identify other factors determining voluntary disclosure which are not easily captured in a statistical model such as the quality of management, analysts' trust and 'good news or bad news' considerations. These factors can be incorporated into a future statistical model if a rating or ranking system can be devised to quantify them. Inclusion of these factors in a regression analysis may increase the explanatory power of the model. Devising a ranking system also provides an avenue for future research on accounting disclosure. For example, future research might consider designing a questionnaire to survey market participants on the quality of management. The questionnaire could employ a Likert scale model to rate a company's quality of management. Interview findings thus help to identify areas for further research and provide insights into how the explanatory power of statistical model in future disclosure studies can be improved upon.

Fourthly, this is one of the few studies that apply a qualitative technique to study voluntary disclosure in annual reports. Given the paucity of research that uses qualitative data to identify factors influencing corporate voluntary disclosure in annual reports, the combination of a qualitative interview technique, quantitative regression analysis and link to theories presents a methodological extension to research in accounting disclosure practice.

1.7 Structure of thesis

The thesis is organised as follows;

Chapter one sets out the motivation and objectives of the thesis. Research questions are formulated and methodology adopted and method used to answer the research questions are summarised. The contribution of the thesis is highlighted. The chapter ends by outlining the structure of the thesis.

Chapter two discusses relevant theoretical frameworks that generate expectations for managerial motives for disclosure and non-disclosure and reviews prior research on voluntary disclosure in corporate annual reports. The chapter summarises the findings in respect of factors influencing voluntary disclosure and theoretical frameworks used to explain the findings. Areas where research on voluntary disclosure in corporate annual reports is expanded in this thesis are also identified.

Chapter three presents an overview of the Malaysian business environment and regulatory framework for financial reporting. Particular emphasis is given to the discussion of the regulatory changes that have taken place in Malaysia since the 1997 financial crisis. The chapter highlights the main aspects of the Malaysian environment that are expected to have an impact on voluntary disclosure. The applicability of theoretical frameworks discussed in Chapter 2 to corporate financial reporting in Malaysia is discussed accordingly.

Chapter four describes the methodology adopted and method used to answer the research questions. The criteria used in selecting companies and interviewees are discussed. The chapter defines voluntary disclosure and explains the reason for choosing corporate annual reports. Steps taken in constructing the research instruments; the voluntary disclosure checklist and the interview questionnaires are described. The research hypotheses are formulated. A discussion is provided of the statistical techniques used to test the research hypotheses.

Chapter five evaluates the extent of voluntary disclosure in corporate annual reports. A two-stage evaluation is undertaken. The first stage examines the extent of total voluntary information disclosure. The second stage evaluates the level of voluntary disclosure by types of information; financial, strategic and corporate social responsibility. Comparison of results is made to prior studies and explanations offered for observed findings.

Chapter six examines the statistical relationship between a number of variables identified in Chapter 4 and the extent of voluntary information disclosure in

corporate annual reports. The chapter reports the results of univariate and multivariate analyses for total and sub-categories of information disclosure. The findings are analysed and interpreted in the context of the Malaysian business environment, consistency with prior studies and expected theoretical frameworks.

Chapter seven analyses responses to interview questions that sought opinions from interviewees on variables tested in the statistical model. Interview responses are used to validate and help interpret statistical results. In particular, opinions of interviewees are analysed to assess whether the reasons suggested for voluntary disclosure in annual reports can be explained by theoretical frameworks originating from developed countries.

Chapter eight reports further findings from the interview questions. Responses gathered from personal interviews with 27 market participants are analysed to shed light on other factors influencing disclosure and non-disclosure that have not been captured in the statistical model in Chapter 6. The analysis resulted in the segregation of factors into two categories; 'quantifiable' and 'qualitative but potentially quantifiable'. The chapter concludes by highlighting the main findings on interviewees' perception of factors influencing voluntary disclosure in Malaysian company annual report. The applicability of disclosure theories is discussed with the findings.

Chapter nine presents the main conclusions of the thesis. A model integrating statistical results and interview findings with the relevant theoretical frameworks is presented. The contributions of the study are again highlighted. Policy and theoretical implications of the research findings are identified. A discussion is provided on the limitations of the study and how these limitations were addressed. Lastly, suggestions are made for further research.

CHAPTER 2: REVIEW OF THEORETICAL FRAMEWORKS AND EMPIRICAL EVIDENCE ON CORPORATE VOLUNTARY DISCLOSURE

2.1 Introduction

There are many factors (internal and external to the organisation) that influence a company's decision on disclosure policy (Gibbins et al., 1990). Differences in the degree to which these factors affect a company may also explain why there are variations in voluntary disclosure levels in corporate annual reports. This chapter reviews relevant theories of corporate disclosure and empirical literature on voluntary disclosure in annual reports to set the framework and expectations for the hypotheses to be developed later in the thesis. A review of the prior literature helps identify gaps where research in this area can be extended or improved upon. Thus, the literature review contributes to formulating the research questions outlined in section 1.4 and consequently in planning the research design. Discussion of prior research on voluntary disclosure also assists in the interpretation of findings to be presented in later chapters.

Section 2.2 reviews theoretical frameworks that have been used to explain corporate voluntary disclosure. Evaluation of theories is provided in section 2.3. Empirical studies on total voluntary disclosure is summarised in section 2.4. Studies which examined disclosure by category of information are discussed in section 2.5. Studies which specifically looked at corporate social responsibility (CSR) are discussed in section 2.6. Other disclosure studies which are not classified in any of the preceding sections are discussed in section 2.7. Section 2.8 summarises and concludes the chapter by identifying areas where research on voluntary disclosure in annual reports are expanded in this thesis.

2.2 Theories of voluntary disclosure

Fields et al. (2001) highlight the need to have a comprehensive theory of accounting that can help provide guidance to researchers in structuring empirical experiments, in identifying appropriate variables, and in formulating alternative hypotheses. Healy and Palepu (2001) conclude that prior research supports the view that managers' financial reporting and disclosure choices are associated with contracting, political costs and capital market considerations. They nevertheless add that more work is needed to understand why companies engage in voluntary disclosure. These studies show the importance of theories in the academic research process, from planning the research design to explaining the observed practice.

Examining corporate voluntary disclosure practice entails understanding managerial behaviour and motives. That is because disclosing information voluntarily is a managerial discretion and involves effort. For voluntary disclosure to be beneficial to the company, the benefits of providing additional information voluntarily must outweigh the efforts or costs on the part of managers (Radebaugh and Gray, 1997; p. 213). The next sections provide discussions of theories that have been used to explain corporate voluntary disclosure in prior research. The discussion helps in understanding managerial motives for corporate voluntary disclosure, thereby assisting in formulating hypotheses and forming expectations.

2.2.1 Agency theory

Agency theory which is concerned with the relationship between a principal (the owner) and an agent (a manager) provides a framework to explain voluntary disclosure in the context of separation of ownership and control. Jensen and Meckling (1976) argued that the potential for agency conflicts are higher in a widely held company due to divergence of interests between contracting parties. Following this argument, a widely held company may be expected to provide additional information to signal that the managers are acting in the interests of the principals. Alternatively, the additional disclosure may be imposed by the principals on the managers as a monitoring mechanism to ensure that managers will not act

opportunistically. However, it may be argued that dispersed ownership may not necessarily lead to additional disclosure if most of these shareholders are small investors who are usually less sophisticated. Small investors can be expected to have less incentive to be informed and individual effort to put pressure on companies to disclose may be difficult and costly (Shleifer and Vishny, 1997). An individual investor may not be motivated to demand additional information especially if the benefit to him is relatively small compared to the costs involved in acquiring that information. This problem may be further aggravated by the 'free-rider' problem where other shareholders who do not demand and incur costs for additional information, benefit from the provision of that information (Elliot and Jacobson, 1994).

Criticisms of agency theory mainly revolve around the assumptions underlying the model. Agency theory assumes that individuals are risk and effort averse and act in self-interests to maximise their utility from the contracts they undertake. This unreserved self-serving behaviour has been commented on by a number of authors (e.g. Kaplan, 1984; Puxty, 1985; Ashton, 1991; and Ogden, 1993). Kaplan (1984) suggested that managers generally worked extremely hard and did not seem to have much effort aversion. Ashton (1991) argued that the problem of motivating managers to act in the owners' interests has been overestimated in the agency literature. These authors were not suggesting that there was no divergence of interests between managers and shareholders. Rather the severity of the problem was over exaggerated and that there are internal and external pressures that may serve the desired mutuality of managers serving the interests of owners and own self-interests. These pressures include the threats of takeover and bankruptcy (Ogden, 1993) and the managerial labour market (Fama, 1980; and Fama and Jensen, 1983).

Additionally, ethical consideration does not appear to be relevant in the theory. In a closely-knit society, where relationship between providers of capital and management of the company may have been established for a very long time, trust and dependence between contracting parties may well ensure a smooth running of the enterprise. Ogden (1993) suggested that in multi-period settings, where

renegotiations of contracts occur, the importance of agents' reputations may render much of the agency model's problems largely irrelevant.

2.2.2 Political costs theory

Another explanation for voluntary disclosure is provided by the political cost theory. It has been suggested that various economic factors give rise to political costs which influence managers on the selection of accounting method (Watts and Zimmerman, 1978; and Hagerman and Zmijewski, 1979). Watts and Zimmerman (1978) argued that companies that are more sensitive to political pressures choose accounting methods that minimise reported earnings and reduce political costs. They suggested that political costs are highly dependent on company size with larger companies being more politically sensitive. Larger companies are also expected to have relatively larger wealth transfers imposed on them than smaller companies. The most direct way to transfer corporate assets is through the tax system. Following this argument, larger companies which are usually more visible in the public eyes can be expected to engage in more informative disclosure to avoid government intervention such as imposition of higher taxes or further regulation.

Watts and Zimmerman (1986) acknowledged that company size is a noisy proxy for political costs and that political sensitivity may not only depend on company size. Subsequent studies showed that industry sensitivity could also represent the extent of political costs. Blacconiere and Patten (1994) and Patten and Nance (1998) reported that companies with more extensive disclosure in the oil and gas industry did so to manage companies' exposure to future regulatory costs. Similar findings were also reported by Patten (1991) and Ness and Mirza (1991) where more social disclosures were provided by companies in high-profile and oil and gas industries.

A company which forms a big part of a country's economy or is of strategic importance to the country may be facing higher political costs than one that captures only a small market share of the country's economy. Privatised entities may be expected to be under the watchful eyes of the government especially if these companies provide basic necessities such as electricity, water and telecommunication

services to the nation. If the public feels that these companies are charging higher than the normal price and making exorbitant profits, the government may intervene and impose certain restrictions on the billing criteria or subject them to higher tax rates. To avoid these costs, a company may choose to disclose additional information to explain or justify their actions. Additional disclosure in this situation can be used to mitigate public outcry, hence avoiding government intervention.

2.2.3 Legitimacy theory

Legitimising corporate activities is another theory that has been advanced to explain disclosure policy (e.g. Walden and Schwartz, 1997; and Brown and Deegan, 1998). Legitimacy theory stresses the importance of societal acceptance in ensuring a company's survival. Underlying this theory is the notion that a company's actions can have an impact on the environment in which it operates. If a company's activities are seen or perceived to have detrimental effects on the community, the public may react by boycotting the company's product or pressuring for government intervention. Voluntary disclosure in this instance is provided to justify a company's continued existence. Legitimacy theory has thus far been used largely to explain social and environmental disclosure.

However, there have been studies which concluded that legitimacy theory was not able or inadequate to explain social reporting behaviour observed in companies investigated (e.g. Guthrie and Parker, 1989; and O'Dwyer, 2002). Gray R. et al. (1995) argued that the manner in which a company operates and reports its performance is influenced by the social values in which it exists. That suggests the possibility of legitimacy being interpreted differently by societies of different cultures, political systems and government ideologies. For example, a company producing alcoholic drinks or tobacco products in an environment where the community strongly opposes the consumption of such products for religious reasons, may find greater need to legitimise activities than another company producing similar products but operates within a society that treats alcohol as any other type of drink. As suggested by Adams et al. (1998), across countries, understanding of the

social and political environment may help explain motivations for corporate social decision.

Apart from legitimising corporate activities, legitimacy theory can also be extended to legitimising managerial position. One of the earlier studies that appear to adopt legitimacy theory to explain disclosure levels is Singhvi (1968). The study found profitability to be significant and positively associated with disclosure levels in Indian listed companies. The author attributed the finding to management wanting to signal that the company was being managed by a good team of management thereby supporting continuance of position and compensation. That indirectly suggests legitimacy theory as an explanation for higher level of disclosures.

2.2.4 Proprietary costs theory

A manager may be discouraged from disclosing additional information if it could result in the company losing its competitive advantage. Verrecchia (1983) suggested that the nature of competition is important in determining the level of disclosure. Companies in less competitive industries are expected to disclose more information because the proprietary costs of disclosure for these companies are less than companies in more competitive industries. On the other hand, Darrough and Stoughton (1990) argued that competition through threat of entry encourages voluntary disclosure. Their model posits that since low entry costs leads to a higher entry probability, full disclosure is predicted under competitive pressures.

Another model theorised by Wagenhofer (1990) shows that a company, in trying to maximise its market price, has to trade off the costs and benefits of its disclosure strategy. Disclosing unfavourable information may deter entry by an opponent but it can also result in an under valuation by the market. Conversely, if a company wishes to increase its market price, it can disclose only favourable information but this potentially has the consequence of inviting a rival into the company's market. The model also highlights that proprietary costs may still be incurred in non-disclosure situations because opponents may take adverse action based on perceived information conveyed by non-disclosure.

2.2.5 Capital need theory

Disclosure policy has also been argued to be influenced by market pressures. This theory posits that managers of companies wanting to issue public equity or debt, increase disclosure around the period of offerings to reduce the company's cost of capital. Disclosure of additional information reduces the cost of capital by reducing information asymmetry in the market, lowering estimation risks associated with expected future returns, lowering bid-ask spreads and hence transaction costs for a potential investor (Diamond and Verrecchia, 1991).

Empirical evidence on the association between voluntary disclosure and equity offerings can be found in Lang and Lundholm (1993 & 2000). Lang and Lundholm (1993) found analyst disclosure scores to be higher for companies issuing securities in the current or future period. Lang and Lundholm (2000) reported that companies which significantly increase disclosure activity prior to equity offerings, experienced price increases before the announcement but suffered large declines on the announcement date. The study also found that price declines for consistent disclosers were not as large as other companies, implying that a company's reputation in the market is also an important factor determining market reaction to corporate disclosure.

There have also been studies that examine the relationship between voluntary disclosure and the cost of capital. Botosan (1997), using a self-constructed index, documented a negative association between disclosure level and the cost of equity capital for companies with low analyst following. The findings imply that in the absence of independent reports from analysts, investors would demand more and rely on companies' own reports. In another study by Sengupta (1998), companies with high disclosure ratings were also observed to enjoy lower cost of issuing debt. However, in contrast to Botosan (1997), this study relied on analysts' ratings rather than a self-constructed disclosure index.

Apart from investigating the relation between disclosure and the cost of equity and debt capital, studies on association between voluntary disclosure and capital market factors have also focused on market liquidity. Although Botosan (1997) did not find any significant association between disclosure and market liquidity, Welker (1995) using bid-ask spread as the proxy for market liquidity found evidence supporting the prediction that bid-ask spreads are negatively related to disclosure policy.

In a more comprehensive study on the association between disclosure and capital market consequences, Healy et al. (1999) documented that an increase in analyst disclosure ratings led to upwards revisions in stock valuation, and an increase in analyst following and stock liquidity. Increase in disclosure was also found to be associated with an increase in the use of public financing, debt and equity.

Richardson and Welker (2001) extended the literature on disclosure by examining the relationship between the cost of capital and two types of information, financial and social disclosure. Consistent with Botosan (1997), financial disclosure was found to be negatively associated with the cost of equity capital for companies with low analyst following. However the negative relationship did not extend to social disclosure. In contrast, a positive association was observed between social disclosure and the cost of equity capital.

2.2.6 Signalling theory

Another theory that may provide an explanatory framework for voluntary disclosure is based on information asymmetries in the market. Companies that performed better than others may have more incentives to disclose additional information to signal their good performance and screen themselves from companies performing less well (Akerlof, 1970). The theory predicts that other companies with good news will also disclose to avoid possible under-valuation by the market, leaving non-disclosers to be interpreted as having bad news.

The models of Grossman (1981) and Milgrom (1981) demonstrate that in a market for goods and services, sellers adopt a policy of full disclosure because in the

absence of information, buyers will assume the least favourable belief possible. Signalling theory has also been used to signal future performance. The model in Bar-Yosef and Livnat (1984) shows that the selection of large audit firms signals to the market that the manager expects his firm to have high future cash flows.

However, silence may not necessarily imply that the company is withholding unfavourable information. Verrecchia (1983) showed that because companies face different proprietary costs associated with disclosure, investors may find it difficult to assume that non-disclosers are those with bad news. Dye (1985) argued that a company with good news may choose to withhold information whereas a company with bad news may find disclosing to its advantage if the company is concerned with competitors' reaction to such information.

Some support for signalling theory is evident in the studies by Lev and Penman (1990) and Clarkson et al. (1994). Lev and Penman (1990) found companies with good news voluntarily disclosed earnings forecasts. Nonetheless non-disclosing companies in the same industry were not negatively affected by non-disclosure. Clarkson et al. (1994) reported that good news companies tend to include forecasts in their annual reports if they are in need of additional capital or if there are high barriers to entry.

The above studies show that there are other factors, such as capital need and barriers to entry, rather than just 'good news' that influence a company's decision on disclosure. Apart from the costs and benefits of disclosing information, it has been suggested that non-disclosure may also be due to a manager not having any information to disclose (Penno, 1997). In addition, Nagar (1999) argued that uncertainty about the outcome of disclosure on a manager's performance may prevent him from disclosing.

Companies in licensed industries such as media and gaming may face fewer competitors because of high barriers to entry. Competition can be expected to be high in industries such as the consumer product markets where there are a larger

number of producers. If barriers to entry are an important factor determining corporate disclosure decisions, then more disclosure can be expected in licensed industries rather than consumer products.

2.2.7 Cultural theory

Culture describes a system of societal or collectively held values. Culture is defined as 'the collective programming of the mind which distinguishes the members of one human group from another' (Hofstede, 1980; p. 25). While the word 'culture' is used for societies as a whole, or nations, 'subculture' is used for the level of organisation, profession or family. This means that within an organisation or even family, common characteristics or values shared among the members can be regarded as cultural. Hofstede (1997; pp. 15 & 16) suggested that within countries, cultural differences can still exist due to regional, ethnicity and religious affiliations. This further implies that ethnicity and religion are also possible cultural factors that may explain differences in practice within countries. Hamid et al. (1993) suggested that because culture may refer to factors which influence individual's behaviour, religion in this respect can be regarded as a cultural factor. Thus, religion can be argued to have an impact on corporate activities and reporting practices.

Gray (1988) developed hypotheses linking Hofstede's cultural dimensions[7] to accounting values. One of the accounting values proposed by Gray, secrecy versus transparency, is relevant to this thesis. Secrecy versus transparency has been defined by Gray as 'a preference for confidentiality and the restriction of disclosure of information about the business only to those who are closely involved with its management and financing as opposed to a more transparent, open and publicly accountable approach' (Gray, 1988; p. 8). That definition suggests that in the context of business environment, secrecy will limit information disclosure only to managers and financiers. Secrecy can be expected to be high especially in a closely held company. In relation to financial reporting, secrecy may be measured by a company's extent of voluntary reporting because, as the words suggest, voluntary

[7] The dimensions identified from survey data on the values of people in over 50 countries working in IBM are power distance, collectivism versus individualism, femininity versus masculinity and uncertainty avoidance.

disclosure is purely an initiative of the company, that is, management decides on the additional information over and above regulatory requirements they want to provide. Because Malaysia is a multi-cultural society and most corporations are built from family businesses, cultural aspects such as family businesses, ethnicity and religion can be expected to have some influence on corporate policy. This is discussed further in section 3.3 in Chapter 3.

2.2.8 Information costs theory

Information costs may also provide another explanation for corporate disclosure policy. Elliott and Jacobson (1994) suggested that the primary benefits from information disclosure is a lower cost of capital resulting from reduced information asymmetry while the primary costs of disclosure are competitive disadvantage and information production costs. A company with a large number of analysts following may be motivated to disclose additional information if that can reduce investors' transaction costs thereby making the company shares more attractive. Competitive disadvantage refers to the use of the additional information by competitors to the detriment of the corporation disclosing the information (Radebaugh and Gray, 1997; p. 210). Thus, the extent of competitive disadvantage to the information discloser can be said to depend on the level of competition in the industry (see also section 2.2.4 on the proprietary cost theory). Information production costs refer to the costs of data collection and processing and publishing the information. Information that is already available for internal purposes will not necessitate high disclosure costs as would be the case for information that have to be compiled wholly. Larger companies are expected to produce additional information for management purposes and to better afford the costs of additional disclosure in annual reports.

Information production costs have been used by a number of studies to explain voluntary disclosure in annual reports. Larger companies are expected to have the resources required for additional information for internal purposes (Singhvi, 1968; Buzby, 1975; Firth, 1979; and Lang and Lundholm, 1993; Wallace et al., 1994; Ng and Koh, 1994; Suwaidan, 1997; Depoers, 2000; and Camfferman and Cooke, 2002). Consequently, because the marginal costs of providing additional information for

larger companies are lower than smaller companies, larger companies are more likely to disclose additional information than smaller companies.

2.2.9 Litigation costs theory

Companies may be willing to disclose additional information if it can save them from litigation costs. The litigation costs theory predicts that companies have incentives to disclose bad news early to protect against shareholder litigation. Some support for this theory is evident in Skinner (1994) and Kasznik and Lev (1995). Skinner (1994) found bad news to be more often disclosed to pre-empt large negative quarterly earnings surprises. Good news was often disclosed annually to signal that the company was doing well. The study also documented bad news disclosures to generate larger stock price reactions than good news disclosures, implying that the market reacted more to bad news than good news. In contrast, studies by Francis et al. (1994) and Skinner (1997) did not find early disclosures to deter shareholder lawsuits. In fact, more than half of the sample companies in Francis et al. (1994) that disclosed adverse earnings news prior to the mandatory release date was sued by the shareholders. Thus it may be said that empirical evidence supporting the litigation costs theory is somewhat mixed.

2.3 Evaluation of theories

Based on the discussion in section 2.2 a summary showing the association between disclosure theories and information disclosure is presented in Table 2-1. It can be seen from Table 2-1 that with the exception of theories of proprietary costs, cultural and information production costs, other theories influence information disclosure in a positive direction.

Table 2-1: Summary of disclosure theories and their association with information disclosure

Theory	Basis	Association with information disclosure	Ref
Agency	Agency conflicts between contracting parties	Positive	2.2.1
Political costs	Sensitivity to political pressures	Positive	2.2.2
Legitimacy	Justifying company performance, public acceptance	Positive	2.2.3
Proprietary costs	Industry competitiveness	Negative	2.2.4
Capital need	Public offerings	Positive	2.2.5
Signalling	Good news	Positive	2.2.6
Cultural	Tradition/Religion	Negative/Positive	2.2.7
Information costs	Reduce information asymmetry	Positive	2.2.8
	Costs of competitive disadvantage	Negative	
	Information production costs	Negative	
Litigation costs	Bad news	Positive	2.2.9

Table 2-2 summarises theories that can explain why companies may decide on more information disclosure. It can be seen from the Table 2-2 that at least five of these theories (agency, political costs, legitimacy, capital need and information costs) may be used to explain why larger companies can be expected to disclose more information.

Table 2-2 : Theories explaining more information disclosure

Theory	Explanation	Factor
Agency	Agency conflicts are higher in a widely-held company	Company size
Political costs	Larger companies are more politically sensitive	Company size
Legitimacy	Companies which are in the 'public eyes' and environmentally sensitive companies have more need to disclose social and environmental information	Larger companies can be expected to be more in the 'public eyes' (Company size), and type of industry
Capital need	Companies in need of additional financing disclose more information to reduce information asymmetry hence reducing the cost of capital	Larger companies can be expected to have more need to go to the market
Signalling	Companies screening themselves out from those performing less well	Companies with good news (Profitability)
Information costs	Companies responding to information demand from investors	Larger companies can be expected to have more analyst following
Litigation costs	Companies protecting themselves from possible future lawsuits	Companies with bad news (Losses)

Among the five theories, legitimacy and political costs theories can be regarded as complementing each other. Companies that are more politically sensitive are expected to engage in more informative disclosure to avoid further regulation (Watts and Zimmerman, 1978). Legitimacy theory is often used to justify a company's activities in an attempt to manage its potential future costs (Walden and Schwartz, 1997; and Brown and Deegan, 1998). The future costs include lost sales or government intervention. In this respect, the basis of legitimacy theory is similar to the political costs theory because both theories seek to explain accounting choice in relation to avoidable future costs.

Agency, signalling and capital need theories are similar in terms of the problem they are addressing. All three theories deal with the problem of information asymmetry. Agency theory is used to help explain corporate behaviour in relation to ownership structure (internal and contractual relationship) (Jensen and Meckling, 1976). Signalling good performance may be done with a desire to retain existing investors (contractual relationship) and inviting prospective investors. Capital need theory is concerned with a company wanting to attract potential investors (Lang and Lundholm, 1993 & 2000). Thus another similarity between agency and signalling theories is that both address the problem of information asymmetry between the providers of capital (investors) and management of the company. To the extent that signalling good performance helps attract potential investors, signalling and capital need theories can be said to complement each other.

As shown in Table 2-2, signalling and litigation costs theories can be used to explain the relationship between information disclosure and company performance. However, while signalling is used to signal good performance to screen the company out from companies performing less well (Akerlof, 1970, Milgrom, 1981; and Grossman, 1981), disclosing bad news early may protect the company against shareholder litigation (Skinner, 1994; and Kasznik and Lev, 1995). To the extent that disclosing bad news early can save a company from potential future costs, litigation costs can be said to have some similarities with legitimacy and political costs theories.

In contrast to signalling theory that predicts a good news company to disclose more information, proprietary costs theory suggests that a company in a competitive environment may not be motivated to disclose a favourable piece of information for fear of competitors' reaction which could have an adverse impact on the company (Verrecchia, 1983). Thus, signalling and proprietary costs can be regarded as competing theories because each theory predicts the opposite relationship between good news and information disclosure.

Some similarities can be found between proprietary costs and information costs theory. Radebaugh and Gray (1997; pp. 209 & 210) suggested that the disclosure of information has a direct and an indirect cost. The direct costs of disclosure are the costs incurred in gathering, processing and communicating the information while the indirect costs of disclosure are those relating to competitive disadvantage. That would imply that proprietary costs theory is a subset of information costs theory.

This section has provided an overview of some of the similarities and differences among the theoretical frameworks considered in the present study. The discussion highlights that some theories can be applied to explain the same factor. For example, agency and capital need theories can explain why larger companies disclose more information. The discussion has also shown that although these theories can explain the size factor, the motivations for disclosure are different. Additional information disclosure help reduce agency conflicts in large companies while the need to obtain additional capital is used to explain why (large) companies disclose more information than others. Seemingly competing theories such as proprietary costs and signalling imply the need to consider alternative theories in interpreting corporate disclosure. The discussion appears to suggest that although profitable companies are expected to disclose more information to signal their good performance, proprietary considerations may discourage that company to disclose the favourable information. The next section reviews empirical studies on total voluntary disclosure to identify factors most frequently found to be associated with voluntary disclosure and theoretical frameworks used to explain the findings.

2.4 Empirical studies on total voluntary disclosure

This section discusses empirical studies on total voluntary disclosure in corporate annual reports. The discussion is divided into two parts; those that were undertaken in developed countries and those undertaken in developing countries. This division is done to identify if there are any differences or similarities in the factors influencing voluntary disclosure in corporate annual reports of developed and developing countries.

The level of voluntary disclosure in corporate annual reports of developing countries may be expected to be less extensive than those in developed countries. Cross-national studies on developed countries have also documented differences in the extent of voluntary disclosure in annual reports of even companies in developed countries (Zarzeski, 1996; and Jaggi and Low, 2000). A survey that compared financial disclosures among 41 developed and emerging stock markets[8] reported that among the 21 countries ranked in the top half in terms of disclosure only six were from emerging markets while 14 of the 20 countries in the lower half in terms of disclosure levels were from emerging markets (Saudagaran and Diga, 1997). It has been suggested that inadequate enforcement is one of the factors influencing the quality of disclosure in emerging markets (Saudagaran and Diga, 1997; and Choi et al., 2002; p. 198).

Another issue pertinent to developing countries is that many developing countries have adopted the International Accounting Standards (IAS) in the preparation of financial statements. Saudagaran and Diga (1997) reported that more than half of emerging markets have adopted IASs either partially or fully.[9] Gray (1988) and Wallace and Gernon (1991) argued that accounting standards for developed countries may not be suitable for developing countries because of differences in social, economic and political factors. It has also been suggested that high rates of

[8] Emerging stock markets are defined as a stock market located in a developing country (Saudagaran and Diga, 1997).

[9] Malaysia was one of the countries classified as had fully adopted the IASs (Saudaran and Diga, 1997). However, with the establishment of the MASB in 1997, all accounting standards are being reviewed for adoption in Malaysian companies (see section 3.5.3.1).

compliance with accounting standards may not necessarily mean that users' needs are met especially if the standards are imported from another country (Xiao, 1999). If accounting standards adopted from another country are not suitable to a developing country, then compliance can be expected to be low because preparers may decide to comply only with aspects that are important and relevant in that country's context.

Belal (2001) found that Bangladeshi companies provided some voluntary social information in the annual report. However, non-compliance of mandatory disclosures regarding foreign exchange currency was also observed for 51% of companies investigated. This study shows that voluntary disclosures may still be provided even though mandatory requirements are not fully complied with. It could also imply that factors determining voluntary disclosure were strong enough to render its provision worthwhile.

The following sections identify major factors that have been found to significantly influence voluntary disclosure in corporate annual reports and theories used to explain the significance of these factors.

2.4.1 Developed countries

Table 2-3 summarises studies on corporate annual report disclosure undertaken in developed countries. As shown in Table 2-3, research investigating the extent of disclosure in annual reports can be traced back to the 1960s. The analysis by Cerf (1961) on 527 US companies serves as a foundation for subsequent studies on voluntary disclosure in annual reports. Using class means and disclosure index weighted by analysts, the study found four company attributes, total assets, number of shareholders, rate of return and listing status to be positively associated with the extent of disclosure in annual reports. However, none of the variables was found to be statistically significant in the multivariate analysis.[10]

[10] Multivariate analysis is discussed in section 4.9.4.

Studies by Singhvi and Desai (1971), Buzby (1975) and Firth (1979) using difference in mean scores and weighted index also found company size to be statistically significant and positively associated with the extent of disclosure. In addition, Singhvi and Desai (1971) reported listing status to be positive and significantly associated with the extent of disclosure in the multivariate analysis. Subsequent studies on corporate disclosure in annual reports refined the analysis by applying an unweighted disclosure index[11], and considering several other independent variables. Table 2-3 shows that factors most frequently reported to be statistically significant in influencing voluntary disclosure in annual reports of companies in developed countries are company size and listing status.

With the exception of Malone et al. (1993), all the other studies reported that larger companies disclosed significantly more voluntary information in their annual reports.[12] In almost all these studies, either agency theory or political costs theory was advanced as the motivation for larger companies to disclose more information in the annual reports. Studies employing agency theory argued that larger companies face higher agency costs. That is because larger companies are likely to be more complex, such as involving in multi-product businesses, or operating in a number of geographical areas. Consequently additional information may be required to meet the needs of managerial control and financiers (Cooke, 1989; and Adams and Hossain, 1998). Agency costs are also expected to increase with the proportion of outside capital and the proportion of outside capital tend to be higher for larger companies (Hossain et al., 1995). Larger companies are also politically more sensitive than smaller ones because larger companies are more visible in the public eyes and more closely watched by government agencies (Buzby, 1975; Cooke, 1989 & 1991; Raffournier, 1995; and Camfferman and Cooke, 2002). Disclosure of additional information including socially responsible activities was argued a response to public scrutiny and helps to lessen undesired pressures from the government. Information costs were also suggested as possible reasons influencing corporate disclosure

[11] The use of an unweighted disclosure index is discussed in section 4.7.1.2.
[12] The significant positive relationship between company size and disclosure scores is consistent with the findings in studies relying on analysts' ratings of corporate disclosure practice (Lang and Lundholm, 1993; and Belkaoui, 2001).

decision (Buzby, 1975; McNally et al., 1982; Raffournier, 1995; Depoers, 2000; and Camfferman and Cooke, 2002). Larger companies are expected to better afford the costs of preparing and providing additional information and possibly already collecting the information for internal purposes. Another reason proposed by Buzby (1975) and Raffournier (1995) is that smaller companies may feel additional disclosure would put them at a more competitive disadvantage than larger companies. Larger companies, as compared to smaller companies, are also expected to make more extensive use of the securities market for external financing (Singhvi and Desai, 1971; and Buzby, 1975). These studies are taken further in section 4.8.4.1.

Listing status was reported to be a significant variable determining voluntary disclosure in annual reports in Cooke (1989 & 1991), Malone et al. (1993) and Hossain et al. (1995). Agency considerations were again advanced as affecting corporate disclosure policy (Cooke, 1989 & 1991; and Hossain et al., 1995). Listing on international markets implies a higher proportion of foreign shareholding, or a more dispersed shareholding thereby making monitoring costs more significant. In this situation, disclosure of additional information helps to reduce shareholders' monitoring costs. At the same time, disclosure in annual reports can also act as bonding mechanism between the managers and shareholders. Cooke (1989 & 1991) suggested the need to raise capital in international capital market as another reason for the positive association between listing status and the extent of voluntary disclosure in annual reports. Disclosure of additional information could have also been provided because the information had been gathered for registration requirements of the stock exchanges (Malone et al., 1993).[13]

Other variables examined including industry type, gearing, ownership structure, outside directors, profitability and audit firm show inconsistent results in terms of significance and direction of association. With the exception of audit firm, the other variables are taken further in the development of hypotheses in Chapter 4 (see section 4.8).[14]

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[13] Listing status is not tested in the final regression model in this study (see footnote 102 in Chapter 6).
[14] See footnote 102 in Chapter 6 for the exclusion of audit firm from the statistical analysis.

Table 2-3: Empirical studies on total voluntary disclosure in developed countries

	Author	Country	Reporting year	Sample	Disclosure items	Independent variables (statistically significant)	Theoretical explanation	Non-significant variables
1.	Cerf (1961)	US	1956/57	527 companies	31 items (weighted)	*Size (assets) [+]	Information costs, capital need, proprietary costs	
						*Number of shareholders [+]	Political costs, information costs	
						*Profitability (rate of return) [+]	Support continuance and compensation	
						*Listing status [+]	Listing requirements, information costs	
2.	Singhvi and Desai (1971)	US	1965/66	55 unlisted and 100 listed companies	34 items (weighted)	*Size (assets) [+]	Information costs, capital need, proprietary costs	
						*Number of shareholders [+]	Political costs, information costs, professional management	
						**Listing status [+]	Listing requirements	
						*Audit firm [+]	Reputation costs	
						*Profitability (rate of return) [+]	Support continuance and compensation	
						*Profitability (earnings margin) [+]	Signalling	
3.	Buzby (1975)	US	1970/71	88 companies (44 unlisted OTC, 44 listed NYSE or AMEX)	39 (weighted) [maximum 123.3]	*Size (asset) [+]	Information costs, capital need, proprietary costs, political costs	*Listing status
4.	Firth (1979)	UK	1976	40 unlisted and 140 unlisted companies	48 voluntary items (weighted)	*Listing status [+]	Capital need	*Audit firm
						*Size (sales) [+]	Information costs, political costs	

5.	McNally et al. (1982)	New Zealand	1979	103 non-financial and non- retail listed companies	54 voluntary	***Size (assets) [+]	Information costs	***Rate of return (net income to total assets), growth, audit firm, industry
6.	Cooke (1989)	Sweden	1985	90 non-financial companies (38 unlisted, 33 listed on SSE, 19 multiple listing)	146 voluntary	Listing status [+]	Capital need, agency theory	Parent company relationship, industry (manufacturing, services, conglomerate)
						Size (assets, number of shareholders, sales) [+]	Political costs, agency theory	
						Industry (trading) [-]	'Bandwagon' effect	
7.	Cooke (1991)	Japan	1988	48 companies (13 unlisted, 25 listed on TSE, 10 multiple listing)	106 voluntary	Size (assets, sales, number of shareholders) [+]	Political costs	Industry (trading, services, conglomerate)
						Listing status [+]	Capital need, agency theory	
						Industry (manufacturing) [+]	Historical factors, 'bandwagon' effect	
8.	Craswell and Taylor (1992)	Australia	1984	86 oil and gas companies	Dichotomous, 1 for disclosers of oil and gas reserves, 0 otherwise	Audit firm [+]	Reputation costs, signalling, agency costs	Leverage, size (assets), cash flow risk, ownership structure (shares held by top 20 shareholders)
9.	Malone et al. (1993)	US	1986	125 oil and gas companies (41 listed on NYSE or AMEX; 84 unlisted NASDAQ)	129 (weighted)	Listing status [+]	Stock exchange listing requirements	Size (assets), profitability (rates of return & earnings margin), audit firm, foreign operations, diversification, proportion of outside directors
						Leverage [+]	Agency theory	
						Number of shareholders [+]	Agency theory	

10.	Wallace et al. (1994)	Spain	1991	50 non-financial companies (30 listed and 20 unlisted)	16 mandatory (maximum 146)	Size (assets) [+]	Political costs, information costs	Gearing, earnings return, profit margin, audit firm, industry
						Liquidity [-]	Legitimacy (accountability)	
						Listing status (listed) [+]	Stock exchange listing requirements	
11.	Hossain et al. (1995)	New Zealand	1991	55 listed non-financial companies (40 domestic, 15 domestic+ international)	95 voluntary	Size (assets) [+]	Agency theory	Audit firm, assets-in-place
						Leverage [+]	Agency theory	
						Listing status (multiple) [+]	Agency theory	
12.	Raffournier (1995)	Switzerland	1991	161 listed non-financial companies	30 voluntary	Size (sales) [+]	Proprietary costs, political costs, information costs	Leverage, profitability, ownership structure (shares not held by known shareholders) , audit type, % of fixed assets, industry
						Internationality (exports/sales) [+]	Foreign market pressures	
13.	Inchausti (1997)	Spain	1989, 90 & 91	49, 47, 42 non-financial listed companies	50 (30 compulsory, 20 voluntary)	Size (assets) [+]	Agency theory, political costs, proprietary costs	Profitability, leverage, industry, dividend payout
						Listing status [+]	Agency theory, capital need	
						Audit firm [+]	Signalling	
						V: Size [+], audit firm [+]		
14.	Adams and Hossain (1998)	New Zealand	1988-93	34 life insurance companies (193 annual reports) [84 mutuals & 109 stocks]	189 voluntary	Organisational form (stock companies) [+]	Agency theory	Assets-in-place, localization of operations
						Size (market value of assets) [+]		
						Product concentration [-]		
						Distribution systems (tied agents) [-]		
						Proportion of non-executive directors [+]		
						Reinsurance [+]		

15.	Depoers (2000)	France	1995	102 non-financial listed companies	65 voluntary	Size (sales) [+]	Information costs	Leverage, ownership structure (proportion of shares held by three largest shareholders) , audit firm
						Foreign activity [+]	Foreign market pressures	
						Barriers to entry [+]	Proprietary costs	
						Labour pressure [-]	Political costs	
16.	Camfferman and Cooke (2002)	UK and the Netherlands	1996	322 companies (161 Dutch & 161 UK)	93 items (specified in the Fourth and Seventh European Union Directives)	Dutch: Size (asset) [+]	Political costs, information costs, capital need	Industry (manufacturing & services), net income margin, ROE, audit firm
						Leverage [+]	Agency theory	
						Current ratio [+]	Signalling	
						Industry (conglomerate +; trading -)	Capital need	
						UK: Industry (manufacturing & conglomerate) [+]	Capital need	Industry (trading & services), leverage, current ratio, ROE
						Size (asset) [+]	Capital need, political costs, information costs,	
						Net income margin [-]	Signalling	
						Audit firm [+]	Reputation costs	

Key:
* results obtained using mean scores

** results obtained using both mean scores and multiple regression analysis

*** results obtained using rank order correlations (Spearman's *rho)*

other results (without asterisks) obtained using multiple regression analysis

OTC - Over the counter

NYSE - New York Stock Exchange

AMEX - American Stock Exchange

2.4.2 Developing countries

Among developing countries, Singhvi (1968) provides one of the early works on disclosure in corporate annual reports. Using a chi-square test, the study which examined 45 firms listed on the Indian Stock Exchange found that smaller, less profitable, and Indian managed companies disclosed a lower amount of information in their annual reports. Information costs, capital market considerations, and competitive advantage were advanced as possible explanations for the positive association between company size and level of disclosure. Companies that were more profitable disclosed significantly more information and this was interpreted as signalling good management and supporting continuance of managerial appointment. Less disclosure by Indian managed firms was attributed to the fact that Indian managers then were less likely to possess the qualifications necessary to appreciate the benefits of better disclosure.

Table 2-4 shows that consistent with the findings in respect of developed countries discussed in section 2.4.1, company size and listing status[15] are also significant determinants of the extent of information disclosure in annual reports of developing countries. Studies which documented the significance of company size are taken further in section 4.8.4.1. The inconclusive results regarding the association between disclosure in annual reports and a number of variables including industry type, profitability, gearing, audit firm and independent directors observed in developed countries are also evident in studies undertaken in developing countries.[16]

In terms of variables considered in the analysis, research on annual reports disclosure in developing countries differs from developed countries in three aspects. Firstly, studies in developed countries which examined the impact of ownership structure on voluntary disclosure in annual reports only looked at one aspect of ownership structure, the proportion of shares not held by known shareholders (Raffournier,

[15] Listing status is not tested in the final regression model in this study (see footnote 102 in Chapter 6).
[16] With the exception of audit firm, other variables are included in the regression models. The relevant studies are taken further in section 4.8 in the development of hypotheses. See footnote 102 in Chapter 6 for the exclusion of audit firm from the regression analysis.

1995) or the proportion of shares held by substantial shareholders (Depoers, 2000). In both studies, ownership structure was not found to be statistically significant. In contrast, the proportion of shares held by the ten largest shareholders was found to be statistically significant in influencing voluntary disclosure in Malaysian company annual reports (Hossain et al., 1994; and Haniffa and Cooke, 2002).

Secondly, studies on developing countries have extended ownership structure to include variables such as inside ownership (Owusu-Ansah, 1998; and Eng and Mak, 2003), institutional ownership (Suwaidan, 1997; and Haniffa and Cooke, 2002), government ownership (Suwaidan, 1997; and Naser et al., 2002), outside ownership (Wallace and Naser, 1995; and Chen and Jaggi, 2000), foreign ownership (Haniffa and Cooke, 2002), individual ownership (Naser et al., 2002) and block ownership (Eng and Mak, 2003). Of these, government ownership was found to be significant and positively associated with the extent of voluntary disclosure in Suwaidan (1997) and Eng and Mak (2003). Companies with a higher proportion of foreign ownership were found to disclose significantly more information (Haniffa and Cooke, 2002). Companies with a higher proportion of institutional ownership were also observed to disclose significantly more information in the annual reports (Suwaidan, 1997) while companies with a higher proportion of managerial ownership disclosed significantly less voluntary information (Eng and Mak, 2003).

Thirdly, a corporate governance characteristic, the proportion of family members on the board has never been considered in studies on voluntary disclosure in developed countries. This variable was found to be statistically significant and negatively associated with the extent of voluntary disclosure in Hong Kong (Ho and Wong, 2001a) and Malaysian (Haniffa and Cooke, 2002) listed company annual reports.

The frequency with which ownership structure was tested and the significance of this variable documented in prior studies suggest that this variable should be considered when investigating corporate voluntary disclosure practice. The prevalence of family businesses in developing countries and the significance of this variable in influencing voluntary disclosure in annual reports documented in previous research imply that

this is an important variable to be included in research on voluntary disclosure, especially in developing countries. These variables are discussed further in section 4.8 in formulating the research hypotheses of this thesis.

Table 2-4: Empirical studies on total voluntary disclosure in developing countries

	Author(s)	Country	Reporting year	Sample	Disclosure items	Independent variables (statistically significant)	Theoretical explanation	Non-significant variables
1.	Singhvi (1968)	India	1963 & 1965	45 listed companies	34 (weighted) [maximum 68]	*Size (assets) [+]	Information costs, capital need, proprietary costs	Audit firm, number of shareholders
						*Type of management (foreigner) [+]	(professional) education	
						*Profitability (rate of return, earnings margin) [+]	Signalling, support continuance	
2.	Chow and Wong-Boren (1987)	Mexico	1982	52 manufacturing companies	24 voluntary	Size (MvEq+BvD) [+]	Agency theory	Gearing, assets-in-place
3.	Wallace (1988)	Nigeria	1982 – 1986	87 non-financial listed companies	120 mandatory and 65 voluntary	Study examined the extent of disclosure and opinions from six user-groups on different sections of the annual reports and the level of importance of each item of information		
4.	Abayo et al. (1993)	Tanzania	1989/90	51 companies	88 mandatory and 44 voluntary	Significant positive relationship was observed between mandatory and voluntary disclosures (those which provided more mandatory disclosure also provided more voluntary information), and between timeliness and audit opinion (companies which received a qualified audit opinion took significantly longer time to report than those received a clean audit report)		
5.	Hossain et al. (1994)	Malaysia	1991	67 non-financial listed companies	78 voluntary	Size (market capitalisation) [+]	Agency theory	Gearing, assets-in-place, audit firm
						Ownership by top-ten shareholders [-]	Agency theory	
						Listing status (multiple) [+]	Capital need, foreign exchange listing requirements	

6.	Ng and Koh (1994)	Singapore	1986	106 listed companies	3 Statement of Recommended Practice	Size [+]	Agency theory, information costs, capital need	Complexity of operation, liquidity
						Profitability [+]	Information costs, political costs	
						Gearing [+]	Agency theory	
						Auditor type [+]	Reputation	
						Industry (finance, properties, hotels) [-]	Political costs, proprietary costs (secrecy)	
7..	Wallace and Naser (1995)	Hong Kong	1991	80 non-financial listed companies	30 mandatory (maximum 146)	Size (assets) [+]	Political costs, proprietary costs, information costs	Market capitalisation, sales, liquidity, earnings return, outside ownership, foreign registered office, gearing
						Profit margin [-]	Legitimacy (accountability)	
						Scope of business (conglomerate) [+]	Information costs	
						Audit firm [-]		
8.	Ahmed (1996)	Bangladesh	1987/88, 1992/93	59 non-financial listed companies (118 annual reports)	150 (94 statutory, 56 voluntary)	Audit firm [+]	Reputation	Qualification of principal accounting officer, size (sales and assets), total debt
						Subsidiaries of MNCs [+]	Political costs, parent company requirements	
9.	Marston and Robson (1997)	India	1982/83, 1989/90	29 companies (58 annual reports)	17 mandatory and voluntary (maximum 56.5)	Size [+]	Agency theory, political costs	
10.	Suwaidan (1997)	Jordan	1992	102 listed companies	75 voluntary	Size (market capital & sales) [+]	Information costs, proprietary costs, political costs, agency theory	Number of shareholders, profitability (ROE & ROA), audit firm (international contact), external financing ratio
						Institutional ownership [+]	Information costs	
						Government ownership [+]	Information costs	

						Industry (insurance) [+]	Proprietary costs, 'follow the leader'	
						Audit firm (size) [+]	Reputation	
11.	Patton and Zelenka (1997)	Czech Republic	1993	50 joint stock listed companies	66 items (37 narrow, 12 somewhat broader, 17 broader)	Audit firm [+]	Signalling	Total assets, percentage of intangible assets, leverage, industry
						Number of employees [+]	Agency theory	
						Profitability [+]	Capital need, signalling	
						Listing status [+]	Capital need, image	
12.	Owusu-Ansah (1998)	Zimbabwe	1994	49 listed non-financial companies	214 mandatory	Size (market capitalisation, assets) [+]	Proprietary costs	Audit firm, industry, liquidity
						Inside ownership [+]		
						Company age [+]	Learning curve	
						Affiliations with MNCs [+]	Political costs	
						Profitability [+]	Signalling	
13.	Rahman (1998)	Malaysia	1974, 84, 94	54 listed companies [162 annual reports]	74:97M, 85V; 84:141M, 58V; 94: 149M, 53V	M: size (assets)[+]	Agency theory	Leverage, liquidity, scope of business, audit firm, parent company, type of management, profitability, year-end, outside ownership, image
						V: Size (assets) [+]	Agency theory	
14.	Chen and Jaggi (2000)	Hong Kong	1993&94	87 largest (excluding utilities, finance & non-depository credit institutions) listed companies [174 annual reports]	30 mandatory (weighted) [maximum 142]	Proportion of independent directors on the board [+], stronger for non-family owned companies	Agency theory	Sales, market capitalisation, liquidity, gearing, outside ownership, audit firm, year-end
						Size (assets) [+]		
						Profitability (ROE) [-]		
						Conglomerate [-]		

15.	Ho and Wong (2001a)	Hong Kong	1997	98 listed companies	20 voluntary	Proportion of family members on the board [-]	Agency theory	Independent directors, dominant personality, leverage, assets-in-place, profitability, industry (conglomerate, banking & finance, others)
						Existence of audit committee [+]	Agency theory	
						Size (assets) [+]	Capital need theory	
						Industry (manufacturing) [+]		
16.	Haniffa and Cooke (2002)	Malaysia	1995	138 non-financial listed companies	65 voluntary	Assets-in-place [+]		Proportion of independent directors, role duality, cross directorships, chair with cross-directorship, Malay FD, Malay Chairperson, Malay MD, qualification of directors, qualification of FD, gearing, complexity of business (no of subsidiaries), institutional investors, industry (trading, plantation & mining), multiple listing, audit firm, listing age, foreign activities
						Ownership by ten largest shareholders [+]	Agency theory	
						Foreign investors [+]	Capital need, agency theory	
						Profitability (ROE) [+]	Signalling theory	
						Industry (consumer & industrial) [-]	Political costs	
						Independent Chair [-]	Agency theory	
						Proportion of family members on the board [-]	Information costs	
						**Proportion of Malay directors on the board [+]	Political costs, legitimacy, Islamic business ethics	
						**Size (assets) [+]		
						**Diversification [+]		
17.	Naser et al. (2002)	Jordan	1998/99	84 manufacturing & services listed companies	104 items	Size (market capitalization, sales) [+]	Proprietary costs, capital need	Assets, ROE, number of shareholders, government ownership, individual ownership, foreign ownership, Arab ownership, industry, employees
						Audit firm [+]	Reputation	
						Liquidity [-]	Legitimacy	
						Gearing [+]	Agency	
						Profitability (profit margin) [+]	Signalling	

18.	Eng and Mak (2003)	Singapore	1995	158 listed companies	46 voluntary (weighted) [maximum 84]	Managerial ownership [-]	Agency theory	Block ownership, growth, industry, audit firm, analyst following, stock return, profitability (ROE & ROA)
						Government ownership [+]	Agency theory	
						Proportion of outside directors [-]	Agency theory	
						Size (sum of market value of ordinary shares, book value of debts and book value of preference shares) [+]		
						Leverage [-]	Agency theory	

Key:

* results obtained using mean scores

** statistically significant in the reduced regression model

other results (without asterisks) obtained using multiple regression analysis

MvEq - market value of equity

BvD - book value of debt

M - mandatory

V - voluntary

Note: Hong Kong and Singapore are generally not regarded as developing countries but are included in Table 2-4 because they possess many of the corporate characteristics of Asian developing countries such as the dominant of family-owned businesses, owner-managed and government-controlled companies.

2.5 Disclosure in annual reports by category of information

In recent years, studies on voluntary disclosure have started to investigate information disclosure by type of information. Beginning with the work of Meek et al. (1995), studies that evaluated voluntary disclosure by segregating into three categories namely; financial, strategic and non-financial information found statistical evidence that different factors are important in explaining different types of information disclosure in annual reports.

Table 2-5 summarises the findings in respect of disclosure by type of information. As can be seen from the table, company size is significant in almost all information categories in all four studies (exceptions being strategic and non-financial information in Hong Kong and financial information in Singapore in Chau and Gray (2002) and strategic information in Meek et al. (1995)). Information costs, political costs, proprietary costs and agency theories were advanced as possible explanation for the association observed. Leventis (2001) suggested that in the Greek context, information costs and market pressures were the more likely driving factors for larger companies to disclose significantly more information. The author argued that is because larger companies have greater analyst following and are more dependent on external capital while agency pressures in Greek companies are relatively weak due to the prevalence of family-owned businesses.

Apart from company size, outside ownership was also found to be consistently significant in influencing all information types in the annual reports of Hong Kong and Singapore listed companies (Chau and Gray, 2002). The finding that companies with a higher proportion of outside ownership disclosed significantly more information appears to be consistent with the argument of Shleifer and Vishny (1997) that large outside ownership can exert pressure on management to disclose additional information. Additionally the finding also indicates the importance of ownership structure in influencing all types of information disclosure in those countries. Family ownership was also significant in explaining all types of information disclosure in Hong Kong companies. This finding can be regarded as consistent with a prior study

on Hong Kong by Ho and Wong (2001a) and another by Haniffa and Cooke (2002) in respect of Malaysian companies where both studies documented significant negative association between the proportion of family members on the board (it can be expected that the proportion of family members on the board is highly dependent on family ownership) and the extent of voluntary information disclosure in corporate annual reports.

Other variables showed significance in certain categories of information. Leverage was found to be significant in explaining total disclosure (Meek et al., 1995; and Ferguson et al., 2002) and financial information (Ferguson et al., 2002). Industry type also appears to be associated with different categories of information. While companies in the metal industry seem to disclose more financial information, those in the oil industry appear to disclose more strategic and non-financial information (Meek et al., 1995). Industry sensitivity such as competitive position was suggested for the motivation for certain types of companies to disclose more information. Leventis (2001) also reported that Greek companies operating in environmentally sensitive industries, for example, the cement industry, disclosed significantly more total information in their annual reports. Consumer products on the other hand, disclosed significantly more strategic information only. The differing amount of disclosure provided by companies on different types of information disclosure supports the argument of Verrecchia (1983) that proprietary costs vary across industries.

The above studies further confirm the significance of company size in influencing total voluntary information disclosure in annual reports already observed in developed and developing countries discussed in sections 2.4.1 and 2.4.2. In addition, the findings of those studies also show the significance of company size in the sub-categories of information disclosure. Another factor found to be significant in almost all categories of information is outside ownership in Hong Kong and Singapore companies. Director (inside) ownership is another corporate feature of developing countries due to the prevalence of family businesses in these countries. A sub-division of information into financial, strategic and non-financial information, and

the influence of director ownership have not been tested in studies on voluntary disclosure in Malaysian corporate annual reports.[17] This provides an opportunity to investigate whether the findings of Chau and Gray (2002) in respect of outside ownership can be extended to Malaysian company annual reports and whether the findings that different factors influence different types of information disclosure documented in prior studies are also evident in the Malaysian context.

[17] Haniffa (1999) investigated voluntary disclosure in Malaysian annual reports sub-dividing the information into social and non-social categories.

Table 2-5: Disclosure studies by category of information

Study	Reporting year/Country	Sample	Type of information				Theoretical explanation
			T	F	S	NF	
Meek et al. (1995)	1989/ US, UK and Continental Europe	116 US, 64 UK and 46 Continental Europe MNCs					Non-significant: Industry (consumer goods), multinationality, profitability
		Size (sales) [+]	✓	✓	×	✓	Information costs, proprietary costs, political costs
		Country (UK) [+]	✓	✓[(-)]	×	✓	Political costs theory
		Country (Continental Europe) [+]	✓	×	✓	✓	
		Industry (metal) [+]	×	✓	×	×	Proprietary costs theory
		Industry (oil) [+]	✓	×	✓	✓	
		Leverage [-]	✓	×	×	×	
		Listing status (international) [+]	✓	✓	✓	×	Capital need theory
Leventis (2001)	1997/ Greece	75 companies listed on the main market, 12 on the parallel market					Non-significant: gearing, profitability, liquidity, marketability
		Size [+][a]	✓	✓	✓	✓	Information costs, *capital need theory*, proprietary costs
		Industry (consumer product) [+]	×	×	✓	×	Proprietary costs, political costs
		Industry (industrial product) [+]	✓	×	×	×	
		Volatility [-]	×	×	×	✓	
		Share yield [-]	✓	✓	×	×	Signalling, legitimacy theories
		Type of report [+]	✓	×	✓	✓	Signalling, capital need theories
		Listing status [+]	✓	✓	✓	✓	Capital need, signalling

Ferguson et al. (2002)	95/96/ Hong Kong	142 non-financial companies; 101 local companies, 21 Red Chips and 20 H-share* listed on the SEHK					Non-significant variables in all information categories: Listing status, Industry (competitive – electronic; regulated – utility)
Independent variables		Size (total assets) [+]	✓	✓	✓	✓	Agency theory, political costs theory, information costs
		Leverage (LTL/SF) [+]	✓	✓	×	×	Agency theory
		Company type (H-share)	✓	✓	✓	×	Agency and proprietary costs theory
Chau and Gray (2002)	1997/ Hong Kong and Singapore	60 industrial companies listed on the SEHK					Non-significant variables: Auditor, leverage, profitability, multinationality, industry
		Outside ownership [+]	✓	✓	✓	✓	Agency theory
		Sales revenue [+]	✓	✓	×	×	
		Family ownership [-]	✓	✓	✓	✓	Agency theory, information costs, Gray's (1988) cultural theory
		62 industrial companies listed on the SSE					
		Outside ownership [+]	✓	✓	✓	✓	Agency theory
		Sales revenue [+]	✓	×	✓	✓	

T-Total F-Financial S-Strategic NF-Non-financial
SEHK Stock Exchange of Hong Kong
SSE Singapore Stock Exchange
PRC People's Republic of China
× not statistically significant at either 1% or 5% level
✓ statistically significant at either 1% or 5% level
* former wholly state-owned PRC companies
[a] market capitalization was used as the proxy for size in the total and financial disclosure model, total assets for strategic information and number of employees for social information.

2.6 Corporate social responsibility (CSR)

Corporate social disclosure encompasses provision of information on human resource aspects, involvement in community projects and environmental reporting. Unlike studies on total voluntary disclosure which mainly look at the relationship between contracting parties (owners, managers, lenders, suppliers and the government) to explain disclosure pattern, studies on social disclosures differ by extending corporate accountability to all groups of stakeholders including the public at large. The notion of corporate citizenship is central to the concept of corporate social accountability. It is also for this reason that almost all studies on CSR have argued legitimacy theory as the main motivation for companies to provide social disclosures in the annual reports.

2.6.1 Environmental reporting

Of the three types of social information identified above, environmental reporting has been the main subject (considered on its own) of a number of studies on social disclosures (e.g. Patten, 1992; Walden and Schwartz, 1997; and Brown and Deegan, 1998). Drawing on legitimacy theory, these studies showed that the provision of environmental information in annual reports was influenced by major social incidents such as the chemical leak in India and the oil spill in Alaska (Patten, 1992; and Walden and Schwartz, 1997). Brown and Deegan (1998) found increased media coverage contributed to a higher level of annual report environmental disclosures. These findings support the view that environmental disclosures are sometimes event-driven and provided as a response to public scrutiny through higher levels of media attention.

There have also been studies that investigated the relationship between environmental disclosure after major social incidents and market reactions. Blacconiere and Patten (1994), and Patten and Nance (1998) reported that firms with more extensive disclosures before the chemical and oil spill experienced less negative impact on their market returns than those with less disclosure. The authors interpreted their findings by suggesting that disclosures in annual reports were

provided as a signal of environmental risk and as a means of managing a company's exposure to future regulatory costs. If future regulatory costs can influence market reactions to major social incidents, the argument of Richardson et al. (1999) that social disclosures could provide information about future cash flows if such disclosures reduce the expected regulatory costs appears to be supported.

Another aspect that has been the focus of environmental reporting is the importance of environmental disclosures to different user groups. Deegan and Rankin (1997) reported that all respondents surveyed (shareholders, stockbrokers and research analysts, accounting academics, representative of financial institutions and organisations performing a general review or oversight function) in Australia considered the annual report to be the most important source of a company's environmental information. A significantly higher proportion of shareholders and reviewers viewed environmental disclosures as material to their decision making process. In contrast, stockbrokers and analysts did not consider environmental information of significance to their decision making process and were less likely to seek environmental information within the annual reports than other user groups. This finding regarding the non-importance of environmental disclosures to stockbrokers and analysts is consistent with Milne and Chan (1999) who using experiments, found social disclosures to be of minimal value in investment decisions by accountants and analysts in New Zealand.

In a study by Neu et al. (1998) on environmental disclosures in the annual reports of Canadian listed companies operating in mineral extraction, forestry, oil and gas and chemical industries, companies that were less profitable, the amount of media coverage that mentioned environmental fines levied against companies and societal concerns were found to be statistically significant and positively associated with the extent of environmental disclosures in the annual reports. In contrast, environmentalists' criticisms were statistically significant but negatively related to the extent of environmental disclosure. The authors attributed this finding to companies attempting to legitimate activities to the most important relevant parties. They concluded that environmental disclosures were provided to manage public

impression. Hooghiemstra (2000) argued that apart from providing information to legitimise a company's actions, CSR disclosure is also aimed at protecting or enhancing a company's image or reputation. The author further suggested that creating a positive image can contribute to a company's competitive advantage because people are more prepared to do business with companies that have good reputations.

Wilmhurst and Frost (2000) documented some evidence of inconsistencies between factors considered to be important in the decision to disclose environmental information and the actual disclosure in annual reports. Using postal questionnaires survey, the study found Chief Financial Officers to perceive legal issues to be an important factor (second highest mean score) determining disclosure of environmental information in company annual reports. However, legal issues were not highly reflected in the annual reports. The authors suggested that perhaps management was not prepared to respond to the 'legal issues' factor until the company was directly affected. That view is consistent with prior research which reported management responding to environmental reporting through specific events that directly influence the company, or the industry in which the company operates (e.g. Patten, 1992; and Walden and Schwartz 1997). Additionally, in Wilmhurst and Frost (2000), the stepwise regression results also showed that the decision to disclose environmental information in annual reports was influenced by two factors, competitor response to environmental issues and customer concerns. Legal related issues and environmental lobby were not found to have significant influence. Similarly, Tilt (2001) also documented some major differences between the content of corporate environmental policy and disclosure related to that policy in company annual reports. The author suggested that perhaps information regarding environmental policies was disclosed more in stand-alone environmental reports aimed mainly at the management. These findings cast some doubts on whether legitimacy is the primary motive for environmental disclosure in annual reports.

2.6.2 Overall disclosures

Patten (1991) reported significant positive association between company size and the extent of voluntary social disclosure in the 1985 annual reports of 128 US companies. Companies in high-profile industries (petroleum, chemical, forest and paper product) were also found to disclose significantly more social information in their annual reports. The significance of industry in influencing social disclosure in annual reports was also observed by Ness and Mirza (1991).Their study on 131 large UK companies reported that there was a statistically significant positive association between environment-related disclosure and the oil and gas industry. Companies in the oil and gas industry were also found to include a greater proportion of environment-related disclosure in relation to the overall social disclosures in their 1984 annual reports than did other companies. Hackston and Milne (1996) also documented significant association between the extent of voluntary social disclosure in annual reports and variables representing company size and industry type in their study on New Zealand companies. Studies by Ness and Mirza (1991) and Hackston and Milne (1996) also reported that environmental-related disclosure tended to be concerned with favourable social performance rather than with activities detrimental to the environment. That finding is supported by Brown and Deegan (1998) who reported the absence of negative environmental disclosure and that only positive environmental disclosures were provided within the sample of annual reports examined. These studies imply that environmental information in company annual reports may be underprovided because companies appear to disclose only favourable aspects of environment-related activities.

A number of studies on social disclosure were carried out in international settings (e.g. Adams et al. 1998; and Williams, 1999). For a sample of companies from six European countries, Adams et al. (1998) reported significant differences in the type and amount of social information disclosed by companies from different countries. Larger companies were found to disclose significantly more social information for all three categories of information (environmental, employee and ethical) while companies operating in more sensitive industries were found to disclose more environmental and employee information. The significance of company size and industry type in influencing social information disclosure is consistent with a number

of prior studies (e.g. Belkaoui and Karpik, 1989; Patten, 1991; and Meek et al., 1995). Adams et al. (1998) argued that legitimacy theory was able to explain differences due to company size and industry sensitivity. However, the theory was regarded as inadequate to explain differences due to country of domicile. For example, even though German and UK companies were observed to disclose a relatively large amount of social information in the annual reports, different motivations were advanced as reasons for disclosure in each country. The high level of information disclosure in German companies was attributed to a history of employee involvement in company management and powerful environmental pressure groups while the position in the UK was that voluntary disclosure was used as a justification for not introducing more social legislation or regulations. Consistent with Adams et al. (1998), Newson and Deegan (2002) in their study on voluntary social disclosure in Australia, Singapore and South Korea also found country of origin and industry of operation to significantly influence information reported in the annual reports. With regards to the theme of disclosure, consistent with Hackston and Milne (1996), Newson and Deegan (2002) also found human resource information to be the category most disclosed by all companies.

Williams (1999) examined voluntary social disclosure in seven Asia-Pacific countries; Australia, Singapore, Hong Kong, the Philippines, Thailand, Indonesia, and Malaysia. The results of the study showed that political and civil repression were significant determinants of the quantity of social disclosure disclosed in the annual reports of companies investigated. Two cultural variables, uncertainty avoidance and masculinity based on Gray's (1988) model were also found to be significant and negatively associated with the amount of social information provided. In contrast, the legal system and equity market did not appear to be important factors explaining variations in the amount of social disclosure across these countries. These findings imply that legitimacy theory alone is not conclusive in explaining CSR disclosure practices and particularly across countries, differences in the social and political system may need to be considered to further understand motivations for corporate social disclosure.

Within developing countries studies investigating national social disclosure practice include Singh and Ahuja (1983), Tsang (1998), Abu-Baker and Naser (2000), Belal (2001) and Al-Khater and Naser (2003). Singh and Ahuja (1983) is one of the early works on corporate social disclosure in annual reports. Based on an examination of forty Indian company annual reports for the year 1975/76, Singh and Ahuja (1983) reported that company size as measured by total assets, and earnings margins were significant and positively associated with the extent of social responsibility disclosure in annual reports. Manufacturing companies were also found to disclose significantly more social information than did service companies.

Tsang (1998) conducted a descriptive longitudinal study on voluntary social disclosure in the annual reports of 33 Singapore listed companies operating in the banking, food and beverages and hotel industries. The study reported 16 out of the 33 companies included in the sample did not have any social disclosure in their annual reports for the ten-year period under consideration, from 1986 - 1995. Consistent with Newson and Deegan (2002), human resource information was the category of social disclosure most disclosed in the annual reports. This was followed by community involvement and the environment. A similar observation regarding the extent of human resource information disclosure was also reported by Belal (2001) in his analysis of social disclosure practice in the annual reports of 30 large industrial Bangladeshi companies and Abu-Baker and Naser (2000) on Jordanian companies. Tsang (1998) also found two tobacco companies included in the sample disclosed significantly more social information than others. Legitimacy theory was proposed as the motivation for social disclosure. The significantly more social information provided in the annual reports of the two tobacco companies was explained by the need to justify their continued existence and to show that they contribute to the well being of society. That need was felt greater during the period under study because of the widespread government campaign on anti-smoking. The study concluded that the level of social disclosure in Singapore listed companies was still at its infancy with almost half of the sample companies not disclosing any social information during the ten year period under investigation.

Al-Khater and Naser (2003) surveyed four user groups (accountants, external auditors, academicians and bank officers) of corporate information in Qatar to seek their views on corporate reporting, particularly social responsibility. All respondents agreed that the provision of corporate information is mainly to satisfy the needs of (in ranking of importance by mean scores) shareholders, potential investors and creditors. In respect of social information, respondents rated society, followed by customers and employees, to be the main beneficiaries of social responsibility disclosure. This finding seems to imply that in the Qatari context, community involvement is regarded as the most important type of social disclosure in contrast to human resource as reported in Tsang (1998), Abu-Baker and Naser (2000), Belal (2001) and, Newson and Deegan (2002). On the reasons for non-disclosure of social information, the majority of respondents in Al-Khater and Naser (2003) believed the main factors were administrative difficulties and management not appreciating its social responsibility. This study provides some evidence that awareness of the concept of CSR among managers is an important factor determining corporate social policy. Apart from Qatari companies' emphasis on economic rather than social performance, the lack of legal requirements was also suggested by respondents as a contributing factor for companies to have little incentive to disclose corporate social responsibility information. That would partly explain the findings in Abu-Baker and Naser (2000) and Belal (2001) that human resource was the theme most commonly disclosed by companies. In those studies, some of the items making up human resource information were required by law.

The next section discusses CSR studies on Malaysian corporations to get an indication of the state (type of studies, findings and conclusions thereof) of CSR research in Malaysia. A review of previous research will help identify potential areas or avenues for further work.

2.6.3 CSR in Malaysia

Table 2-6 summarises CSR studies that were conducted in the Malaysian settings. Three studies examined the content of company annual reports, two others were conducted through postal questionnaire surveys and one was by personal interviews.

Five of these studies examined the theme of social information most commonly disclosed or considered important areas of CSR. In addition to descriptive analysis, multiple regression models were also run by Haniffa (1999) to identify factors influencing social disclosure in Malaysian company annual reports. The variables found to be statistically significant in the regression analysis are listed in Table 2-6(3). Consistent with prior research (Tsang, 1998; Belal, 2001; and Newson and Deegan, 2002), studies by Teoh and Thong (1984), Andrew et al. (1989) and Haniffa (1999) reported human resource to be the most commonly theme of CSR disclosed in company annual reports. Andrew et al. (1989) suggested that the proportionately higher amount of disclosure on employees' welfare probably reflects a company's contribution towards the government's concern with improving working conditions and living standards of the workers.[18]

In contrast, Rashid and Ibrahim (2002) found product and service information[19] to be the item most disclosed in the annual reports while Ahmad and Rahim (2003) reported philanthropic activities to be the most important area of CSR regarded by the majority of respondents surveyed. However, even though employees welfare' was ranked second behind product and service to customers in Rashid and Ibrahim (2002), in terms of areas of involvement, a higher percentage of companies indicated that they were involved in human resource activities (see Table 2-6). This could imply that companies put more emphasis on reporting information where the potential impact on these activities can be associated with the economic performance of the company. The finding in Ahmad and Rahim (2003) that philanthropic activities were considered the most important area of CSR could be an indication that the trend in corporate social activities in Malaysia may have changed i.e. rather than focusing on traditional employee-customer aspects, more attention is now being directed to contribution to the community at large. A somewhat surprising finding of the study by Ahmad and Rahim (2003) is the importance of stakeholder groups

[18] The other study by Thompson (2002) is also descriptive and limited in sample size. The study examined environmental disclosure in annual reports and stand-alone Environmental Report of the ten largest companies in Malaysia.

[19] Items included in product/ service to consumers were responsive to consumers' complaints, maintaining product/ service quality to consumers, ensuring product safety and provide guarantee policy or warranty provisions.

where the general public was rated third behind consumers and employees. If philanthropic activities are the most important area of CSR, then it may be expected that the most important stakeholder group will be the general public. The inconsistencies between important areas of CSR and important stakeholder groups (by rank) probably imply that philanthropic activities are considered important to portray good corporate image. Being seen to be doing good things may provide a shield to the company from unnecessary scrutiny by the government or regulatory authorities. The results also highlight the need to further examine CSR disclosure in annual reports to see if perceptions of managers are consistent with actual reporting practice.

Another issue investigated in the majority of these studies was whether companies which were involved in social activities actually reported those activities in their annual reports. The findings of Teoh and Thong (1984) showed that the disclosure of social activities in the annual reports was much less than the extent of involvement indicated by each company. The main reasons for non-disclosure are summarised in Table 2-6(1e). Similar results were reported by Rashid and Ibrahim (2002) whereby 97.5% of the respondents indicated their companies were involved in social activities but only 54.5% mentioned that they informed the general public of aspects of their CSR activities. These findings imply that the extent of a company's CSR disclosure in annual reports should not be taken as the complete measure of the extent of the company's involvement in social activities. That is because a company may not feel the need to disclose its social activities to the general public or even if a company does disclose its social performance, it may be through other channels such as the media, the company's newsletters or magazines.

In relation to corporate characteristics, Teoh and Thong (1984) and Andrew et al. (1989) reported larger and foreign-owned companies disclosed more social information in their annual reports. These findings were obtained by classifying companies into bands of annual turnovers and total assets and by major ownership by countries. Reasons suggested for the findings include larger companies having more resources to engage in corporate social activities and foreign-owned companies being

more visible and more likely to be subject to scrutiny by the host government. It was argued that disclosure of social information could allay fears or criticisms that these companies were only concern with exploiting the economic resources of a developing country. That seems to imply the application of information production costs, political costs and legitimacy theories as motivations for social disclosures in Malaysian companies.

With the exception of Haniffa (1999), studies on social reporting in Malaysian company annual reports discussed above are largely descriptive. In the studies that employed postal questionnaires and personal interviews, no attempt was made to investigate factors influencing corporate decision on social disclosure in annual reports. The present study extends research on CSR in Malaysia by conducting interviews with market participants to shed light on other factors influencing disclosure of social information in annual reports and to enhance the interpretation of statistical results. Another examination of statistical association between social disclosure in annual reports and variables representing ownership structure, corporate governance, culture and company attributes will provide additional evidence on factors determining CSR disclosure in company annual reports in a developing country.

Table 2-6: CSR in Malaysia

	Author (s)	Sample/Respondents	Method	Findings
1.	Teoh and Thong (1984)	Senior management (mainly CEOs) of 100 Malaysian companies	Personal interviews	Factors influencing [a]Social awareness: (1) philosophy of top management, (2) legislation e.g. Environmental Quality Act, (3) alignment with parent company practice
				[b]Social involvement: (1) human resources (3.70)*, (2) products/ services to consumers (3.65)*, (3) physical environment (2.90)*, (4) community involvement (2.67)*
				[c] 71 companies did not include any social performance in their annual reports, 29 did
				[d]Social reporting in annual reports: (1) human resources (45.6%)**, (2) products/ services to consumers (21.1%)**, (3) physical environment (17.5%)**, (4) community involvement (15.8%)**
				[e]Reasons for non-disclosure in annual reports (1) annual reports have always been kept very brief, (2) company is active in social concerns but can see no reason for telling others what it is doing, (3) social activities were mainly reported through newsletters and company magazines
				[f]social involvement and reporting were more pronounced in larger companies and companies with major foreign ownership (U.S. and U.K.)
2.	Andrew et al. (1989)	119 annual reports of FY 1983 public listed companies in Malaysia and Singapore	Content analysis	[a] Disclosing companies rate was 26% (31/119)**
				[b] a higher proportion of larger and medium-sized companies made social disclosures compared with the small companies and a majority of large companies were foreign-owned
				[c] most common theme disclosed (1) human resources (71%)**, (2) products/ services (14%)**, (3) community involvement (10%)**, (4) environment (5%)**
3.	Haniffa (1999)	139 company annual reports of FY 1994	Multiple regression analysis	[a] Social reporting in annual reports: (1) employee information, (2) products/ services, (3) community involvement, (4) environment and (5) value added
				[b] The extent of social disclosure in annual reports is statistically significant and positively associated with (i) company size, industry type, listing status, profitability, top-ten shareholdings, chair with cross-holdings, ratio of Bumiputra directors and Bumiputra finance director.
4	Rashid and Ibrahim	198 respondents (CEOs,	Postal	[a] 97.5% of respondents said their companies were involved in CSR activities

	(2002)	managers and executives) [survey carried out in 2001)	questionnaire survey	[b] areas of involvement: (1) employees welfare (91.8%)**, (2) consumer's complaints (82.9%)**, (3) product/ service to consumers (76.7%)**, (4) ensuring product safety (62.3%)**
				[c] 54.5% respondents said they informed the general public of any aspects of their CSR activities either to media or in annual reports. Areas reported were (1) product/ service to customers (55%)**, (2) employees' welfare (50%)**, (3) community involvement (39.2%)**, (4) physical environment (23.3%)**
				[d] factors influencing *attitudes* towards CSR: (1) family upbringing, (2) traditional beliefs and customs, (3) common practices in industry, (4) religious training
5.	Thompson (2002)	Top ten Malaysian listed companies annual reports & stand-alone Environmental Reports 2001/02	Content analysis	[a] 7 companies made reference to the environment
				[b] 3 companies made half-page disclosures, 1 each made quarter-page, 1 page, 3 pages and 4 pages disclosures.
6.	Ahmad and Rahim (2003)	Corporate Communication Managers of 29 Malaysian public listed companies [survey carried out in 2002]	Postal questionnaire survey	[a] Awareness of CSR: 58.6% of respondents said their companies were highly aware of the concept of CSR
				[b] Ranking of importance of stakeholder groups: (1) consumers, (2) employees, (3) the general public
				[c] Areas of CSR considered to be relevant as part of being socially responsible: (1) donations to support community activities (82.8%)**, sponsorship of public community activities (82.8%)** and proper working conditions (82.8%)** (2) training employees (75.9%)** and fair salaries (75.9%)**, (3) environmental protection and preservation (72.4%)**

Key:
FY - Financial year; CEO - Chief Financial Officer; * Overall mean scores of response on a four-point scale with 4 being the most important
** Figures in brackets refer to percentage of respondents giving that response or in the case of annual reports, percentage of companies disclosing that information.

2.7 Other aspects of corporate voluntary disclosure studies

This section discusses disclosure studies which were not included in any of the preceding sections. The discussion is categorised into four aspects; regulatory factors, cultural dimensions, analyst following and private disclosure.

2.7.1 Disclosure and regulatory factors

Abd-Elsalam and Weetman (2003) examined the level of compliance with IAS disclosures by Egyptian listed non-financial companies when IAS became mandatory in the country. Their findings show that relative familiarity and a language barrier have an impact on corporate disclosure policy. The mean disclosure score was found to be highest with items also required by the Egyptian Companies Act while disclosure requirements not translated into Arabic language or not updated in the local listing requirements were the least complied with.

In another study by Naser and Nuseibeh (2003a) on Saudi companies, the creation of the Saudi Organization of Certified Public Accountants (SOCPA) was found to have little impact on corporate reporting in Saudi Arabia. The study reported that the mean disclosure score for mandatory disclosure was 89% while that for voluntary disclosure was 34%. The low level of disclosure for voluntary information was also attributed to the prevalence of family-owned businesses and government controlled companies who have little incentive to disclose additional information. The authors argued that was because the main users of corporate information in Saudi Arabia are financial institutions and governmental agencies who have access to company records and can demand information they need.

2.7.2 Disclosure and cultural dimensions

Drawing on Hofstede's (1980) cultural/societal dimensions, Gray (1988) proposed a model of accounting values comprising professionalism, uniformity, conservatism and secrecy. Gray then formulated hypotheses relating Hofstede's societal values to accounting values. Gray's hypothesised relationship between societal values and

accounting values was later tested in Gray and Vint (1995), Salter and Niswander (1995), Zarzeski (1996) and Archambault and Archambault (2003).

Using data from twenty-nine developed and developing countries, Salter and Niswander (1995) reported that secrecy (as measured by index of annual report disclosure) was significant and positively related to uncertainty avoidance but negatively associated with individualism. Similar results were documented in Gray and Vint (1995). Consistent with Salter and Niswander (1995), Gray and Vint (1995) found the mean disclosure practice of companies from 27 countries included in the analysis to be significantly associated with individualism (positive) and uncertainty avoidance (negative). These results support the hypothesis that accounting value of secrecy as represented by the extent of information disclosure is significantly related to societal values (culture) of uncertainty avoidance and individualism.

Zarzeski (1996) examined the effects of culture (as in Hofstede's model) and market forces on accounting disclosure practice of 256 corporate annual reports from France, Germany, Hong Kong, Japan, Norway, the UK and the US. Using investor-oriented disclosure index (the disclosure index was used as the secrecy measure) as the dependent variable, the study found three cultural dimensions, individualism, masculinity and uncertainty avoidance to be significantly associated with the extent of disclosure. Companies in countries with high individualism and masculinity disclosed more information while those in countries with high uncertainty avoidance tend to disclose less information. These findings provide support to Gray's theory of cultural influence on accounting values and further confirm the results in Salter and Niswander (1995) and Gray and Vint (1995) in respect of individualism and uncertainty avoidance. Market forces as represented by foreign sales, debt ratio and company size were also significant, with larger companies and companies with a higher proportion of foreign sales disclosing more information and companies with a higher debt ratio disclosing less information. Additional tests showed that the disclosure behaviour of companies which were more internationally dependent (proxied by total foreign sales) differed from their home country. International companies from more secretive countries were observed to exhibit less secretive

disclosure policy leading the author to conclude that international dependence could affect the influence of culture in a country.

In addition to cultural dimension and corporate attributes, Archambault and Archambault (2003) included national factors in their model on corporate financial disclosure policy. Using data from 621 companies covering 33 different countries, the study reported significant positive association between the extent of disclosure and variables representing foreign sales and individualism, consistent with Zarzeski (1996). In contrast, the other three cultural dimensions were significant but in the opposite direction to Zarzeski (1996). Disclosure was also found to increase with political rights and decreased with adult illiteracy. Variables representing religion was also significant with all forms of religion, Islam, Catholic, Protestant, Buddhist except Jewish showing significant positive relationship with the extent of disclosure.

The above studies highlight that corporate disclosure policy is influenced by a host of factors including cultural, national and religion in addition to widely examined corporate attributes. Zarzeski (1996) argued that Hofstede's model do not allow for cultural variations within a country adding that no such study existed. That could be one of the reasons for the cross country approach taken in the studies cited above. However, Hofstede's model has subsequently been used to investigate cultural variation within a country. Haniffa and Cooke (2002) drawing on Hofstede-Gray theoretical framework, found some evidence that culture as proxied by ethnicity was significant in influencing disclosure in Malaysian corporation annual reports. Thus, contrary to Zarzeski's (1995) argument, the Hofstede-Gray hypothesis can be applied to explain variations in corporate disclosure practice within a country.

2.7.3 Disclosure and analyst following

Lang and Lundholm (1996) examined the relationship between disclosure practice of companies, the number of analysts following each company and the properties of analysts' earnings forecasts. Using analyst ratings as the measure for informativeness of companies' disclosures, the study found that companies with a higher score were followed by a significantly higher number of analysts. The positive association

observed suggests that corporate-provided disclosures complement rather than substitute for analysts' activities. A higher disclosure score was also positively associated with less dispersion in analyst earnings forecast suggesting that additional disclosure reduces information asymmetry among the analysts. Consistent with Lang and Lundholm (1993) the number of analyst following was also found to be significant and positively related to company size.

Eng and Teo (1999) conducted a similar type of study on Singapore listed companies. A researcher-constructed index was used to evaluate the extent of voluntary disclosure provided in corporate annual reports. Using a sample of 126 annual reports for the financial years 1994 and 1995, the study found more disclosure led to more analysts following and larger companies tend to attract more analysts. These results are consistent with Lang and Lundholm (1996). Additionally, the number of analyst following was also significantly associated with company share trading volume, indicating that more analysts are attracted to highly traded shares. The level of corporate disclosure was also observed to be significant and negatively related to dispersion in analyst earnings forecast.

2.7.4 Private voluntary disclosure

Another factor that should be taken into account when examining corporate voluntary disclosure is the existence of other forms of corporate communication. That is because voluntary disclosure of corporate information may be disseminated using channels such as press releases, corporate websites and brochures or through private briefings to analysts and meetings with company management.

Based on interviews with executives in 33 large UK listed companies, Holland (1998a & 1998b) reported that large UK companies prefer private over public disclosure. It was reported that managers had to balance public and private voluntary disclosure so that they could gain the market benefits (liquidity and cost of capital) of public disclosure without threatening the exchange benefits (maintain control of the company, maintain job, secure funds) of private disclosure. The preference over private disclosure was encouraged by the limitations of financial reports such as very

little qualitative information is released through the public document while private disclosure allows a more extensive and richer discussion among the participants. Other benefits of private disclosure include expected reciprocal benefits in the form of support from core financial institutions during takeover bids and a means to build up reputational capital in the market for senior executives. Additionally, although public voluntary disclosure has been suggested to reduce investors' private information costs (Diamond, 1985), the companies interviewed in Holland (1998b) argued that increased public voluntary disclosure actually stimulated institutional investors question and their search for more information in the private dialogue, thus increasing costs on the company part.

The importance of private communication is also evident in Barker (1998) where analysts interviewed ranked direct contact with the company and analysts' meetings the most and second important source of information. Marston (1996) examined investor relations practices in UK reported that the existence of an investor relations officer in the company was significantly associated with company size, overseas listings, privatised companies, a high firm specific risk and a positive opinion on the value of investor relations meetings. The results were consistent with expectations as larger companies are more likely to be the focus of attention of analysts and fund managers and special expertise may be needed to deal with investors overseas. Marston and Straker (2001) also reported that many companies within continental Europe regarded investor relations function of greater important than it was ten years ago.

The above studies show the importance of understanding the flow of corporate information in the market. The existence of private communication channels have implications for corporate disclosure, hence may help explain variations in the extent of voluntary disclosure in annual reports. Within developing countries, studies have shown that visits to company and communication with management were ranked second or third most important behind the annual and interim reports by the majority of respondents surveyed (Vergoossen, 1993 [Netherlands]; Abu-Nassar and Rutherford [Jordan], 1996; Ho and Wong, 2001b [Hong Kong]; and Naser and

Nuseibeh, 2003b [Saudi Arabia]). These findings suggest that company annual reports are the most important source of information possibly because private communications are at an infancy stage in developing countries. Nevertheless, the existence of private corporate communication channels implies that it is possible that voluntary information is also communicated during private meetings.

2.8 Summary and conclusions

This chapter has reviewed relevant theories and empirical studies on corporate voluntary disclosure to set the basis for developing testable hypotheses in a subsequent chapter. The main conclusions are as follows:

Firstly, the review of theories summarised in Table 2-1 and Table 2-2 shows that although some theories can be used to explain the same factor, the motivations for disclosure are different. For example, additional information may help reduce agency conflicts in a large and diffused ownership company. Alternatively, large companies may disclose more information to obtain additional capital at the cheapest possible cost. Signalling theory predicts that a company with good news will disclose more information to signal their good performance. However, proprietary costs consideration may discourage the company from disclosing that piece of favourable information. The range of theories available provides a broad basis on which disclosure practice in a developing country may be explained. The applicability of these theories is further assessed after discussing the Malaysian environment in Chapter 3.

Secondly, recent works on voluntary disclosure, particularly those undertaken in the 2000s highlight the importance of ownership structure and corporate governance in determining corporate disclosure policy in developing countries (see section 2.4.2). This suggests that ownership structure and corporate governance are pertinent issues which should be considered in the assessment of voluntary disclosure in annual reports.

Thirdly, studies on voluntary disclosure in Malaysian corporations have all examined corporate disclosure practice using data before the 1997 Asian financial crisis (see Table 2-4). Evaluation of company disclosure policy in a period of a significant change in the business and capital market environment will contribute to knowledge because the results will provide some evidence on whether traditional traits in business environment still dominate corporate disclosure despite the regulatory changes implemented after the crisis.

Fourthly, gaps are identified in two areas. Firstly, the review has shown that the majority of prior research (with the exception of some research on social reporting) has used quantitative techniques to identify factors influencing voluntary disclosure in annual reports (see Tables 2-3, 2-4 and 2-5). Thus, an opportunity arises for extending research on corporate voluntary disclosure to include qualitative interview method. Research on disclosure in Malaysia that employed interview techniques and postal questionnaire mainly examined the perceptions of managers on social disclosure (see Table 2-6). No attempt was made to identify factors influencing corporate disclosure policy by interviewing managers. Personal interviews with market participants may shed light on other factors influencing disclosure which might not have been captured in a statistical model. Extending the research method to include interviewing influential market participants will contribute to knowledge because the results can also be used to support or clarify statistical observations. Additionally, interview responses may provide a basis to gauge the extent to which theoretical frameworks originating from developed countries are relevant in explaining voluntary disclosure practice in annual reports of a developing country. Secondly, review of prior literature also revealed that disclosure by category of information is another area which had not been fully explored in the Malaysian context. An examination of corporate voluntary disclosure by category of information may provide evidence on whether the same variables are statistically significant in influencing disclosure in all categories of information.

The review has shown that GRQ1 and GRQ2 (see section 1.4) are relevant questions to be explored. The importance of ownership structure and corporate governance in influencing voluntary disclosure in annual reports, particularly in developing countries is evident in prior studies (see sections 2.4.2 and 2.5). The lack of qualitative data to explore issues related to voluntary disclosure in prior research suggests that this is a potentially useful method to further unravel factors influencing voluntary disclosure in annual reports.

The next chapter provides an overview of the Malaysian business environment. The discussion focuses on the regulatory changes with respect to financial reporting in the country that took place after the 1997 financial crisis. Features of the Malaysian business environment which are expected to influence corporate disclosure policy are also highlighted.

CHAPTER 3: THE MALAYSIAN ENVIRONMENT

3.1 Introduction

This chapter presents an overview of the Malaysian business and regulatory environment. The discussion assists in understanding some of the issues that influence the Malaysian financial reporting system. Gray (1988) hypothesises that societal cultural values have an impact on accounting values. Subsequent studies showed that a country's accounting system is affected by its cultural values including factors such as historical, economic, legal and political systems (Perera, 1989; Doupnik and Salter, 1995; Salter and Niswander, 1995; Zarzeski, 1996; and Archambault and Archambault, 2003). These studies highlight the need to consider the domestic institutional context in explaining a national accounting practice. A discussion of the Malaysian settings can shed light on some of the possible factors that may have an impact on corporate disclosure policy. In addition, knowledge of the Malaysian environment can provide insights into the applicability of established disclosure theories in explaining voluntary disclosure levels in the annual reports of a developing country.

Section 3.2 gives a brief introduction to Malaysia tracing back to the date of independence in 1957. A discussion of the Malaysian population follows in section 3.3. The discussion is necessary to highlight the multi-racial society and the preferential treatment given to ethnic indigenous people by the Malaysian government. Section 3.4 provides a discussion of empirical evidence of corporate performance in East Asian countries during the 1997 financial crisis and the Malaysian government's response to the crisis. This is followed by a discussion of the Malaysian financial reporting framework in section 3.5. The analysis focuses on the functions of the professional accountancy bodies and the events surrounding and contributing to the establishment of the accounting standards board in Malaysia. The role and efforts of other regulatory authorities in shaping financial reporting regulation particularly in the aftermath of the 1997 Asian financial crisis is discussed.

Section 3.6 summarises and concludes the chapter by highlighting factors that are expected to influence voluntary disclosure in Malaysian company annual reports and relevant theoretical frameworks that may explain corporate voluntary disclosure.

3.2 The country

Malaysia is a country in South-East Asia, having two parts, West and East separated by the South China Sea. West or Peninsular Malaysia comprises the former Federation of Malaya. It is bounded on the north by Thailand and on the south by Singapore. East Malaysia comprises Sarawak and Sabah in the north and north-west of the Island of Borneo. At independence in 1957, Malaysia inherited an economy dominated by two commodities, rubber and tin (Gomez and Jomo, 2002; p.10). Malaysia is currently one of the world's largest producer of palm oil, rubber, tin and petroleum.[20] Malaysia ranked as the 18th largest exporting country in the world in 2001 (MTR, 2003; Chapter 7).

Malaysia practices parliamentary democracy with the Yang di-Pertuan Agong (customarily referred to as the king) heading the constitutional monarchy.[21] The King is also the leader of the Islamic faith in Malaysia. Executive power is vested in the cabinet led by the prime minister who is usually the president of the political party with majority seats in the Parliament. The Malaysian legal system is based on English common law. However, civil cases among Muslims are adjudicated under the Islamic Law.[22]

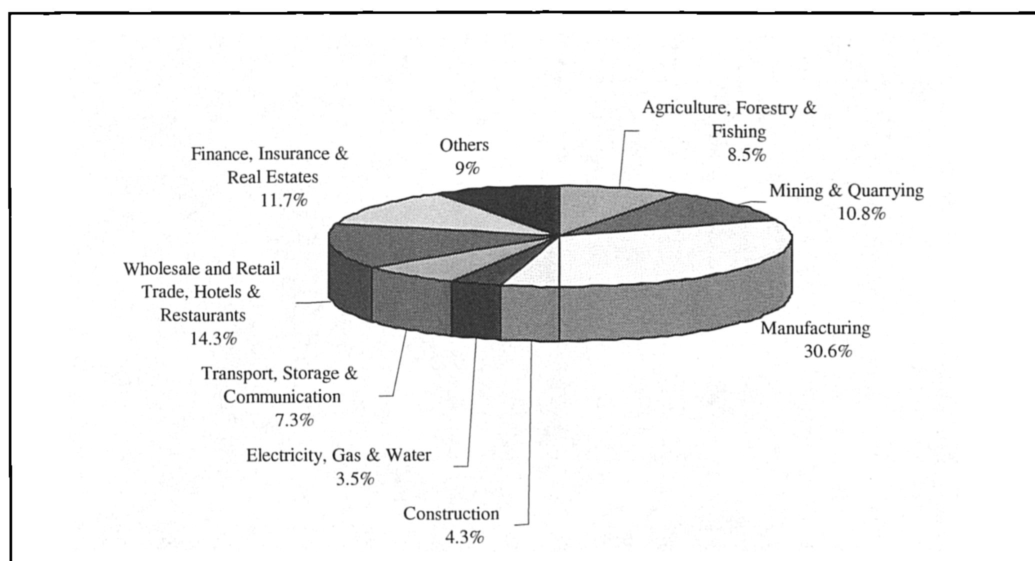
The World Bank rates Malaysia together with other upper middle income economies.[23] The World Bank reported that in the period 1973 - 1995, Malaysia's real average per capita income increased by two and a half times and the poverty

[20] Source: http://www.tourism.com.my/v2/getting_started/ 29/01/04
[21] Source: Parliament of Malaysia http://www.parlimen.gov.my/Pengenalan_LtrBelakang_bi.php 25/01/04
[22] Source: Malaysian Law http://www.jurist.law.pitt.edu/world/malaysia.htm 25/01/04
[23] Source: http://www.worldbank.org 17/03/03

rate shrank from over half the population to 7.8 per cent.[24] From the early 1980s through to mid-1990s the Malaysian economy sustained rapid growth averaging almost 8% annually. Malaysia's fast growing economy is largely attributed to utilisation and development of the country's natural, mineral and human resources coupled with prudent fiscal and monetary management.

At independence, agriculture and primary commodities were the main source of income for the country. In the 1970s, the manufacturing sector began to assume an important role in the Malaysian economy. By the 1990s, with the shift from labour-intensive to capital-intensive production processes, the manufacturing sector became the leading sector of the country. In 2001, manufacturing contributed about 30.6% to gross domestic product (GDP), (a substantial increase from 13.9% of GDP in 1970)[25] and 82.7% of total exports with electrical and electronics products being the major components. Figure 3-1 shows the contribution of each sector to the country GDP in 2001. Figure 3-2 shows export by product in 2001.

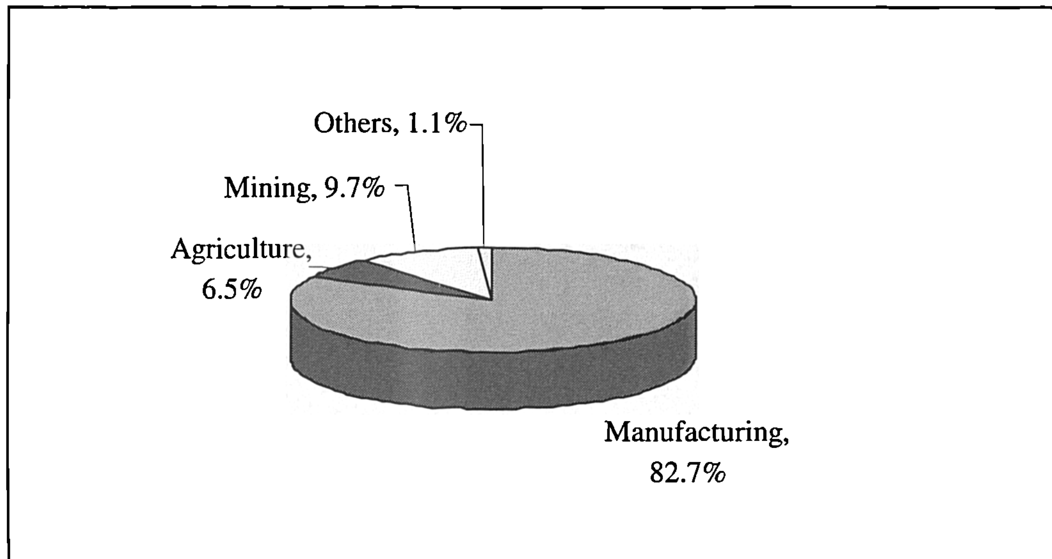
Figure 3.-1: Gross Domestic Product - 2001



Source: Bank Negara Malaysia. Monthly Statistical Bulletin. V1.3 Gross domestic product by kind of economic activity at current prices http://www.bnm.gov.my 10/06/02

[24] Source: Poverty and Malaysia: Sector Overview. The World Bank Group. http://www.worldbank.org/eapsocial/countries/malay/pov1.htm 05/07/04
[25] Source: Department of Statistics, Malaysia http://www.statistics.gov.my 10/06/02

Figure 3-2: Export by Products - 2001



Source: Ministry of Trade and Industry, Malaysia. Table 4: Export by products (1999 - 2001) http://www.miti.gov.my/trdind/annu4.htm 19/06/02

The electronics industry was originally promoted to cater for low-skilled mass employment opportunities. However, labour market conditions have changed over the last decade. While many multinationals have moved from labour-intensive operations to more capital-intensive automated operations, thus reducing its overall workforce and increasing production and productivity, there is still considerable labour-intensive assembly work, especially within the consumer electronics sub-sector, which is fast losing its competitive advantage because of rising labour and other costs (NERP, 1998; Chapter 7).

Foreign equity participation in manufacturing projects has been governed by the level of exports. However, effective from 31 July 1998, the Malaysian government has liberalised the equity policy for the manufacturing sector in respect of new investment, expansion or diversification. Foreign investors can hold 100% equity irrespective of the level of exports with the exception of seven activities and products. To further enhance Malaysia's competitiveness as an investment location, the government has fully liberalised equity holdings in manufacturing projects. Effective from 17 June 2003, 100 % foreign equity holding is allowed for all investment in new projects, as well as investments in expansion/diversification projects by existing

companies, irrespective of the level of exports and without any product/activity being excluded.[26]

3.3 The population

One of the distinguishing features of Malaysia is its multi-racial population. The Bumiputras (sons of the soil) is a specific term used to categorise indigenous people of Malaysia. In 2001, Bumiputras accounted for 62.6% (14.89 million) of the total population of which 12.34 million[27] (82.9%) were Malays. The Malays has been the dominant ethnic group since the date of independent. At independence, with Malays constituting 53% of the population, Malay Language and Islam[28] were pronounced as the official language and religion of the country.[29]

The balance of the Bumiputras comprises other indigenous groups, collectively known as Orang Asli (original people or aboriginals). The non-Bumiputras includes a range of different groups such as Eurasian and Filipinos, with the Chinese being the main communities (26%), and the Indians (8%).[30] Chinese and Indians are mainly descendants of migrants who arrived from the mid-nineteenth century to work in the colonial economy (Andaya and Andaya, 2001; p. 4).

3.3.1 The Bumiputra Policy

It is common in Malaysia to associate ethnic groups with specific economic occupation, with the Malays dominating sectors such as the government civil service and agriculture while the Chinese are established business people. This racial disparity in occupation is however expected to be changing with the government's

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[26] Source: Malaysian Industrial Development Authority. Government Further Liberalises Equity and Expatriate Employment Policies. http://www.mida.gov.my 6/04/04

[27] Source: Malaysian Social Indicators, Population by Ethnic Composition http://www.smpke.jpm.my 6/10/02

[28] Article 3(1) of the Constitution of Malaysia states that Islam is the religion of Malaysia but other religions may be practiced in peace and harmony in any part of Malaysia. http://www.confinder.richmond.edu/local_malaysia.html 28/01/04

[29] Source: Commanding Heights: Malaysia Social http://www.pbs.org/wgbh/commandingheights/lo/countries/my/my_social.html 05/07/02

[30] Source: Press statement. Population Distribution and Basic Demographic Characteristics Report. Population and Housing Census 2000. http://www.statistics.gov.my/English/pressdemo.htm 28/01/04

efforts to restructure the society through affirmative actions undertaken after ethnic rioting broke out in May 1969.

In 1969, inequalities between the politically dominant Malays and economically dominant Chinese resulted in riots in Kuala Lumpur (Andaya and Andaya, 2001; pp. 287 - 300). The National Economic Policy (NEP) was launched in 1971, designed to enhance the economic standing of ethnic Malays and other indigenous people thereby reducing inter-ethnic economic differences (Gomez and Jomo, 2002; p. 24). The NEP introduced a series of government regulations, quotas, scholarships and other privileges designed to help the Bumiputras. The primary objective of the NEP was to achieve national unity by eradicating poverty and restructuring the society. One of the specific goals of the NEP was to ensure Bumiputra corporate ownership of at least 30% by the year 1990. Upon expiration of the NEP, it was replaced by the National Development Policy (NDP) in 1991, and the National Vision Policy (NVP) in 2001. While maintaining the basic strategies and objectives of NEP, the NVP in particular aims towards instilling positive social and spiritual values as well as promoting environmentally friendly and sustainable development (SPM, 2001). This marked an important era in the Malaysian scene as, although economic growth is still strongly emphasised, the policy also highlights the relevance of social and environmental awareness in raising the level of prosperity.

The implementation of policies for increasing Bumiputra participation has been generally successful. It has been suggested that much of the NEP's success was attributed to education as the number of Malay doctors, lawyers and engineers increased during that period (Heibert, 1998). Bumiputra employment in professional occupation (accountants, architects, engineers and lawyers) has increased from 20.7% in 1990 to 28.9% in 1999 (OPP3, 2001; Chapter 4). The evidence thus appears to indicate that education privileges such as scholarships awarded to Bumiputras have resulted in the production of more Bumiputra professionals.

Bumiputra involvement in the corporate sector has also been quite impressive. Towards the end of the NDP period in 1999, Bumiputras owned 19.1% of the total

corporate equity capital, a substantial increase from 2.4% in 1970 (OPP3, 2001; Chapter 4). However, Bumiputra equity ownership in the most dynamic manufacturing sector remained low at 12.5% in 1999, compared to non-Bumiputras ownership of 27.3% of which 26.7% were held by the Chinese (EMP, 2001; Chapter 3). This suggests that despite the privileges accorded by the Malaysian government to indigenous Malays and the resultant increase in Bumiputra corporate ownership, non-Bumiputra Chinese still dominate the Malaysian corporate sector. In respect of companies listed on the KLSE, Bumiputra ownership in 1999 was 28.5% of share capital at par value and controlled 202 companies (26.7% compared to 26% in 1995) out of the 757 companies listed on the exchange (EMP, 2001; Chapter 3).

3.3.2 The Bumiputra and privatisation

The privatisation programme implemented by the government in 1983 also served as an important vehicle enhancing Bumiputra participation in the corporate sector. As at December 2000, Bumiputras' equity ownership in privatised entities was 25.6%, compared to non-Bumiputras' holding of 14% (see Table 3-1). In terms of market capitalisation, privatised companies constitute only 5% of total listed companies, however they contributed 30.3% to total market capitalisation as at 26 December 2000 (EMP, 2001; Chapter 7). These statistics show that privatisation programme by the government has been generally successful in increasing Bumiputra ownership in listed companies.

Table 3-1: Equity ownership of privatised entities

	Upon privatisation %	**December 2000** %
Bumiputra	21.7	25.6
Non-Bumiputra	9.7	14.0
Government	62.7	49.5
Foreign	5.9	10.9
Total	**100.0**	**100.0**

Source: EMP (2001, Chapter 7).

3.3.3 The Bumiputra and its relevance to accounting disclosure

As discussed in section 3.3 above, the Malays make up the majority of Bumiputra, hence the government policy of enhancing the economic standing of Bumiputra has largely benefited the Malays. The increasing ownership by Bumiputra has led to more appointment of Malay directors in Bumiputra and government-controlled companies. However, that does not mean Malays are not to be found on other types of corporate boards. Since the 1990s, Chinese businesses have been appointing influential Malay politicians and ex-civil servants as directors of their companies, a practice seen by many as a means of gaining access to government patronage (Gomez and Jomo, 2002; pp. 47-49).

Given the priorities and preferential treatment accorded to Bumiputras and the political nature of their appointments to corporate boards, the Malays may feel more need to justify their position to signal that they are responsible and good corporate citizens. In terms of financial reporting, this responsibility and accountability may be shown through the provision of additional information. Hence companies with a higher proportion of Malay directors may be expected to push for more disclosure in the annual reports to justify their appointment and to show that they are providing value to the company. This suggests that in Malaysia, legitimacy and political costs theories may be particularly relevant to explain the association between Malay directors and the extent of voluntary information disclosure in annual reports.

Another factor that may persuade Malay directors to disclose additional information is their religious beliefs. The majority of Malays in Malaysia are Muslims and the Islamic corporate reporting stresses on the principle of full disclosure. Full disclosure does not mean disclosure of everything but information that ought to be given to members of the community in accordance with the principles of the *Shari'a*[31] (Baydoun and Willett, 2000). This suggests that transparency is an important issue in Islamic corporate reporting. Thus companies with a higher proportion of Malay directors can be expected to disclose more information in annual reports. It is

[31] *Sharia'* is the Islamic law based upon the *Qur'an, Hadith, Ijma* and to some extent the principle of *Qiyas* or analogical reasoning.

therefore interesting to see if the Islamic concept of full disclosure does influence Malay directors in reporting company activities and performance in annual reports. This is taken further in section 4.8.3.1.

3.3.4 Privatisation and its relevance to accounting disclosure

One of the specific aims of the privatisation project was to restructure and ensure a more equitable society. The listing of a number of privatised companies has enabled a wider distribution of equity ownership to the public (EMP, 2001; Chapter 7). Given the importance of privatised entities, these companies may be regarded as more politically sensitive. Hence privatised companies may be expected to be more transparent in reporting their activities to signal that they are operating and performing in accordance with the expectations of the nation.

In addition, agency costs may be expected to be high in privatised entities. That is because privatised entities which are incorporated and run like any other corporations may find the profit objective of an enterprise to be in conflict with the interests of the nation (Eng and Mak, 2003). The conflicting objectives may necessitate additional information disclosure as a bonding and monitoring mechanism to ensure that managerial decisions do not undermine the interests and welfare of the nation as a whole.

On the other hand, it can also be argued that because privatised entities are majority owned by the government (see Table 3-1), the government can exercise absolute control on monitoring and overseeing the activities of these companies. This implies that additional disclosure in annual reports may not be necessary because privatised companies are under constant monitoring by the government.

3.3.5 Political patronage and its relevance to accounting disclosure

Political connections may give rise to political costs. Political patronage in major corporations can be expected to be prevalent especially in developing countries where capital markets are dominated by a small number of sophisticated investors. Large companies in Malaysia appear to be closely connected to influential political

figures. Gomez and Jomo (2002; pp. 53-72, 100-110 & 138-159) described how political patronage influences the accumulation and concentration of wealth in Malaysian business. Johnson and Mitton (2003) showed that political favouritism was a significant factor determining the survival of Malaysian companies during the 1997 financial crisis. These studies show that political linkages do have an impact on a company's performance and future survival.

Companies which are politically connected may not want to disclose information beyond that statutorily required to protect the real or beneficial owner. Politically favoured companies may not need to disclose additional information to attract potential investors if they can obtain cheaper financing through their 'political linkages' (Leuz and Oberholzer-Gee, 2003). This suggests that politically connected companies may have less incentive for additional information disclosure in annual reports.

3.4 The 1997 financial crisis, corporate ownership and accounting disclosure

The Asian financial crisis that started in mid-1997 adversely affected the performance of East Asian economies including Malaysia. It has been suggested that lack of transparency and accountability in some East Asian corporations may have contributed to the depth of the economic crisis. Lack of adequate accounting disclosure has been argued to prevent proper assessment of the risk exposures of companies in the region (Rahman M., 1998) and lax investor protection have been cited as reasons contributing to the East Asian financial crisis (Choi et al., 2002; p. 194).

3.4.1 Empirical evidence of corporate performance during the 1997 crisis

Corporate ownership is highly concentrated in East Asia. Claessens et al. (2000) reported that more than two-third of companies in East Asia are controlled by a single shareholder. They also found extensive family control in more than half of East Asian corporations. State control is significant in Indonesia, Korea, Malaysia, Singapore and Thailand. Subsequent studies showed that corporate ownership had a

significant impact on a company's performance during the crisis. Mitton (2002) reported that companies with a higher disclosure quality, proxied by whether the company has a listed American depository receipt or a Big Six auditor, and companies with large outside shareholders experienced significantly better share price performance during the crisis period. In another study by Lemmon and Lins (2003), companies with a higher level of managerial control rights, but have separated control and cash flow rights through the use of pyramidal ownership structure and cross-holdings were found to be associated with lower share returns than those of other companies during the crisis period. These studies highlight the importance of ownership structure in determining the incentives of insiders to expropriate minority shareholders during times of financial crisis. [32] They also emphasise the need for a proper design of corporate governance features that can protect the rights of minority shareholders in developing economies.

3.4.2 The Malaysian government's response to the 1997 crisis

The Malaysian government in response to the crisis established the NEAC in January 1998 to assist in policy formulation and implementing strategies to restore public and investor confidence and revive the national economy.[33] The NEAC, in its recommendations, highlights the need to address fundamental issues that have affected market confidence, in particular corporate transparency (NERP, 1998; Chapter 4). It further suggests that restoring market confidence can be achieved by enhancing transparency and accountability and strengthening corporate governance. The NEAC acknowledged that good corporate governance is vital to ensure stakeholders' interests including minority shareholders' are well protected.

In recognition of the need to enhance the standards of corporate governance in Malaysia, the government established a High Level Finance Committee in March 1998 to look into the issue of corporate governance in Malaysia and to set best practices for the industry to follow (RCG, 1999). At about the same time the MICG was incorporated under the Companies Act (CA) 1965 to promote awareness of the

[32] Mitton (2002) and Lemmon and Lins (2003) provide examples of anecdotal evidence that expropriation of minority shareholders was prevalent during the East Asian crisis.
[33] Source: National Economic Action Council http://www.neac.gov.my/about/structure.htm 13/06/02

concept of corporate governance in Malaysian corporations with the objective of enhancing the long term values of businesses.[34] Efforts to enhance corporate governance in Malaysia had been ongoing before the crisis, but the High Level Finance Committee was the first to conduct a comprehensive review of the overall corporate governance framework in Malaysia (Anwar and Tang, 2003).

The MCCG setting principles and best practices was made public in 1999. Part 1 of the MCCG sets out broad principles of good corporate governance in Malaysia while Part 2 sets out guidelines intended to assist companies in designing their approach to corporate governance. Among the recommendations in Part 2 are clear separation between the roles of chairman and chief executive officer, and that board membership should comprise at least two or one-third (whichever is higher) independent non-executive directors (MCCG, 1999). Compliance with the MCCG was not mandatory at that time but the revised KLSE Listing Requirements now require disclosure of the extent of compliance with the MCCG in the annual reports (see section 3.5.4.1).

In August 2000, the Minority Shareholder Watchdog Group (MSWG) was formed with the aim of creating awareness among the minority shareholders of their rights.[35] Members of the MSWG comprise the country's major institutional funds including the Employee Provident Fund (EPF), Lembaga Tabung Angkatan Tentera (LTAT), Pertubuhan Keselamatan Sosial (SOCSO) and Perbadanan Nasional Berhad (PNB). The MSWG is responsible for encouraging proactive shareholder participation in public listed companies.

3.5 Regulatory framework for financial reporting in Malaysia

The legal and regulatory framework for financial reporting in Malaysia is governed by the CA 1965, accounting standards issued by the MASB and the KLSE Listing Requirements. The accountancy profession plays an important role in ensuring that

[34] Source: http://www.micg.net/pages/about_MICG.htm 06/11/01
[35] Source: http;//www.min.com.my/eng/html/myinvest3b.html 28/01/04

their members follow the code of professional conduct in the preparation of financial statements. However members of the accountancy profession were more likely to be auditors or employees rather than directors of non-complying companies (Susela, 1999). With the introduction of the SIR (Compliance with Approved Accounting Standards) 1999, directors of listed companies who fail to comply with approved accounting standards commit an offence and the SC is empowered to take action against these directors. The roles of the various regulatory bodies are discussed in turn below.

3.5.1 The CA 1965

Section 166A of the CA 1965 requires companies incorporated pursuant to the Act to comply with approved accounting standards defined in section 2 of the FRA 1997 (see section 3.5.3.1 below). Section 167(1) of the CA 1965 requires every company and its directors to prepare 'true and fair' profit and loss accounts and balance sheets. The profit and loss accounts and balance sheets are to be duly audited before they are laid before the company at its annual general meeting. Section 169(1) of the CA 1965 states that the audited profit and loss account together with the balance sheet (made up to a date not more than six months before the meeting), are to be tabled at the annual general meeting (AGM) on a date not later than eighteen months after the incorporation of the company and subsequently once at least in every calendar year at intervals of not more than fifteen months.[36]

The Ninth Schedule of the CA 1965 prescribes minimal disclosure requirements for profit and loss accounts and balance sheets of companies. The CA 1965 requires published accounts to present a 'true and fair' view however no definition is provided for this term. Section 166A (6) states that where any conflict or inconsistency arises between the provisions of an applicable approved accounting standard (standards issued by the MASB, see section 3.5.3.1) and the provision in

[36] The KLSE however requires that the issue of the annual audited accounts, the directors' and auditors' reports not to exceed four months after the close of a financial year of the company (KLSE, 2001; paragraph 7.35).

the Ninth Schedule in their respective applications to the accounts, the provisions of the approved accounting standard prevails.[37]

3.5.2 The Accountancy profession

There are two local professional accounting bodies in Malaysia. The national accounting body is the Malaysian Institute of Accountants (MIA) while the Malaysian Institute of Certified Public Accountants (MICPA) was set up as a private sector body.

3.5.2.1 The MICPA

The MICPA, formerly known as the Malaysian Association of Certified Public Accountants (MACPA) was formed in 1958 under the Companies Ordinance 1940 - 1946 with the objective of enhancing theory and practice of accountancy, and to provide education and training leading to the Certified Public Accountant (CPA) qualification. [38] Membership of MICPA comprised mainly chartered accountants from the UK and Australia and locally qualified CPAs (Susela, 1999). The MICPA instituted its examination system in 1961 and has since trained more than 1,500 qualified accountants.[39]

MACPA started its standard setting activities in the early 1970s when the then Governor of the Malaysian Central Bank requested MACPA to establish a statement of generally accepted accounting principles and a statement of generally accepted auditing standards (Susela, 1999). In response to the request, MACPA undertook reviews of IASs for adoption by its members. This process went on until 1986 when the MIA (see section 3.5.2.2) was reactivated.

3.5.2.2 The MIA

The MIA was established in 1967 under the Accountants Act 1967 to regulate the practice of the accountancy profession in Malaysia.[40] According to Susela (1999) the setting up of MIA has been viewed as a step towards achieving social objectives. In

[37] This requirement is also stated in paragraph 9.26 of the KLSE Listing Requirements (KLSE, 2001).
[38] Source: http://www.micpa.com.my 06/03/03
[39] Source: http://www.micpa.com.my/public/howcpa.asp 22/01/04
[40] Source: http://www.mia.org.my 06/03/03

particular, under the Accountants Act 1967, accounting graduates from local universities were given recognition by the MIA, thereby significantly increasing the accountant population especially amongst Bumiputras.

Being the country's national accountancy body, anyone wishing to practice as an accountant or auditor must be registered with the MIA.[41] However, only accounting degrees offered by local public universities and a number of professional qualifications are recognised by the MIA. This situation is expected to change with the recently announced qualifying exam to be set by the MIA. Accounting graduates from overseas universities will be able to register with the MIA provided they pass the MIA qualifying exam.[42]

MIA was content with the statutory function of registering accountants practicing in the country while MACPA continued with developing and issuing accounting standards until 1987 when the MIA was reactivated. When the MIA was reactivated in 1987, it adopted all the standards previously adopted by the MACPA. From 1987 until 1992 all technical standards were developed and issued jointly by the MIA and MACPA. The MIA/MACPA collaboration however ceased in 1992 due to disagreement over a number of issues, one of which being controversies surrounding the adoption of the goodwill standard (Susela, 1999). When the collaboration ceased, both professional bodies pursued separate ways of developing standards resulting in confusion within the industry. In July 1997, the FRA was passed. The MASB was then formed to issue legally binding accounting standards.

3.5.3 The FRA 1997

Under the FRA 1997, two bodies known as the Financial Reporting Foundation (FRF) and the MASB were established. Both the FRF and the MASB, make up the new framework for financial reporting in Malaysia. This new framework forms an independent standard setting structure with representation from diverse industry groups, including business leaders, economists, analysts, regulators and the

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[41] Source: The Accountant http://domino.mia.org.my/mia/miaWeb.nsf/pages/TheAccountant 22/01/04
[42] Source: Press Release 27 March 2003. MIA starts qualifying exam for aspiring accountants. http://domino.mia.org.my/ 22/01/04

accountancy profession. The FRF, as a trustee body, has responsibility for the oversight of the performance, financing and funding arrangement of the MASB. However, it has no direct responsibility with respect to standard setting. The responsibility of setting accounting standards rests solely with the MASB.[43]

3.5.3.1 The MASB

The MASB was established in 1997 as an independent authority to develop and issue accounting standards for application by Malaysian incorporated companies. This marked an important milestone in the development of financial reporting framework in Malaysia because the MASB is the first statutory accounting standards setting body in the East Asian region (Anwar and Tang, 2003).

The FRA 1997 gives legal power to standards issued by the MASB. Section 2 of the FRA 1997 defines 'approved accounting standards' as accounting standards which are issued or approved by the MASB. Financial statements which are required to be prepared under any law required by the SC, the Central Bank or the Registrar of Companies are required to comply with the requirements of the FRA 1997.

When the MASB assumed the role of the sole standard setter in Malaysia it adopted 24 of the 32 accounting standards issued by the two professional accountancy bodies. The MASB then embarked on its program to review and issue its own accounting standards. As of January 2004, MASB has issued 32 accounting standards for adoption by all Malaysian incorporated companies in the preparation of financial statements.[44] The MASB regularly conducts roadshows jointly with the MIA to explain the new financial reporting framework and to discuss specific approved accounting standards to members of the MIA and the general public.[45]

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[43] Source: http://www.masb.org.my/frf_f_about.htm 16/01/04

[44] Source: http://www.masb.org.my/mystandard.asp?c=1&page=2 16/01/04

[45] Source: http://www.masb.org.my/frf_event_rshow.htm 29/01/04 The MICPA also conducts seminars to discuss practical issues encountered by companies in the preparation of financial statements in compliance with the MASB standards and the KLSE Listing Requirements. http://www.micpa.com.my/ 29/01/04

3.5.4 The KLSE

The KLSE which was established in 1973 is a self regulatory organisation that governs the conduct of its members and member stock-broking companies in securities dealing. Companies can be listed on either the Main Board or the Second Board of the stock exchange. For companies to be included in the Main Board, the issued and paid up capital must be at least RM40 million in ordinary shares of RM1. In addition, the company must have earned a minimum profit after tax (PAT) of RM2 million for each of the five years immediately preceding listing. The average PAT for the same period must also be at the minimum RM5 million per annum. Companies on the Second Board must have a minimum issued and paid up capital of RM10 million ordinary share of RM1. An average PAT of at least RM2 million per annum must be achieved for the past three years before listing and a minimum PAT of RM2 million for each year of the same period. As at 31 December 2001, there were 812 companies listed on the KLSE. The breakdown between companies listed on the Main Board and the Second Board is shown in Table 3-2.

Table 3-2: Companies listed on the KLSE as at 31 December 2001

	Listed Companies	%	Market Capitalisation (RM billion)	%
Main Board	520	64.03	444.31	95.55
Second Board	292	35.97	20.68	4.45
Total	812	100.00	464.99	100.00

Source: KLSE website http://www.klse.com.my 28/08/02

Companies listed on the KLSE are also required to abide by the KLSE Listing Requirements in addition to approved accounting standards issued by the MASB. The KLSE Listing Requirements comprise the Main Board Listing Requirements introduced in July 1987 and the Second Board Listing Requirements introduced in 1988. Various sections of the Listing Requirements were then updated to accommodate for changes in the Malaysian financial reporting framework. The most comprehensive review of the Listing Requirements was issued in January 2001.[46]

[46] Source: Press Release 22 January 2001
http://www.klse.com.my/website/news/pr/2001/20010122.htm 05/07/02

3.5.4.1 The KLSE revised Listing Requirements

The revised Listing Requirements, announced in January 2001, make it mandatory for all public listed companies to disclose in their annual reports, among others particulars of directors and future prospects of the company (KLSE, 2001; paragraph 9). This information is to be disclosed for annual reports issued on or after 1 June 2001. Directors of public listed companies are also required to undergo continuous training programs conducted by the KLSE to equip directors to effectively discharge their duties as directors (KLSE, 2001; paragraph, 15.09). This requirement came into effect on 15 February 2001.[47]

In addition, listed companies with financial years ending after 30 June 2001 must disclose in their annual reports, the Statement of Corporate Governance stating how they have applied the principles set out in Part 1 of the MCCG and the extent to which they have complied with the best practices set out in Part 2 of the MCCG (KLSE, 2001; paragraph 15.26). The mandatory disclosure of the Statement of Corporate Governance in annual reports of companies with financial years ending after 30 June 2001 can be expected to encourage companies to be more transparent in other areas disclosure.

Listed companies were to ensure that their Board of Directors comprise at least two or one-third (whichever is the higher) independent non-executives by 31 July 2001 (KLSE, 2001; paragraph 3.14). It may be expected that companies adopting best practices recommended in Part 2 of the MCCG provide more information in their annual reports. That is because independent directors are supposed to carry a monitoring role, protecting the interest of minority shareholders. Additionally, the KLSE requirement on independent directors which came into effect on 31 July 2001 could also put pressure on independent directors to show that they are carrying out their perceived monitoring role.

[47] Source: QUESTIONS AND ANSWERS RELATING TO THE LISTING REQUIREMENTS OF THE KUALA LUMPUR STOCK EXCHANGE
http://www.klse.com.my/website/listing/faq20010122.htm 18/09/02

The Statement on Internal Control is a mandatory disclosure in annual reports of companies with financial years ending after 31 December 2001 (KLSE, 2001; paragraph 15.27). Although not a mandatory disclosure in annual reports investigated in this thesis, an examination of disclosure of the Internal Control Statement in 2001 annual reports can give some indication on whether Malaysian companies are early adopters of regulatory requirements.

3.5.4.2 KLSE/PwC Malaysia surveys on corporate governance

The importance placed on corporate governance in Malaysian companies is evidenced in the surveys jointly conducted by the KLSE and PwC Malaysia. The first survey which was carried out in 1998 basically examined board structure, the state of corporate governance, state of internal control, state of investor communication, structure and organisation of Audit and Remuneration Committee and perceptions of Malaysia's corporate governance proposed reform (KLSE/PwC, 1998). A total of 304 (42%) of listed companies responded to the questionnaire survey of which 167 (55%) were Main Board companies and the balance from Second Board. The survey reported that 90% of respondent companies had at least two or more independent directors, 5% had only one independent non-executive director and the remaining 5% did not have any independent non-executive director. Additionally, 56% of respondent companies delegated the task for ensuring compliance with the KLSE Corporate Disclosure Policy to the Company Secretary, 23% to the Chief Financial Officer and 9% to the Managing Director. With regards to reforms to the Corporate Governance Regime, 94% of the respondents perceived reforms are necessary to restore and maintain investor's interest and confidence in the equity market. Other reasons reported were the need to increase transparency including more disclosure in the accounts on related party transactions and directors dealing, the need to protect minority shareholders' interest and the need to make directors and management more accountable to shareholders and the investing public. The results of the survey show that Malaysian companies are aware of the need to restore market confidence and that corporate transparency and accountability are pertinent issues to be considered in reforming the corporate governance structure in Malaysia.

The 2002 survey attempted to gauge perceptions among key stakeholder groups on Malaysian corporate governance standards. It also reviewed corporate governance practices in Malaysia since the issuance of the Malaysian Code of Corporate Governance in 1999 (KLSE/PwC, 2002). The majority of respondent groups (over 80%) agreed that Malaysia's corporate governance practices have improved since the 1998 survey. However, they suggested areas that could be further improved. These areas include separation between company ownership and management, more disclosures on non-financial information on companies, improved enforcement of existing rules and improved education of existing rules and regulations. The survey also reported that 61 % of the respondent companies perceived that they had exceeded the minimum disclosure requirements in the annual reports as compared to 52% in the 1998 survey. In addition, 69% of public listed companies surveyed had more than the minimum requirement of two or one-third of independent directors on the board. The findings in respect of institutional investors show that 29% of the respondents were willing to pay a premium above 30% to companies with excellent corporate governance. It was also reported that the level of accounting disclosures was one of the major factors influencing investment decisions by institutional investors.

The above findings imply that owner-managed companies are still a prominent feature of Malaysian corporations. They also indicate that non-financial disclosures are still lacking, enforcement by the regulatory authorities is still weak and that more training is required to equip market participants with the necessary knowledge to understand and hence comply with reporting requirements. Based on the findings of these surveys, the KLSE established a Taskforce on Corporate Disclosure Best Practices in October 2002. [48] The Taskforce comprising regulatory bodies and industry representatives is to provide further guidance for public listed companies to develop relevant policies and procedures to promote best practices in corporate disclosure. The Taskforce is expected to come up with its recommendation in 2004. The ongoing project on corporate disclosure by the relevant authorities shows that

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[48] Source: Press Release 21 August 2002
http://www.klse.com.my/website/news/pr/2002/20020821.htm 21/01/04

corporate transparency is still an important issue in Malaysia. That gives support to the relevance of this thesis.

3.5.4.3 KLSE Corporate Awards

The KLSE Corporate Awards were launched in October 2000.[49] The awards which are presented annually recognise public listed companies that have demonstrated high standards of corporate governance, disclosure and transparency coupled with proactive investor relations efforts.

The adjudication criteria developed for the KLSE Corporate Award comprises a number of categories including eligibility, elimination, merit and demerit criteria (KLSE, CA; 2000). Examples of elimination criteria are sanction by the KLSE or by the SC on the company's affairs, an opinion other than an unqualified opinion in the auditor's reports and major non-compliance with applicable accounting standards. Demerit criteria include failure to meet profit forecasts, failure to comply with other laws of Malaysia and non-compliance with Listing Requirements where warning letter or caution letter has been issued. The merit criteria includes corporate governance and disclosure policy, a company's commitment to the interests of its employees, contribution to society, commitment towards research and development excellence, and environmental issues. The merit criteria included in the KLSE Corporate Award adjudication criteria are taken into account in constructing the voluntary disclosure checklist for this thesis (see section 4.7.1.1 (2)). Table 3-3 below shows the recipients for the KLSE Corporate Awards 2001.

[49] Source: http://www.klse.com.my/website/listing/corpawards/index.htm 06/06/02

Table 3-3: KLSE Corporate Awards 2001

KLSE Corporate Excellence Awards 2001	
#Public Bank Berhad	
#Malayan Banking Berhad	
KLSE Corporate Sectoral Awards 2001	
Sector	**Company**
Consumer Products	*British American Tobacco (Malaysia) Berhad
Industrial Products	*Malayan Cement Berhad
Finance & Closed-End Funds	#Public Bank Berhad
Infrastructure Project Companies	Powertek Berhad
Plantation	*Kumpulan Guthrie Berhad
Construction	*Road Builder (M) Holdings Berhad
Trading/Services	*Tanjong Public Limited Company
Technology	AIC Corporation

Source: http://www.klse.com.my/website/listing/corpawards/2001recip.htm 06/06/02
* companies included in the sample selected for statistical analysis in this thesis
# Finance companies

Of the nine recipients shown in Table 3-3 above, two are finance companies which are excluded from analysis in this thesis (see section 4.4.1). Five of the remaining seven recipients are included in the sample of companies investigated in this thesis. It is therefore appropriate to say that the companies selected for analysis in this thesis can be expected to provide the benchmark for best practice for Malaysian listed companies. The extent of voluntary disclosure in the 2001 annual reports of these companies is reported in section 5.2.1 in Chapter 5.

3.5.5 The SC

The SC was established under the Securities Commission Act (SCA) 1993 as a self-funding statutory body with investigative and enforcement powers. The SC is entrusted with the responsibility of regulating and developing the Malaysian capital market. The SCA 1993 introduces enhanced disclosure obligations on issuers and stringent sanctions for false and misleading information in prospectuses.[50] SCA 1993 also gives investors the right to pursue civil action against companies, directors

[50] SCA 1993 Section 55 provides imprisonment for up to ten years, a fine of up to RM3 million or both.

and their advisers where there has been a contravention of the law.[51] Under the SIR (Compliance with Approved Accounting Standards) 1999, every listed company, its directors and chief executive are required to prepare and present the company's financial statements in accordance with approved accounting standards for financial periods ending on or after 30 June 1999.

In 1998, the Financial Reporting Surveillance and Compliance Department was set up, the main task of which is to examine annual audited accounts and interim reports of listed corporations for compliance with approved accounting standards and financial reporting requirement.[52] In their review of financial statements of 100 companies for financial years 1998 and 1999, the SC reported that certain areas of non-compliance with IAS7[53] were aggravated by parts of the standards that gave rise to different interpretations.[54] The report highlights that ambiguity of accounting standards can affect a company's compliance with reporting requirements.

In February 2001, the SC launched the Capital Market Masterplan Malaysia (CMP). One of the aims of the CMP is to address weaknesses in the Malaysian capital market that were highlighted by the 1997 financial crisis.[55] Recommendation 117 of the CMP (2001, Chapter 4) acknowledges that Malaysian listed companies already provide a certain level of disclosure in their annual reports. However the amount and quality of the disclosures particularly those relating to non-financial information tend to vary significantly from one company to another. In addition, the tendency is to emphasise only positive developments. In recognition of these shortcomings, the SC is currently working with the KLSE, the MASB, the accounting profession and other industry representatives to introduce guidelines to enhance the quality of non-financial information disclosed in the annual reports of Malaysian listed companies (see also section 3.5.4.2).

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[51] SCA 1993 Sections 57 and 153.
[52] Source: http://www.sc.com.my 07/03/03
[53] IAS 7 has now been superseded by MASB 5. MASB 5 becomes operative for financial statements covering periods beginning on or after 1 July 1999.
[54] Source: Press Release 16 April 2001
http://www.sc.com.my/html/resources/press/2001/pr_20010416.pdf 20/01/04
[55] Source: http://www.sc.com.my/html/cmp/cmp_home.html 30/01/04

One of the theoretical frameworks that have been used to explain corporate disclosure policy in prior studies is the litigation cost theory (see section 2.2.9). The applicability of this theory to the Malaysian setting is expected to be limited given the emerging nature of the Malaysian market and the less litigious environment compared to matured market such as in the US. As indicated above, although the SCA 1993 allows investors who suffer losses because of breach of laws to sue companies, no such case of shareholder lawsuit has been reported as yet. Nevertheless, the litigation cost theory may potentially be relevant in explaining corporate disclosure in emerging markets in the near future when stock markets are more developed and matured.

3.6 Summary and conclusions

This chapter has discussed features of the Malaysian institutional settings and the regulatory framework governing financial reporting in the country. The chapter also highlights the development of corporate governance in Malaysia following the 1997 East Asian financial crisis. The main conclusions of the analysis are as follows;

Firstly, the special privileges granted to indigenous Malays suggest that companies with a higher proportion of Malay directors may be expected to be more transparent in reporting their activities (see section 3.3.3). That is because the political nature of their appointments may necessitate a greater sense of having to legitimise their position. Being more transparent and open about a company's activities and performance can be one of the ways of showing a director's responsibility and accountability to the public. This implies that legitimacy and political costs theories may be applicable in explaining the association between Malay directors and the extent of voluntary disclosure. It was also suggested in the analysis that the principle of full disclosure in Islamic corporate reporting may also influence Malay directors to be more transparent in business reporting. That implies that cultural theory may provide an alternative explanation for the relationship between Malay directors and the extent of voluntary disclosure in annual reports.

Secondly, family businesses, owner-managed and state controlled companies are common features of East Asian corporations including Malaysia (see Table 3-1, sections 3.4.1 and 3.5.4.2). Family businesses and owner-managed companies can be expected to disclose less information because of a fewer proportion of external shareholders, hence less pressure for additional information. Agency conflicts can be expected to be less due to concentrated ownership structure in these companies. That would imply that information costs and agency theories are applicable in explaining information disclosure in family businesses and owner-managed companies. The association between disclosure and government controlled companies is less clear. That is because government-controlled companies can be expected to be more politically sensitive. However, agency conflicts in these companies may be alleviated through constant monitoring by the government (see section 3.3.4). That suggests that agency and political costs theories are potentially applicable to explain the association between government ownership and the extent of disclosure.

Thirdly, the importance of improving corporate governance structures stressed by the Malaysian government can be expected to encourage companies towards greater accountability and transparency. In particular, the mandatory disclosure of the Statement of Corporate Governance for financial years ending after 30 June 2001 is expected to encourage companies toward more disclosure in other areas in the annual reports (see section 3.5.4.1).

More disclosure of information can be expected from companies that have adopted the recommendations included in the MCCG (see section 3.4.2). That is because independent directors are supposed to look after the interests of the minority shareholders, reducing agency conflicts between inside and outside shareholders. That also suggests that agency theory can provide an explanation for the association between independent directors and the extent of voluntary disclosure. Additionally, the requirement that independent directors should make up at least one-third of the board composition, which came into effect on 31 July 2001 (see section 3.5.4.1) may be expected to put additional pressure on independent directors to carry out their monitoring role more effectively.

Fifthly, the regulatory regime in force after the 1997 financial crisis (see sections 3.5.3.1 and 3.5.5) are expected to promote better compliance with mandatory reporting requirements. However, given the relatively new regulatory structure, enforcement may still be lacking and non-compliance may still occur especially in respect of recently issued standards which may require some time to be fully understood by market participants. That is because problems of interpretation may result in companies not fully complying with mandatory disclosure requirements (see section 3.5.5). In this respect, compliance may be regarded as voluntary. This implies that familiarity with regulatory requirements and enforcement by the regulatory authority may have an impact on corporate voluntary disclosure. These issues are taken further in section 4.5 in the next chapter. The next chapter describes the research methodology and method. Hypotheses are formulated based on relevant theoretical frameworks, prior empirical evidence and features of the Malaysian environment discussed in this chapter.

CHAPTER 4: RESEARCH METHODOLOGY, METHOD AND HYPOTHESES

4.1 Introduction

This chapter describes the methodology adopted and method used to answer the research questions outlined in section 1.4 of the thesis. Section 4.2 explains the research approach taken to carry out the empirical work. Section 4.3 describes the background work undertaken before embarking on the research project. Criteria used in selecting companies and interviewees are discussed in section 4.4, followed by definition of voluntary disclosure in section 4.5 and reasons for choosing the annual reports in section 4.6. Construction of the research instruments applied to measure the extent of voluntary disclosure (the disclosure checklist) and to gather views from a number of influential market participants on issues related to corporate voluntary disclosure (the interview questionnaire) is explained in section 4.7. The research hypotheses are formulated in section 4.8. Statistical methods used to test the hypotheses are discussed in section 4.9. A summary is provided in section 4.10.

4.2 Research approach

The study seeks to explain voluntary disclosure practice in corporate annual reports. This approach of attempting to explain variations in the extent of voluntary information disclosure is consistent with positive accounting theory, proposed by Watts and Zimmerman (1986). Watts and Zimmerman (1986) distinguished positive accounting theory from normative theories by referring to the latter as providing prescriptions and being concerned with 'what ought' questions rather than with 'what is' questions which are the focus of positive theories.

A deductive approach is undertaken in this thesis to determine variables which are statistically significant in influencing voluntary information disclosure in annual reports. The deductive approach involves the formulation of hypotheses and the

testing of hypotheses using empirical data (Saunders et al., 2003; pp. 85 & 86). These hypotheses are developed based on findings from theories relevant to voluntary disclosure, previous research and features of the Malaysian environment discussed in Chapter 3.

In addition to running regression models to determine variables influencing voluntary disclosure, personal interviews are also conducted with a number of influential market participants. A multi-method strategy such as combining quantitative (regression analysis) and qualitative (interviews) methods, using primary (interview findings) and secondary (annual reports) data has the advantage of supporting or clarifying results (Saunders et al., 2003; p. 99). Additionally, interviews represent a methodological extension to research in accounting disclosure and fills a research gap in this literature given there is an absence of the use of qualitative data to identify factors and interpret incentives for voluntary disclosure. In their review of empirical research on accounting choice, Fields et al. (2001) suggest that further progress in tests of accounting choice can be made by improving research design and exploring new methodologies. As voluntary disclosure involves managerial discretion i.e. it is a managerial decision to disclose or not disclose non-mandatory items, the use of interview technique in this thesis serves as an attempt to apply new methodology in studying accounting choice.

The aims of the interviews are to identify other factors influencing voluntary disclosure which are not easily captured in the statistical models. Interviews are also expected to enrich the interpretation of statistical results and provide further insights into managerial motives for disclosure and non-disclosure. Qualitative data such as interview findings have been claimed to be useful when one needs to supplement, validate, explain or reinterpret quantitative data obtained from the same setting (Miles and Huberman, 1994; p. 10).

4.3 Initial (background) work

Before embarking on this research project, opinions were sought from two individuals in Malaysia on the importance and feasibility of the study.[56] They were a senior official at the MASB and a partner with one of the largest legal firm in Malaysia (this person was formerly the General Manager of Enforcement and Compliance Division at the SC).

The senior official at the MASB commented that information disclosed in most of Malaysian corporate annual reports is based on mandatory requirements. He nevertheless pointed out that he had seen increasing amount of information being disclosed in annual reports. He stressed that in his opinion, the overriding guidance for disclosure is information relevant for decision-making. The issue of importance and relevance of disclosure items is addressed in this thesis in section 4.7.1.1 (5). The senior official also cautioned that there may be problems in defining the word 'voluntary'. That is partly because of new regulations and requirements which are not well understood by some parties and have led to different interpretations.[57] This aspect is taken into consideration in constructing the voluntary disclosure checklist in section 4.5 and in the analysis of interview findings in section 8.2. Additionally the senior official argued that different companies may have different motives for disclosure and non-disclosure and that a set of information disclosure which may be considered sufficient for one company may not prove to be the same for another company. That suggests that variations in the level of voluntary information disclosure in Malaysian company annual reports can be expected. It is one of the aims of this study to investigate reasons for the variations in the level of voluntary information disclosure in annual reports (see section 1.4).

The partner of the legal firm also pointed out that perhaps the issue of little or lack of enforcement suggests mandatory disclosure may also be relevant even though the study is focusing on voluntary information disclosed in the annual reports. That is

[56] The other person contacted, an accountant with one of the ten largest public listed companies in Malaysia cited work commitment as not enabling her to respond to the research request.

[57] An example of differences in interpretation is evidenced in a survey carried out by the SC (see section 3.5.5 in Chapter 3).

because before the establishment of the Financial Reporting Surveillance and Compliance Department within the SC (see section 3.5.5) in 1998, compliance with accounting standards was left to the external auditors. No other body existed to oversee the preparation of financial statements in Malaysia.

Choi et al. (2002, p. 163) argued that if monitoring and enforcement are largely absent, required disclosures are in practice voluntary. That is because managers will not comply with disclosure rules if compliance is more costly than the expected costs of non-compliance. Familiarity and lack of enforcement have been identified in prior studies as affecting disclosure in emerging markets and developing countries (Belal, 2001; and Abd-Elsalam and Weetman, 2003). These factors are important and relevant to understanding financial reporting practice in Malaysian companies. They are taken further in section 4.5.

4.4 Data collection

The data for this study are obtained from company annual reports and interviews with a number of influential market participants. The following sections discuss the selection process of companies and interview respondents.

4.4.1 Selection of companies

The focus of this study is on companies in the KLSE Composite Index. The Composite index is one of five indices of the Main Board. Companies are included in the Composite index on the basis of volume of trade, market capitalisation, and sector representation. These companies are generally actively traded and large in size. The Composite index is selected for the purpose of the analysis in this thesis because these are the top 100 most actively traded stocks on the KLSE. Given their high volume of trade, it is thus appropriate to assume that these are the companies that more readily attract the interest of investors.

It is also assumed that these companies would more willingly volunteer to disclose additional information in order to retain analysts' following or attract more analysts following.[58] Disclosure levels among the Composite index companies thus ought to serve as benchmark for best practice for Malaysian listed companies.[59] Selecting companies based on volume of trade was one of the criteria used by Firer and Meth (1986) in their study on voluntary disclosure in annual reports of South African companies. Their argument for selecting actively traded stocks was that poorly traded shares were not held by major institutional investors and hence were less likely to supply voluntary information in their annual reports.

Table 4-1 shows the summary of companies selected for the analysis. Finance companies are excluded from the sample due to different regulatory requirements and materially different types of operations. This approach has been followed by a number of previous accounting disclosure studies (e.g. Cooke, 1989; Hossain et al. 1994 & 1995; Wallace et al., 1994; Raffournier, 1995; Wallace and Naser, 1995; Inchausti, 1997; Depoers, 2000; Leventis, 2001; and Haniffa and Cooke, 2002).

Table 4-1: Selection of companies

Companies listed on Main Board	520
Companies included in Composite Index	100
Exclusion of companies:	
Finance	13
Final selection	87
Proportion of market capitalisation of Main Board	66.1%[60]

All figures in Table 4-1 are as at 31 December 2001

[58] Lang and Lundholm (1996) found results consistent with the prediction that companies that disclose more information have larger analysts following. In another study by Eng and Teo (1999), Singaporean listed companies with higher disclosure levels are also found to attract bigger analyst following. Additionally their results also suggest that bigger and more actively traded stock companies attract more analysts.
[59] It was decided to focus on Composite Index companies as other companies are not expected to disclose as much voluntary information as the Composite index. Four companies in the Composite index were replaced on 22 April 2002. Examination of the four newly introduced companies 2001 annual reports revealed that their voluntary disclosure indices were in the range of 25.0% to 53.1%. Assessment on another randomly selected non-Composite Index company produced a voluntary disclosure index of 10.0%.
[60] Source: Investors Digest, January 2002. A monthly publication of the KLSE.

It can be seen from Table 4-1 that although the companies selected for analysis represents only 16.7% (87/520) of total number of companies in the Main Board, the market capitalisation of these companies constitutes 66.1%. These statistics show the importance and significance of these 87 companies in the Malaysian market. They can be regarded as the major corporate players in the Malaysian market and that their actions would have a significant impact on the Malaysian market. The list of companies selected for analysis is presented in Appendix 4-A.

Table 4-2: Sector representation of selected companies

Sector	No of companies	%
Technology	3	3.45
Consumer Products	12	13.79
Industrial Products	18	20.69
Construction	5	5.75
Trading/Services	26	29.89
Infrastructure Project	3	3.45
Hotel	1	1.15
Properties	13	14.94
Plantation	5	5.75
Mining	1	1.15
Total	**87**	**100.00**

Table 4-2 shows sector representation of companies selected for analysis in this thesis. Manufacturing (consumer and industrial products) makes up about a third of the companies investigated in this study. Manufacturing is the main economic activity of the country. Trading/services and hotels is the next major contributor to the country GDP (see section 3.2) and their representation in the selected companies is also almost one-third of the total. Thus it may be said the main economic contributors of the country are fairly represented in the analysis.

The number of companies selected for analysis in this thesis is well within the range of companies investigated in prior disclosure studies. Table 2-3 in Chapter 2 shows the number of companies investigated in prior disclosure studies in developed countries was in the range of 48 companies (Cooke, 1991) to 322 (Camfferman and

Cooke, 2002) and that of developing countries (see Table 2-4 in Chapter 2) was in the range of 45 companies (Singhvi, 1968) to 158 (Eng and Mak, 2003).[61]

The English language versions of the annual reports for the year 2001 for the selected companies were downloaded from the KLSE website.[62] This represents the most recent source of data available at the start of the study. The examination of 2001 corporate annual reports also allows the investigation of the effect of a change in regulation regarding the disclosure of Statement of Corporate Governance, on voluntary disclosure of other areas in the annual report. That is because the revised KLSE Listing Requirements announced in January 2001 requires companies with financial year ending after 30 June 2001 to disclose in their annual reports the extent to which they have complied with the MCCG (see section 3.5.4.1).

4.4.2 Selection of interviewees

Contacts were made with 32 people through email explaining the purpose of the interview. Of these, 13 were financial controllers and the balance comprising four different user-groups (six regulators, five external auditors, four investment analysts and four bankers). A larger number of financial controllers were targeted for two reasons. Firstly, based on the researcher's knowledge of the Malaysian business environment, it was expected that it would be relatively more difficult to get interviews with financial controllers than with the four user-groups. Secondly, company financial controllers are involved either directly or indirectly in the preparation of annual reports. Hence, it could be expected that financial controllers are more exposed to issues relating to disclosure in annual reports or have a broader perspective on their organisation's corporate disclosure policy. All except two of the 32 people were contacted through networking and personal contacts. In a developing country like Malaysia where research is relatively unfamiliar and interviews are not

[61] Rahman (1998) carried out a longitudinal study of disclosure (mandatory and voluntary) in the annual reports of 54 listed companies covering a three year period. The total number of annual reports examined was 162.

[62] The KLSE encourages companies to prepare annual reports in Malay language. However, the business community (analysts and investors) require the annual reports to be prepared in English. All listed companies prepare their annual reports in English.

readily welcomed, the use of networking can help increase the researcher's chances of access to interviews.

Of these, five declined to be interviewed.[63] Two of the five were contacted directly by the researcher. These people cited company policy not to respond to a student's request for an interview as the reason for the rejection. The other three declined because of work commitments and time constraints. The 27 respondents who agreed to be interviewed were later contacted through telephone to arrange a suitable time.

Interviews were held with nine company financial controllers, four auditors, six regulators, four investment analysts, and four bankers. Information about the interviewees is provided in Appendix 4-B. All interviewees had at least ten years of working experience with at least five years at managerial levels. In addition, all interviewees were either currently working, or had worked, or had some business dealings with at least one of the Composite Index companies. For example, the auditors interviewed had been the partners-in-charge or were involved in the audits of some of the Composite Index companies. As for the regulators, three were from the SC, two from the MIA, and one from the KLSE. All six of them had training in the area of accounting and finance and were formerly from either public practice, commercial, banking or stock-broking firms. Although interviewees were not randomly selected, their diverse background and experience, and familiarity with the Malaysian business environment were considered more necessary and important in further unravelling and understanding factors contributing to managerial decisions on corporate disclosure policy.

4.5 Definition of voluntary disclosure

As discussed in Chapter 3, there are three sources of regulation for corporate financial reporting in Malaysia. These are the CA 1965 (see section 3.5.1), standards issued and adopted by the MASB (see section 3.5.3.1) and the KLSE Listing

[63] Four of the five who declined were company financial controllers. The other person was an audit partner with a major international accounting firm.

Requirements (see section 3.5.4.1). Voluntary disclosure in this thesis is defined as those items of information which are not specified or required by any of the aforementioned pronouncements. Such a definition has been adopted by researchers in prior studies examining voluntary disclosure in company annual reports (Cooke, 1989; Hossain et al., 1994; Suwaidan, 1997; Ho and Wong; 2001a; Haniffa and Cooke, 2002; Chau and Gray, 2002; and Ferguson et al., 2002).

Although the checklist prepared for this study sought to reflect items that are voluntary in terms of the legal and regulatory framework governing financial reporting of Malaysian companies, certain items in the checklist may not be totally voluntary (see construction of disclosure checklist in section 4.7.1.1 below). These items can be regarded as 'voluntary related to mandatory' and the decision to include these items (these items are identified in section 4.7.1.1 (5) and in Appendix 4-D) was made in light of the comments made by the senior officer at the MASB, a partner with one of the largest legal firms in Malaysia discussed in section 4.3 above and the senior manager at the KLSE (section 4.7.1.1 (5)). Issues considered in deciding to include these items in the final checklist were; (i) new requirements which companies may not be familiar with (see section 3.5.4.1) and (ii) lack of enforcement which is partly due to the relatively new supervising authority (see section 3.5.5 on the establishment of the Financial Reporting Surveillance and Compliance Department within the SC). These were some of the points raised during correspondence with the three officials. As such the definition of voluntary disclosure in this thesis is quite broad because it also reflects aspects of familiarity with regulatory requirements and enforcement by the regulatory authority.

4.6 Reasons for choosing annual reports/ importance of annual reports

There are various channels through which a company can disseminate information to interested general public. Included among this corporate communication medium are press releases, company newsletters or brochures, websites, conference calls, meetings with analysts, half yearly and interim announcements and the annual reports. The annual report is chosen for the purpose of this thesis because it is

regarded as one of the most important source and is a credible attested corporate document. Availability and accessibility considerations also contributed to the decision to analyse voluntary disclosure in corporate annual reports.

The usefulness and importance of annual reports for investment decisions is well documented in the literature. In a study by Anderson (1981) using postal questionnaires, Australian institutional investors were found to rank the annual report as the most important source of information for investment decisions. Similarly in another study by Chang et al. (1983) on the perceptions of three groups of investors in the US, UK and New Zealand, individual investors, institutional investors and financial analysts were also reported to regard the annual report as an important source of information for investment decisions. In contrast to these findings, Rogers and Grant (1997), in their study on analysts' reports on 187 large US companies, found that almost three-quarters of the information cited by analysts could not be found in the annual report. This finding suggests that even if the annual report is considered the most important source of corporate information and applied during the investment analysis stage, its use in the final decision making may be limited. Additionally the finding may also imply that the importance of annual reports in developed countries have somewhat declined probably and partly due to availability of corporate information through other channels which are more timely and up to date.

The relative importance of annual reports may be expected to be negatively related to the availability of other competing information and that such competing sources are limited in a developing country. That would suggest the annual report as a source of information for investment decisions to assume a more important role in a developing than in a developed country. Previous studies that investigated users' perceptions of annual reports in developing countries generally support the view that users regard the annual report as an important source of information. Corporate annual reports were found to be the most importance source of information by

investment analysts in the Netherlands (Vergoossen, 1993), four user-groups[64] in Jordan (Abu-Nassar and Rutherford, 1996) and five user-groups[65] in Saudi Arabia (Naser and Nuseibeh, 2003b). In a study by Ho and Wong (2001b), finance directors of listed companies in Hong Kong ranked financial statements in annual reports as the most important type of corporate communication while other information in annual reports was ranked the second most important medium. Financial analysts also ranked financial statements in annual reports as the most important source of information while other information in annual reports was ranked the third most important behind company visits and communication with management. These studies show that within developing countries, users regard the annual report as the most important source of information probably because it is one of the few available and credible items of public information prepared within a regulatory framework.

4.7 Research instruments

This section discusses the construction of the voluntary disclosure checklist and the design of the interview questionnaire, the two instruments used to gather data for analysis in this study.

4.7.1 The voluntary disclosure checklist

In the past, researchers have measured the extent of corporate voluntary disclosure using checklists that were either researcher-constructed (studies listed in Tables 2-3 and 2-4) or prepared by analysts (Lang and Lundholm, 1996; Sengupta, 1998; and Healy et al., 1999). Most researcher-constructed indexes are based on earlier research with modifications to suit the companies investigated and taking into account regulatory requirements of the country under examination. A researcher-constructed index has the advantages of reflecting items that are relevant and important for the particular country studied. However, modifications to the index means that results

[64] The four user groups were individual shareholders, institutional shareholders, stockbrokers and academics. Bank loan officers rated the annual report third behind visits to companies and communication with management, and discussions with colleagues.
[65] The five groups were individual investors, institutional investors, financial analysts, bank credit officers and government representatives.

are not comparable to other studies as will be the case if a uniform set of disclosure checklists are adopted by all studies. As argued by Marston and Shrives (1991), the use of different indices loses the advantage of direct comparison with earlier studies. On the other hand, the use of a uniform or universal checklist can only be meaningful if there is an internationally agreed perception of disclosure items which are difficult to obtain (Cooke and Wallace, 1989). That is partly because countries differ in their level of economic development, social and political system.

In addition to country specific factors, Cooke and Wallace (1989) highlighted events and the time of study as other factors attributing to importance of items in the disclosure checklist. This suggests that even for studies investigating the extent of voluntary disclosure of companies within a country, the disclosure checklists may have to be amended to reflect current reporting trend and expectations during those years. It is also possible that during the intervening years, certain items that were then voluntary may become regulatory requirements. Given that this study aims to investigate the extent of voluntary disclosure in Malaysian corporate annual reports in a period after the establishment of new regulatory regime for financial reporting in Malaysia (see sections 3.5.3 and 3.5.5) and at a time immediately after the implementation of new regulations on corporate governance (see section 3.5.4.1), a researcher-constructed index is considered more appropriate to measure the extent of voluntary disclosure in annual reports.

4.7.1.1 Constructing the voluntary disclosure checklist

In this study, a researcher-constructed voluntary disclosure checklist is applied to assess the level of voluntary disclosure in the selected company annual reports. The main task in preparing the disclosure checklist was in determining items of voluntary disclosure that might be included in a Malaysian corporate annual report. It is imperative that the checklist reflects voluntary items that are regarded important and relevant to be disclosed in Malaysian annual reports because as argued by Marston and Shrives (1991; p. 198), "the scores can be considered to be valid if they mean what the researchers intended". Consistent with the approach taken in previous literature (e.g. Chow and Wong-Boren, 1987; Cooke, 1989 & 1991; Hossain et al. 1994, Leventis, 2001; and Haniffa and Cooke, 2002), reference was first made to

checklists employed in prior studies. The following steps were then taken to construct the checklist.

1. To ensure relevance and applicability of the list to Malaysian business environment, it was decided that the preliminary list should resemble more those of Hossain et al. (1994) and Haniffa and Cooke (2002). Reference was also made to the checklist employed by Leventis (2001) as it represents a recent study on voluntary disclosure in annual reports in an emerging capital market at the start of this research. It is noted that in all these three studies, the checklists constructed were based on earlier research on voluntary disclosure (e.g. Choi, 1973; Firth, 1979; McNally et al. 1982; and Gray et al., 1995).
2. Reference was then made to the adjudication criteria developed by the KLSE for the KLSE Corporate Awards (see section 3.5.4.3). Items taken from the KLSE adjudication criteria can be found in the disclosure checklist in Appendix 4-E.
3. The compiled list of items was then subjected to scrutiny to exclude mandatory items. For example, amount of consideration realised in an acquisition/disposal is a mandatory disclosure under MASB 5 effective 1 July 1999. Similarly, companies are required to disclose the number/average number of employees as stipulated by MASB 1 effective 1 July 1999. Particulars of directors such as name, age, nationality, qualification, position, independence, working experience directorship, family relationship with other directors, ownership, and remuneration are also required by the KLSE Listing Requirements (KLSE, 2001; Chapter 9) to be disclosed in annual reports issued on or after 1 June 2001.
4. Additionally, in selecting the items of voluntary disclosure, reference was made to *other recommended disclosures* contained in Sample Annual Report[66] prepared by the MIA and PwC Malaysia. This document was prepared as a general guidance in the preparation of financial statements with reference to approved accounting and auditing standards effective as at 31 March 2001.

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[66] Source: Sample Annual Report; http://www.mia.org.my 26/11/02

5. Expert opinions were then sought from an investment analyst, a partner with a Big Five audit firm, and a senior official from the KLSE in Malaysia to refine and support the completeness of the list, so that it reflects voluntary items that are considered important to be disclosed in a Malaysian corporate annual report.

   The investment analyst graded the disclosure items from 4 to 9, with 10 being the most relevant and 0 the least in making investment decision.[67] He also suggested the inclusion of details of cost structure and off-balance sheet items in the checklist. It was decided not to include these two items in the final disclosure checklist because they were not disclosed by any of the companies included in the pilot study (see (6) below). It may be expected that information such as cost structure is less likely to be disclosed by companies because of the sensitive nature of the information. Certain information may be regarded as confidential or trade secret. Disclosing this type of information may be giving away too much to competitors (Firer and Meth, 1986). Breakdown of operating expenses into fixed and variable was also found to be not disclosed by any of the sample companies examined in McNally et al. (1982).

   The senior manager at the KLSE commented that some of the items included in the checklist may be covered under the new KLSE Listing Requirements which are effective for annual reports issued on or after 1 June 2001. She did point out that the requirements of the checklists appear more specific than the KLSE Listing Requirements. These items and other comments are listed in the Appendix 4-D. Given that these items may be covered under the KLSE Listing Requirements, it may be expected that these items will score higher than other items in the checklist.[68] Another comment made by this person was that the disclosure in respect of employee information appeared to be rather extensive and she was unsure of the significance of the disclosure of this type of information to investors.

[67] Grading was purely initiatives of the analyst, no request was made by the researcher for the analyst to grade the items. The voluntary disclosure items, their explanation and grades are in Appendix 4-C.
[68] The results of the extent of disclosure are reported in Chapter 5.

However, it was decided to include all employee information in the final checklist as this study does not focus on any particular user information needs.

6. The list was then pilot tested on a sample of 25 company annual reports to ensure that there was some variability in disclosure between different firms, to capture items not yet included in the original list and to eliminate those that were not disclosed by any of the companies. However, during the application three further items were added to the list because they were observed to be disclosed by more than one company. The final list[69] comprised 53 items, of which 16 were strategic, 20 were financial, and 17 were corporate social responsibility information. This grouping of information type is similar to the one used by Meek et al. (1995).[70] In deciding the final checklist, steps were also taken to ensure that the number of items in each information type was balanced. That is because the study is not focusing on any particular category of user information needs. Approximately 25 items [10 financial, 6 strategic, and 9 corporate social information] (47%) in the list are similar to Hossain et al. (1994), and 28 items [9 financial, 13 strategic, and 6 corporate social responsibility] (53%) to Haniffa and Cooke (2002).[71] The number of disclosure items selected for this thesis is comparable to prior studies. As shown in Table 2-3, the number of disclosure items included in the checklists employed in research on voluntary disclosure in developed countries ranged from 30 items (Raffournier, 1995) to 189 (Adams and Hossain, 1998) and that of developing countries, as seen in Table 2-4 ranged from 20 items (Ho and Wong, 2001a) to 104 items (Naser et al., 2002).[72]

4.7.1.2 The Scoring Method

A scoring sheet was prepared to evaluate the level of information voluntarily disclosed in annual reports. A variation to a researcher constructed index is attaching weights to items of disclosure. The argument for attaching weights is that different

[69] The disclosure items and their sources of information are listed in Appendix 4-E.

[70] In their study on the US, UK and Continental Europe multinationals, Meek et al. (1995) found that each type of information disclosure was driven by a different set of factors. The segregation of items into several types of information was later explored in other accounting disclosure studies (e.g. Leventis, 2001; Chau and Gray, 2002; and Ferguson et al., 2002).

[71] Comparison of disclosure checklists with prior studies on Malaysian companies is presented in Appendix 4-F.

[72] The checklist in Owusu-Ansah (1998) had 214 items but these were all mandatory disclosures.

information may not be equally important or relevant. Often weights are attached based on perceptions of investment analysts (Firer and Meth, 1986; Buzby, 1975; and Malone et al., 1993). A criticism of this method is that it only considers the information needs of analysts and ignores other users of corporate annual report. The approach taken to scoring in this thesis was based on an unweighted method which means that all information were equally valued regardless of their importance or relevance to any particular user group. The unweighted index is considered an appropriate method for a study that is not focusing on information needs of any specific groups (Cooke, 1989). Such an unweighted scoring approach has been employed and supported in prior studies (Cooke, 1991; Meek et al., 1995; and Chau and Gray, 2002). Furthermore, the use of a weighted index had not been found to produce significantly different results (Chow and Wong-Boren, 1987).

A dichotomous procedure was applied whereby a company is awarded 1 if an item included in the disclosure checklist is disclosed and 0 if it is not disclosed. To ensure that companies were not penalised for non-disclosure of irrelevant items the entire annual reports were read, similar to Cooke (1989; and 1991), Hossain et al. (1994 & 1995), Wallace et al. (1994) and Chau and Gray (2002). For example, geographical segment information was not expected to be disclosed by companies with operations principally located in Malaysia. Companies with no subsidiaries are not expected to disclose corporate structure. The issue of non-applicability of items to certain companies is taken further in section 5.2. Accordingly, the voluntary disclosure index was derived by computing the ratio of actual scores awarded to the maximum possible score attainable for items appropriate to that company.

4.7.2 Interviews

Semi-structured interviews were carried out after examination of annual reports and analysis of statistical data. It was decided to carry out interviews after statistical analysis because that would enable the researcher to discuss results using recent and more up to date evidence. Some prior knowledge of the companies and issues being investigated could also help the researcher in conducting interviews more confidently and in a more organised manner.

The use of semi-structured interviews has been suggested as an appropriate research method for studies examining relationships between variables, not only for revealing and understanding the 'what' and 'how' but also to place more emphasis on exploring the 'why' questions (Saunders et al., 2003, p. 248). In a semi-structured interview "an interview guide is usually provided in order that information about the same topics can be obtained from all respondents but the extent of probing and exploration depends on the interviewer" (Smith, 1972, p. 120). In this study, an interview questionnaire (see section 4.7.2.2) was prepared as an interview guide to seek opinions from interview respondents.

4.7.2.1 Objectives

There are two main objectives of conducting personal interviews. The first is to gain further insights into issues that may influence a company's disclosure policy. Interviews can help identify other variables affecting disclosure that are not easily quantified or not already captured in a quantitative model. They can also shed light on some of the reasons for company disclosure and non-disclosure. Secondly, interviews can provide a basis for supporting or clarifying results obtained from quantitative analysis. In this way, apart from complementing statistical results, interviews are expected to enhance the interpretation of findings from multivariate analysis and to assist in the assessment of applicability of theoretical frameworks originating from developed countries to Malaysian corporate disclosure practice. Voluntary disclosure is a matter of managerial discretion which potentially involves factors that are sensitive in nature. Face-to-face interviews are considered appropriate in situations when "the subject matter is highly confidential or commercially sensitive or where the respondents may be reluctant to be truthful about the issue other than confidentially in a one-to-one situation" (Easterby-Smith et al., 2001: p. 74).

4.7.2.2 Interview questionnaire and process

The interview questions had an open-ended format. It was considered appropriate to use open-ended questions because open-ended questions give freedom to the respondents to express their thoughts and views freely (Smith, 1972; p. 84 and Oppenheim, 1992; p. 112). In designing the interview questions, reference was also made to the questionnaires developed in Leventis (2001).

The interview questionnaire had two parts. The first part covered general aspects based on the research questions outlined in section 1.4 of this thesis. The second part of the interview agenda moved into more specific issues relating to findings from the multivariate analysis.[73] After pilot testing the questionnaires to three qualified Malaysian accountants, some modifications were made to the wordings of a number of questions. All interviewees responded to the questions in the first part of the interview agenda, however time constraints meant that not all interviewees responded to the second part of the interview agenda.[74] Each interview lasted for about forty-five minutes to one and a half hours. For continuity purposes, the findings in respect of interview questions on variables tested in the statistical model are reported immediately after the statistical analysis and results (Chapter 6) in Chapter 7. Analysis of responses to general questions on issues related to voluntary disclosure in annual reports is presented in Chapter 8.

4.7.2.3 Analysis of interview findings

All except three interviews were tape-recorded.[75] All interviews were transcribed based on the recordings and notes taken down during the interviews. Transcripts for those interviews that were not recorded were sent to the interviewees for verification.

Content analysis was carried out to analyse the interview transcripts. Content analysis involves certain key phrases or words being counted, and the frequencies are then analysed (Easterby-Smith et al., 2001; pp. 105 - 108). In content analysis, words of the text are classified into fewer categories where each category may consist of one or several words and words or phrases classified in the same category are presumed to have similar meanings (Weber, 1990; p. 12). All transcripts were examined for the presence of themes or keywords. During the first round of transcript examination, emerging keywords and themes were highlighted with different colours. The transcripts were then subjected to second examination to ensure that words, phrases or themes that could be classified in the same category

[73] The interview questions are provided in Appendix 4-G.

[74] In cases where interviewees responded to both parts of the questionnaire, the general questions were posed first. That was to allow them to give their views freely without being influenced by the statistical results which were included in the second part of the questionnaire.

[75] These interviews were not tape-recorded because the respondents did not agree the conversation should be tape-recorded.

had been highlighted with the same colour. A third and final examination was undertaken to ensure all parts of the interview transcripts were accordingly categorised. The keywords and themes identified were then arranged in a table to enable scoring of the frequency with which each appeared in the transcripts. All responses to direct questioning on tested variables are reported accordingly (i.e. whether interviewees agreed or did not agree with the statistical results and explanations offered by the interviewees).

An issue with coding interview response is that some of the richness of the answers given by respondents might be lost when the answers are classified or coded. Oppenheim (1992; p. 112) suggested reporting some of the responses in full to give the reader "some of the flavour of the replies". This thesis combines coding words and reporting selected responses in full to analyse interview findings (see Chapters 7 and 8).

4.8 Development of hypotheses

Corporate disclosure decision may be affected by a host of factors including economic, institutional, legal, political and cultural aspects. Based on theoretical frameworks and prior empirical evidence discussed in Chapter 2, a number of independent variables have been identified for testing their association with voluntary disclosure in annual reports. Table 4-3 lists variables chosen to represent particular aspects of ownership structure, corporate governance, and culture in Malaysia. Company-specific factors are included as control variables.

Table 4-3: Variables chosen for statistical analysis

Variables		Section
I.	**OWNERSHIP STRUCTURE**	4.8.1
1.	Ownership by the ten largest shareholders	4.8.1.1
2.	Director ownership	4.8.1.2
3.	Government ownership	4.8.1.3
4.	Foreign ownership	4.8.1.4
II.	**CORPORATE GOVERNANCE**	4.8.2
5.	Family members on the board	4.8.2.1
6.	Independent directors	4.8.2.2
7.	Independent chairman	4.8.2.3
8.	Regulatory change	4.8.2.4
III.	**CULTURE**	4.8.3
9.	Malay directors on the board	4.8.3.1
IV.	**COMPANY-SPECIFIC**	4.8.4
10.	Company size	4.8.4.1
11.	Profitability	4.8.4.2
12.	Gearing	4.8.4.3
13.	Industry	4.8.4.4

The following are the hypotheses developed for testing in this thesis discussed according to the four categories. In each case an expectation is formed based on prior literature or on evidence specific to Malaysia. The hypotheses are expressed in their null form.

4.8.1 Ownership structure

Ownership structure is represented by four variables: ownership concentration, director ownership, government ownership and foreign ownership. Chau and Gray (2002) used a single variable of 'outside owners' to represent the total proportion of shares not held by directors and dominant shareholders (treating both groups as insiders). To combine directors and 'dominant' shareholders as insiders would require a judgment for which no prior evidence in Malaysia is available. However particular attention is given to government ownership, which is a strong feature in Malaysia.

4.8.1.1 Ownership concentration

The potential for agency conflicts (Jensen and Meckling, 1976) is higher in a widely held company due to divergence of interests between contracting parties. A widely

held company may provide additional information to signal that the managers are acting in the best interests of the principals. However, this does not mean that a highly concentrated company faces less agency conflicts and hence will have less incentive to disclose additional information. In a highly concentrated company, conflict of interests is between 'insiders' (controlling shareholders and managers) and outside investors. Shleifer and Vishny (1997) argued that large 'outside' ownership can help reduce agency conflicts because they have the power and incentive to prevent expropriation by 'insiders'. In this regard, large 'outside' ownership plays a monitoring role and can be expected to put more pressure on management to disclose additional information. On the other hand, if ownership concentration is largely in the hands of 'insiders', entrenched management can themselves engage in expropriation (Morck et al., 1988). In the absence of large 'outside' shareholders, a company with a higher 'inside' ownership concentration may be associated with a lower extent of voluntary disclosure.

Shareholdings in public limited companies in Malaysia are highly concentrated.[76] The largest shareholder groups among the top five shareholders in Malaysia are the nominee companies, followed by non-financial companies and the government. According to Capulong et al. (2000) it is believed that the majority of shareholdings by the nominees were owned by families. This practice of opting for nominee companies as a means of not revealing the identities of true owners was to some extent the result of the government's effort to reallocate corporate shares to indigenous Malays.

Two prior studies on Malaysian companies produced inconsistent results with regards to ownership concentration. While Hossain et al. (1994) found a negative association between the proportion of shares held by the ten largest shareholders and the extent of voluntary disclosure in annual reports, Haniffa and Cooke (2002) reported a positive relationship. Elsewhere Raffournier (1995) and Depoers (2000)

[76] Source: Social and Structural Review Update: Malaysia (2001) published by the World Bank Group reported that in more than half of the public listed companies, the five largest shareholders owned 60% or more of the companies' equity. http://www.worldbank.org 07/03/03

did not find ownership concentration to be a significant variable explaining voluntary disclosure in Swiss and French listed companies respectively.

Ownership concentration in this study is measured by ownership by the ten largest shareholders. In view of the conflicting results observed in previous studies on Malaysian companies, no expectation is formed regarding the direction of association between the proportion of shares held by the ten largest shareholders and the extent of voluntary disclosure in annual reports. The hypothesis stated in the null form is as follows;

H_1: There is no significant relationship between the extent of voluntary disclosure in annual reports and ownership concentration.

4.8.1.2 Director ownership

Director ownership can help alleviate agency costs because a manager who owns a large fraction of the company's shares bears the consequences and reaps the rewards of managerial actions that destroy and create value (Jensen and Meckling, 1976). A manager who owns a small portion of company shares has greater incentives to consume perks and less incentive to maximise job performance. In this instance, outside shareholders may need to increase monitoring of managers' behaviour to reduce the associated increase in agency costs. However, monitoring by outside shareholders can be costly to the company. One way to reduce the costs associated with increased monitoring by outside shareholders is by the managers themselves volunteering to provide additional information. That suggests a substitutive relationship between managerial ownership and voluntary disclosure.

Owner-managed companies are common in Malaysia. Claessens et al. (1999) showed that at the 20% cut-off levels, 67.2% of Malaysian public listed companies were in family hands, and 85% had owner managers. Director ownership in this study is measured by the percentage of shares held by executive directors. These are part of the 'insider interests' identified in Chau and Gray (2002). They found a significant positive relationship between the extent of voluntary disclosure and the proportion of outsiders' interests in annual reports of listed companies in Hong Kong

and Singapore. Eng and Mak (2003) found lower managerial ownership to be associated with increased voluntary disclosure in Singapore listed companies. Wallace and Naser (1995) and Chen and Jaggi (2000) earlier found no statistically significant relationship between the proportion of outsiders' interests and comprehensiveness of disclosure in Hong Kong listed company annual reports.

Shares held by independent directors are not included because unlike executive directors, independent non-executive (outside) directors are expected to play a monitoring role and limit managerial opportunism. Based on the results of prior studies, a negative relationship is expected for the proportion of shares held by directors. The hypothesis stated in the null form is as follows;

H_2: There is no significant relationship between the extent of voluntary disclosure in annual reports and the proportion of shares held by executive and non-independent directors.

4.8.1.3 Government ownership of shares

Government ownership of shares is a particular feature of Malaysian companies, largely where the government retains shares in privatised companies. Ownership by government institutions or government-controlled bodies may create some kind of pressure for companies to disclose additional information because the government is accountable to the public at large. On the other hand, it can also be argued that companies with government ownership may not need to give extensive disclosure because of separate monitoring by the government. In addition, government controlled companies may have little incentive to disclose detailed information because of the government's guaranteed returns in those companies (Naser and Nuseibeh, 2003a) or because of access to government funding and hence less need to raise funds externally.

Eng and Mak (2003) argued that agency costs are higher in government owned companies because of conflicting objectives between pure profit goals of a commercial enterprise and goals related to the interests of the nation. They found evidence supporting their argument that because of these conflicting objectives and

the government vested interests in these companies, the need to communicate with other shareholders is greater. Suwaidan (1997) also reported a significant positive association between government holdings and the extent of voluntary disclosure in Jordanian listed companies. In contrast, in another study on Jordanian companies, Naser et al. (2002) did not find government ownership to be a significant variable influencing the extent of disclosure in annual reports.

Recent studies have shown that political connections could have a significant impact on companies' policy and performance. For example, Leuz and Oberholzer-Gee (2003) found that Indonesian companies politically connected to the former President Suharto were less likely to have publicly traded foreign securities. The authors attributed their finding to a lower cost of capital provided by state-owned local banks and the possibility that the scrutiny that comes with foreign securities might be at odds with close political ties at home. It may be expected in a developing country like Malaysia that government controlled companies are strongly politically connected and these companies may disclose less information to protect their political linkages or interests or even the beneficial owner. Johnson and Mitton (2003) in their study on the performance of a number of Malaysian companies during the 1997 financial crisis found that political favouritism was a significant factor determining the fortunes of companies during the crisis.

Government controlled companies may not need to attract potential investors because these companies can obtain cheaper funds from local banks. Hence a lower extent of disclosure can be expected in government controlled companies. Political affiliations seem to suggest that less detailed information may be disclosed to protect the real or beneficial owners. Government ownership in this study is measured by the number of shares held by government institutions or government-controlled bodies in the list of thirty largest shareholders as a proportion of the total number of shares issued. As the theory (Shleifer and Vishny, 1997; Morck et al., 1988) points in opposite directions for inside and outside ownership interests, no expectation is formed regarding the direction of the association between government ownership and the extent of voluntary disclosure in annual reports. The sign of the coefficient will

contribute to understanding the influence of government ownership on corporate voluntary disclosure. The null hypothesis is as follows;

H_3: There is no significant relationship between the extent of voluntary disclosure in annual reports and the proportion of shares held by government institutions.

4.8.1.4 Foreign ownership

Review of prior literature showed that only Haniffa and Cooke (2002) and Naser et al. (2002) examined the association between foreign ownership and the extent of disclosure in annual reports (see Table 2-4 in Chapter 2). Naser et al. (2002) did not find foreign ownership to be a significant factor determining disclosure practice in Jordanian listed companies. Haniffa and Cooke (2002) on the other hand, reported a statistically significant relationship between foreign ownership and the extent of voluntary disclosure in Malaysian corporate annual reports. Companies with a higher proportion of foreign shareholdings were observed to disclose significantly more voluntary information in their annual reports.

The finding of a positive association between foreign ownership and the extent of information disclosure supports agency prediction that dispersed ownership (in terms of location) may necessitate additional monitoring to limit managerial opportunism. Additionally, companies with a higher proportion of foreign shareholdings may also feel they need to provide additional information to the extent comparable to their foreign shareholders' home country disclosure level. Extensive and informative disclosure may potentially attract more investors (foreign and local) to the company. A positive association is therefore expected between foreign ownership and the extent of voluntary disclosure in annual reports. The hypothesis expressed in the null form is as follows;

H_4: There is no significant relationship between the extent of voluntary disclosure in annual reports and the proportion of shares held by foreigners.

4.8.2 Corporate governance

Four corporate governance variables are considered in this study. Family members on the board represent a tradition of business in Malaysia. The appointment of independent non-executive directors and an independent chairman are new governance initiatives, recommended in the MCCG. The KLSE revised Listing Requirements, announced in January 2001 stipulate that at least one third of the board members must be independent directors. Listed companies were required to meet this condition by 31 July 2001 (see section 3.5.4.1). Another variable is included for the effect of regulatory change to represent the encouragement towards transparency related to the new regulations taking effect in the second half of 2001.

4.8.2.1 Family members on the board

A high proportion of family members on the board may indicate the existence of a dominant group that could strongly influence the board's decision. It may also suggest the existence of a substantial shareholder who is able to nominate family members to the board to protect his interests. Both arguments imply that the company is either closely held or owner-managed. Wallace and Naser (1995) argued that closely held and controlled companies are less likely to provide extensive information in annual reports. Companies with a higher proportion of family members on the board are more likely to be less diffused in terms of ownership. In a diffused ownership environment, companies may be expected to disclose more information to reduce agency conflicts and information asymmetry. In a family-owned company, agency conflicts can be expected to be less because of less diffused ownership structure. The closely-held nature of family businesses suggests that this type of companies have relatively fewer external shareholders. The demand for information for family businesses can thus be expected to be less compared to a widely-held company. Hence the incentives or motivation to disclose additional information in family-controlled companies can be expected to be weak.

Lack of transparency has been observed to arise especially in emerging economies in Asia because of companies being controlled by extended families that strive to protect their privacy by revealing very little of that company's activities (Khanna and

Palepu, 1999). Haniffa and Cooke (2002) and Ho and Wong (2001a) found a significant negative relationship between the proportion of family members on the board and the extent of voluntary disclosure in Malaysian and Hong Kong listed companies respectively. A negative association between the proportion of family members on the board and the extent of voluntary disclosure is expected. The null hypothesis is as follows;

H_5: There is no significant relationship between the extent of voluntary disclosure in annual reports and the proportion of family members on the board.

4.8.2.2 Independent non-executive directors

In a corporate governance context it would be expected that the existence of independent non-executive directors would result in more effective monitoring of the board and limit managerial opportunism (Fama and Jensen, 1983). This in turn would lead to an expectation of a positive relationship with disclosure. However, Leftwich et al. (1981) pointed out that the relationship between the proportion of independent directors and the extent of information disclosure is unclear. A complementary relationship would mean a greater extent of disclosure by companies with a higher proportion of independent directors on the board. On the other hand, a substitutive relationship meaning independent directors are cost-efficient substitute for information disclosure implies a negative association between the proportion of independent directors and the extent of information disclosure in annual reports.

Adams and Hossain (1998) reported a significant positive association between voluntary disclosure and the proportion of independent directors on the board. Chen and Jaggi (2000) also reported a significant positive association between the proportion of independent directors and comprehensiveness of financial disclosure in Hong Kong companies. That suggests that independent directors play a complementary role to information disclosure.

In contrast, Eng and Mak (2003) found a significant negative association in Singapore companies. Ho and Wong (2001a) and Haniffa and Cooke (2002) did not

find the proportion of independent directors to be a significant factor influencing the extent of voluntary disclosure in annual reports.

In Malaysia, the KLSE Listing Requirements specifically defines an independent director as a person who is not involved in the management of the company and free from any business or other relationship which could interfere with the exercise of independent judgement (KLSE, 2001; Chapter 1). But that definition may not necessarily guarantee that independent directors will actually exercise their independence if they are appointed by a substantial shareholder who also sits on the board. As the relationship between independent non-executive directors and voluntary disclosure is unclear, no specific expectation is formed regarding the direction of the association. The null hypothesis is as follows;

H_6: There is no significant relationship between the extent of voluntary disclosure in annual reports and the proportion of independent non-executive directors on the board.

4.8.2.3 Independent chairman

In corporate governance terms, it might be expected that independence of the Chairman would lead to a more transparent board and hence to greater disclosure. Forker (1992) found that companies with combined roles of Chairman and Chief Executive Officer disclosed less detailed information on share options in the annual reports. Haniffa and Cooke (2002) found a significant negative relationship in 1995 data between a non-executive chair and the extent of voluntary disclosure in annual reports. However, this finding pre-dates the new corporate governance rules in Malaysia.

One of the recommendations of the MCCG is the separation of roles for the Chairman and the Chief Executive Officer (MCCG, 1999). The MCCG also highlights the crucial roles of the Chairman in encouraging debates on issues brought to the board and ensuring that resolutions are decided by votes. It is generally assumed that those roles may be carried out better if the Chairman is an independent director. It is therefore hypothesised that the presence of an independent Chairman

will be positively associated with the extent of voluntary disclosure in annual reports. Expressed in the null form, the hypothesis is as follows;

H_7: There is no significant relationship between the extent of voluntary disclosure in annual reports and the presence of an independent non-executive chairman on the board.

4.8.2.4 Regulatory change

The KLSE revised Listing Requirements requires the disclosure of the Statement of Corporate Governance in the annual reports of listed corporations with financial years ending after 30 June 2001 (see section 3.5.4.1). It could be argued that companies may be expected to be more informative about other types of information to show that they are responding to the government's call for greater corporate transparency. Additionally if imposition of the corporate governance regulation involves additional costs on the part of companies, companies may be motivated to disclose additional information voluntarily to discourage further regulation. On the other hand, it could be argued that increasing mandatory requirements in one area of disclosure may discourage voluntary disclosure in another (Dye, 1990). That is if mandatory and voluntary disclosures are substitute information, imposing more detailed accounting rules may result in less voluntary disclosure.

In a study on disclosure in annual reports of Saudi companies, Naser and Nuseibeh (2003a) did not find the formation of a regulatory body, the SOCPA, to have a significant impact on corporate disclosure. No specific expectation is formed regarding the direction of association between regulatory change and the extent of voluntary disclosure in annual reports. To test this variable, the companies in this study were divided into two groups; those with financial years ending after June 30, 2001 and those ending on or before June 30, 2001. The hypothesis expressed in the null form is as follows;

H_8: There is no significant relationship between the extent of voluntary disclosure in annual reports and a change in regulation of corporate governance disclosures.

4.8.3 Culture

This thesis also considers the proportion of Malay directors on the board which reflects a specific cultural aspect of Malaysian business.

4.8.3.1 Malay directors on the board

The Bumiputras (indigenous persons) make up the majority of the multi-racial society in Malaysia (see section 3.3). A number of policies designed to enhance the economic standing of ethnic Malays and other indigenous people, was launched starting in 1970 (see section 3.3.1). In particular, the privatisation program implemented by the government in 1983 has enhanced Bumiputra participation in the corporate sector (see section 3.3.2). The increase in Bumiputra ownership has also led to increasing appointment of Malays as directors.

There are two possible reasons why Malay directors on corporate boards can have an impact on disclosure policy. Firstly, given the priority accorded by the government to Bumiputras, most of whom are Malays and the political nature of the appointment of Malays to corporate boards (see section 3.3), the Malays may feel that they need to legitimise their role (Haniffa and Cooke, 2002), causing more disclosure of company activities and performance in annual reports. Secondly, because the Malays in Malaysia are all Muslims, and the Islamic principles of corporate reporting lay stress on full disclosure and social accountability (Baydoun and Willett, 2000), then if religion does influence individual's behaviour, companies that are dominated by Malay directors can be expected to disclose additional information.

Haniffa and Cooke (2002) found a significant positive association between the proportion of Malay directors on corporate boards and voluntary disclosure in annual reports. In another study by Archambault and Archambault (2003), based on a sample from 33 countries, companies in countries with a higher proportion of Muslims were found to disclose significantly more information in their annual reports. A positive association between the proportion of Malay directors on corporate board and the extent of voluntary disclosure in annual reports is expected. The hypothesis stated in the null form is as follows;

H_9: There is no significant relationship between the extent of voluntary disclosure in annual reports and the proportion of Malay directors on the board.

4.8.4 Company specific

Following the practice in prior research size, profitability, gearing and industry characteristics are included as control variables. Measures of size (market capitalisation, total assets and turnover) are highly correlated with one another and with other independent variables so number of employees is chosen to represent size.[77]

4.8.4.1 Company size

There are many reasons why company size may have an impact on corporate disclosure policy. Larger companies are expected to have lower information production costs (Buzby, 1975; and Firth, 1979), higher agency costs (Jensen and Meckling, 1976; and Leftwich et al., 1981), lower proprietary costs Dye (1985), and more visible in the public eye (Watts and Zimmerman, 1986). Additionally, larger companies are more likely to disclose additional information because of demand from analysts and prospective investors (Schipper, 1981; and Lang and Lundholm, 1993).

Company size has been found to be a significant variable explaining voluntary disclosure in a number of previous researches on annual report disclosure. Table 4-4 below summarises the studies and theoretical frameworks used to explain the observed practice. The range of possible theoretical explanations means that size is not a useful factor in discriminating between competing theories. It is needed here as a control variable. Consistent significant positive association between company size and the extent of voluntary disclosure in annual report were reported by these studies (see Tables 2-3, 2-4 and 2-5 in Chapter 2).

[77] Pearson correlations among the independent variables included in the final regression analysis in this study are shown in Appendix 6-C. See also footnote 102 in Chapter 6 on other variables included in the initial analysis but were later excluded in the final regression models.

Table 4-4: Company size - Research studies and theoretical framework

Research Studies	Theoretical Explanation
Buzby (1975), Cooke (1989 and 1991), Wallace et al. (1994), Wallace and Naser (1995), Meek et al. (1995), Raffournier (1995), Inchausti (1997), Suwaidan (1997), Marston and Robson (1997), Camfferman and Cooke (2002) and Ferguson et al. (2002)	Political cost theory
Chow and Wong-Boren (1987), Cooke (1989), Ng and Koh (1994), Hossain et al. (1994 & 1995), Inchausti (1997), Marston and Robson (1997), Suwaidan (1997), Adams and Hossain (1998), Rahman (1998), Camfferman and Cooke (2002) and Ferguson et al. (2002)	Agency theory
Cerf (1961), Singhvi (1968), Singhvi and Desai (1971), Buzby (1975), McNally et al. (1982), Ng and Koh (1994), Wallace et al. (1994), Meek et al. (1995), Raffournier (1995), Wallace and Naser (1995), Suwaidan (1997), Depoers (2000), Leventis (2001), Camfferman and Cooke (2002) and Ferguson et al. (2002)	Information costs
Cerf (1961), Singhvi (1968), Singhvi and Desai (1971), Buzby (1975), Meek et al. (1995), Raffournier (1995), Wallace and Naser (1995), Inchausti (1997), Suwaidan (1997), Leventis (2001), Camfferman and Cooke (2002) and Naser et al. (2002)	Proprietary costs theory
Cerf (1961), Singhvi (1968), Singhvi and Desai (1971), Buzby (1975), Ng and Koh (1994), Ho and Wong (2001a), Leventis (2001) and Naser et al. (2002)	Capital need theory

To test the association between company size and the extent of voluntary disclosure in annual reports, number of employees is used as the size measure. Based on results in prior research, larger companies are expected to voluntarily disclose additional information in their annual reports. The null hypothesis is as follows;

H_{10}: There is no significant relationship between the extent of voluntary disclosure in annual reports and company size.

4.8.4.2 Profitability

Signalling theory predicts that firms with good news will voluntarily disclose additional information to screen themselves out from less performing companies (Akerlof, 1970). Companies with good performance may also disclose additional information to signal that they are being managed by good teams of management thereby supporting continuance of appointment (Singhvi, 1968).

Empirical evidence regarding profitability is mixed. Table 4-5 below summarises research studies and their empirical findings regarding the association between profitability and extent of voluntary disclosure in annual reports.

Table 4-5: Profitability - Research studies and empirical findings

Significant (+) Assoc.	Significant (-) Assoc.	Non Significant
Singhvi (1968) Ng and Koh (1994) Patton and Zelenka (1997) Owusu-Ansah (1998) Haniffa and Cooke (2002) Naser et al. (2002)	Wallace and Naser (1995) Chen and Jaggi (2000) Camfferman and Cooke (2002) [UK]	Malone et al. (1993) Wallace et al. (1994)[78] Meek et al. (1995) Raffournier (1995) Inchausti (1997) Suwaidan (1997) Ho and Wong (2001a) Leventis (2001) Chau and Gray (2002) Eng and Mak (2003) Camfferman and Cooke (2002) [Netherlands]

In view of the inconsistent results documented in prior research, no specific expectation is formed regarding the direction of association between profitability and extent of voluntary disclosure in corporate annual reports. The hypothesis stated in the null form is as follows;

H_{11}: There is no significant relationship between the extent of voluntary disclosure in annual reports and profitability.

4.8.4.3 Gearing

Agency costs are likely to be higher in companies with proportionately more debt in their capital structure (Jensen and Meckling 1976; and Myers, 1977). That is because the potential for wealth transfer from debt holders to managers and shareholders increases with higher geared companies. More extensive disclosure may therefore be provided in annual reports of highly geared companies to signal that managers are not acting opportunistically. However, Eng and Mak (2003) argued

[78] Wallace et al. (1994) using liquidity as another measure of company performance, found a significant negative relationship between liquidity and the extent of disclosure in Spanish company annual reports in the reduced regression model. The authors attributed their finding to management wanting to provide more details as part of their accountability to stakeholders.

that agency costs of debt are controlled through restrictive debt covenants in debt agreement rather than increased disclosure in annual reports.

Table 4-6 below summarises empirical findings regarding the association between gearing and the extent of voluntary disclosure in annual reports.

Table 4-6: Gearing - Research studies and empirical findings

Significant (+) Assoc.	Significant (-) Assoc.	Non Significant
Malone et al. (1993) Ng and Koh (1994) Hossain et al. (1995) Naser et al. (2002) Camfferman and Cooke (2002) [Netherlands] Ferguson et al. (2002)	Meek et al. (1995) Eng and Mak (2003)	Chow and Wong-Boren (1987) Hossain et al. (1994) Wallace et al. (1994) Raffournier (1995) Wallace and Naser (1995) Ahmed (1996) Inchausti (1997) Patton and Zelenka (1997) Rahman (1998) Chen and Jaggi (2000) Depoers (2000) Leventis (2001) Ho and Wong (2001a) Haniffa and Cooke (2002) Chau and Gray (2002) Camfferman and Cooke (2002) [UK]

In view of the inconsistent results documented in prior research, no specific expectation is formed regarding the direction of association between gearing and the extent of voluntary disclosure in corporate annual reports. The null hypothesis is as follows;

H_{12}: There is no significant relationship between the extent of voluntary disclosure in annual reports and gearing level.

4.8.4.4 Industry

Verrecchia (1983) argues that proprietary costs vary across industries. Following this line of argument companies in certain types of industries may face different degrees of pressure to disclose certain type of information because of competitive reasons. Environmental disclosure which is usually industry determined has also been suggested as a response to increased political pressures (Patten, 1992; and Blacconiere and Patten, 1994). Legitimising corporate activities, which arguably is

linked to political costs, may be another reason why companies in certain industries are motivated to disclose extensive information in corporate annual reports. However, evidence supporting legitimacy theory as an explanation for corporate disclosure is inconclusive (e.g. Guthrie and Parker, 1989; Wilmhurst and Frost, 2000; and O'Dwyer, 2002).

Industry type has proved to have a significant impact on a company's disclosure policy (Cooke, 1989 & 1991; Ng and Koh, 1994; Meek et al. 1995; Suwaidan, 1997; Leventis, 2001; Haniffa and Cooke, 2002; and Camfferman and Cooke, 2002). The reasons suggested for the industry effects include historical reasons, the existence of dominant firms that influence other companies to follow their practice (Cooke, 1989 & 1991; Suwaidan, 1997; and Camfferman and Cooke, 2002), the presence of a regulated industry (Ng and Koh, 1994), industry sensitivity (Meek et al., 1995; Suwaidan, 1997; Leventis, 2001; and Haniffa and Cooke, 2002) and to meet the needs of international capital market (Camfferman and Cooke, 2002).

In contrast, industry type was not found to be a significant factor influencing the extent of disclosure in McNally et al. (1982), Wallace et al. (1994), Raffournier (1995), Inchausti (1997), Patton and Zelenka (1997), Naser et al. (2002) and Eng and Mak (2003).

Companies investigated in this study are categorised into manufacturing (consumer products and industrial products) and non-manufacturing. This categorisation was chosen to test whether companies in the manufacturing sector which dominates the country's economy (see section 3.2) adopt significantly different level of information disclosure in annual reports than companies in the other sectors. However, no specific expectation is formed regarding the influence of industry type on the extent of voluntary disclosure. The hypothesis regarding industry type stated in the null form is as follows:

H_{13}: There is no significant relationship between the extent of voluntary disclosure in annual reports and industry type.

4.9 Statistical techniques

In analysing data, a decision has to be made regarding the appropriate statistical techniques. Parametric tests are more powerful than non-parametric. However, parametric tests make assumptions about the population from which the sample has been drawn upon (Siegel and Castellan, 1988: pp. 20 & 21). One of these assumptions is that the population is normally distributed. Non-parametric techniques, on the other hand, are distribution-free tests. However, non-parametric techniques tend to be less sensitive than parametric and therefore may fail to detect differences between groups that actually do exist.

4.9.1 Normality

To assess whether data in this study are normally distributed, a number of procedures was followed. Using the 'Explore' option under 'Descriptive statistics' in the 'Analyze' menu on SPSS, tests of normality on all variables (dependent and independent) were performed. Visual inspection of the histograms, normal Q-Q plots and detrended normal Q-Q plots show that the variables are not normally distributed. The histograms show that the distribution of the variables is skewed rather than bell shaped as would be in a normally distributed situation. The normal Q-Q plots in which the observed value for each score is plotted against the expected value from a normal distribution reveal that the plots are scattered rather than forming straight lines. The detrended normal Q-Q plots which show the actual deviation of scores from normality also indicate that the scores are widely spread from the zero line (normality). Standard tests on skewness and kurtosis, and Kolmogorov-Smirnov statistic results further confirm that the variables deviate significantly from normality (sig. <.05).

4.9.2 Choosing appropriate statistical method

Given that the data in this study deviate from normality, non-parametric techniques appear to be more appropriate for analysing the relationship between the dependent and independent variables. However, as explained above parametric tests are less powerful in detecting differences or relationships even when they actually exist. An

alternative to using non-parametric techniques when the data are not normally distributed is to transform the variables so that the distribution looks more normal.

4.9.2.1 Rank regression

One approach to transforming data is the rank regression, a method whereby data are merely replaced with their corresponding ranks (Iman and Conover, 1979). This method has been employed in previous accounting disclosure studies (e.g. Lang and Lundholm, 1993 & 1996; Wallace et al., 1994; Wallace and Naser, 1995; and Leventis, 2001). Although rank regression yields distribution-free test statistics, and as such is useful for data with non-linear relationships between independent and dependent variables, its interpretative value is limited. In particular, it is difficult to interpret the regression coefficient (β_i) as ranks are all integers (Cooke, 1998).

4.9.2.2 Normal scores

To eliminate some of the weaknesses of rank regression, Cooke (1998) proposes the use of normal scores. The normal scores procedures may be considered to be an extension of rank regression. Under this approach, the transformed data are being substituted by scores on normal distribution rather than ranks. The main advantages of replacing ranks by normal scores are that the F and t- tests, and significance levels can be determined and the regression coefficients are more meaningful. In addition, a normally distributed dependent variable implies that errors are also normally distributed. The normal scores approach have been applied in prior research in accounting disclosure by Haniffa and Cooke (2002) and Leventis (2001). Given the advantages of the normal scores approach, this method (based on the van der Waerden approach) is chosen for statistical analysis of actual data observed in this thesis.

4.9.3 Univariate analysis

In the univariate analysis, correlation coefficients using Pearson product moment were calculated to explore the strength of relationship between the dependent and an independent variable. For comparison purposes, Pearson correlations were calculated using both actual data and normal scores. Additionally, a non-parametric alternative using Spearman Rank Order Correlation was also calculated to assess the

relationship between continuous independent variables and the voluntary disclosure indices. For categorical independent variables, independent samples t-tests were performed to assess whether there is a statistically significant difference in the mean disclosure indices between the two groups. A non-parametric alternative using the Mann-Whitney U tests were also performed to test for differences in the median disclosure indices between the two groups.

4.9.4 Multivariate analysis

The univariate analysis discussed in section 4.9.3 distinguishes between variables that are significant and not significant in explaining voluntary disclosure level among companies. A deficiency of the univariate analysis is that it is not able to determine the collective impact of independent variables when examined simultaneously. One way to resolve this deficiency is to apply multivariate analysis. In this thesis, multiple regression models were employed to test how well a set of independent variables is able to explain the dependent variable and which variable in the set of independent variables is the best explainer for the dependent variable. Standard multiple regressions using normal scores were run where the independent variables were entered simultaneously and each independent variable was evaluated in terms of its predictive power, over and above that offered by all the other independent variables.

4.9.4.1 Multicollinearity

Multicollinearity refers to linear or near linear relationships among independent variables in the regression model (Koutsoyiannis, 1973; p. 225). The problem with multicollinearity is that when two or more of the independent variables are correlated, or in other words provide overlapping information, their respective unique individual contribution to the prediction of the dependent variable may become indeterminate (Mendenhall and Reinmuth, 1982; p. 482). Whether the presence of multicollinearity poses a serious problem to the interpretation of data depends partly on the degree of collinearity. While Gujarati (1995, p. 335) and Kennedy (1999, p. 187) suggested that collinearity should not be considered harmful until the correlation coefficient exceeds 0.8 or 0.9, Tabachnick and Fidell (2001, p. 84) proposed a more stringent cut-off point of 0.7. Pearson correlations among independent variables were

calculated using normal scores to detect the presence of multicollinearity. Multicolinearity was also assessed using the variance inflation factor (VIF) computed by the regression analysis on SPSS. Multicollinearity is taken further in section 6.3.2.

4.10 Summary

The objective of this chapter was to outline the methodology adopted and method used to answer the research questions of this thesis. The chapter discussed the deductive approach taken and the methods (quantitative and qualitative) used to carry out the empirical work. The construction of the research instruments, the voluntary disclosure checklist and the interview questionnaires was also explained. Research hypotheses were then formulated and expectations formed based on relevant theoretical frameworks, prior empirical evidence discussed in Chapter 2 and factors specific to the Malaysian environment. The statistical techniques used to analyse quantitative data and to test the research hypotheses were explained at the end of the chapter.

The next chapter reports the results on the application of 53 items in the voluntary disclosure checklist on company annual reports. The resulting voluntary disclosure indices provide the ground for assessing company voluntary disclosure practice in annual reports for total and by categories of information. The voluntary disclosure indices computed also form the basis for examining the relationship between voluntary disclosure and a number of independent variables identified in formulating the hypotheses in this chapter. The results of univariate and multiple regression analyses are presented in Chapter 6.

APPENDICES

4-A: Companies selected for statistical analysis

1.	Aluminium Company of Malaysia Bhd	45.	Malaysian Pacific Industries Bhd
2.	Amsteel Corporation Bhd	46.	Mesiniaga Bhd
3.	Amway (Malaysia) Holdings Bhd	47.	Metroplex bhd
4.	Arab-Malaysian Development Bhd	48.	Mulpha International Bhd
5.	Bandar Raya Developments Bhd	49.	Nestle (M) Bhd
6.	Berjaya Sports Toto Bhd	50.	New Straits Times Press (M) Bhd
7.	Boustead Holdings Bhd	51.	Nikko Electronics Bhd
8.	British American Tobacco (Malaysia)	52.	Northport Corporation Bhd
9.	Chemical Company of Malaysia Bhd	53.	Nylex (M) Bhd
10.	Country Heights Holdings Bhd	54.	Oriental Holdings Bhd
11.	Daiman Development Bhd	55.	Padiberas Nasional Bhd
12.	Digi.Com Bhd	56.	Palmco Holdings Bhd
13.	DNP Holdings Bhd	57.	Pelangi Bhd
14.	Europlus Bhd	58.	Perusahaan Otomobil Nasional Bhd
15.	Gamuda Bhd	59.	Petronas Dagangan Bhd
16.	Genting Bhd	60.	Petronas Gas Bhd
17.	Golden Hope Plantations Bhd	61.	PPB Group Bhd
18.	Grand United Holdings Bhd	62.	Puncak Niaga Holdings Bhd
19.	Guinness Anchor Bhd	63.	Ramatex Bhd
20.	Hap Seng Consolidated Bhd	64.	Road Builder (M) Holdings Bhd
21.	Hong Leong Properties Bhd	65.	Sarawak Enterprise Corporation Bhd
22.	Hume Industries (M) Bhd	66.	Selangor Dredging Bhd
23.	IGB Corporation Bhd	67.	Selangor Properties Bhd
24.	IJM Corporation Bhd	68.	Shangri-La Hotels (M) Bhd
25.	IOI Corporation Bhd	69.	Shell Refining Co (FOM) Bhd
26.	Jaya Tiasa Holdings Bhd	70.	Sime Darby Bhd
27.	Johor Port Bhd	71.	SP Setia Bhd
28.	Kian Joo Can Factory Bhd	72.	Sistem Televisyen Malaysia Bhd
29.	Kim Hin Industry Bhd	73.	Star Publications (Malaysia) Bhd
30.	Kuala Lumpur Kepong Bhd	74.	Sunway Holdings Incorporated Bhd
31.	Kulim (M) Bhd	75.	Tan & Tan Developments Bhd
32.	Kumpulan Emas Bhd	76.	Tan Chong Motor Holdings Bhd
33.	Kumpulan Guthrie Bhd	77.	Tanjong Plc
34.	Leader Universal Holdings Bhd	78.	Telekom Malaysia Bhd
35.	Lingui Developments Bhd	79.	Tenaga Nasional Bhd
36.	Lingkaran Trans Kota Holdings Bhd	80.	Time Engineering Bhd
37.	Magnum Corporation Bhd	81.	Tradewinds (M) Bhd
38.	Malayan Cement Bhd	82.	Uda Holdings Bhd
39.	Malayan United Industries Bhd	83.	UMW Holdings Bhd
40.	Malaysia Airports Holdings Bhd	84.	Unisem (M) Bhd
41.	Malaysia International Shipping Corp	85.	WTK Holdings Bhd
42.	Malaysia Mining Corporation Bhd	86.	Yeo Hiap Seng (M) Bhd
43.	Malaysia Airline System Bhd	87.	YTL Corporation Bhd
44.	Malaysian Oxygen Bhd		

4-B: Information about interviewees

Financial controllers		Auditors		Regulators		Investment analysts		Bankers	
R	*Industry*	*R*	*Position/Audit firm*	*R*	*Position*	*R*	*Position/Firm*	*R*	*Position/Bank*
F1	Newspaper Publishing	A1	Partner/medium size	R1	President	I1	Head of country research/International firm	B1	Director/Leading Merchant Bank
F2	Airport Management	A2	Partner/medium size	R2	Director	I2	Senior Investment Analyst/Local Fund Manager	B2	Director/Leading Merchant Bank
F3	Properties/utility	A3	Deputy chairman/major international accounting firm*	R3	Deputy manager	I3	Group General Manager/Local Investment Holding Company	B3	Regional head/Leading Commercial Bank
F4	Broadcasting	A4	Executive director/ major international accounting firm	R4	Senior manager	I4	International Fund Manager	B4	Senior Manager/Leading Commercial Bank
F5	Insurance			R5	Assistant manager				
F6	Trading & Services			R6	Council member**				
F7	Investment Holding and Property Development								
F8	Technology								
F9	Trading & Services								

Key:
R - respondent
* also a council member of one of the professional accounting bodies in Malaysia
** also a partner at a medium size audit firm

*4-C: The voluntary disclosure checklist: Operationalisation and grades**

A. GENERAL CORPORATE INFORMATION

Brief history of company/company profile (7)
Any information on the history of the company such as when it was incorporated, the main activities then, and/or at present

Corporate vision and mission (4)
Any statement on the company's vision and/or mission

Corporate structure (6)
A chart/diagram showing all subsidiaries/ and associate companies

Five year financial highlights (9)
A summary of 5 years financial results such as turnover, profit before tax, EPS, and ROCE

B. SPECIFIC CORPORATE INFORMATION

Statement of strategy/objectives (7)
Any statement on the company's plans or aims for example, to produce best quality product, obtain biggest market share, focus on core business, or cost efficient production, etc.

Significant events calendar (6)
A chronological listing of major events for the company during the year

Acquisitions and expansion (6)
Reasons for acquisitions/expansions of subsidiaries/activities

Disposals and cessation (6)
Reasons for disposals/cessation of subsidiaries/activities

C. CHAIRMAN'S STATEMENT

Overview of economic performance (9)
General discussion on the company's performance relative to the industry and country's economic performance during the year

General discussion of future industry trend (9)

Discussion of factors affecting the company's prospects (8)
Discussion of factors such as economic environment, political stability, or within-industry competition in relation to the company's future prospects

D. REVIEW OF OPERATIONS

Review of operations by division – turnover (9)
Qualitative comments/ reasons for the reported turnover in relation to previous years' results, the industry and the general economy as a whole (trading conditions, competitors, improvement in operations, marketing strategy, etc)

Review of operations by division – operating profit (9)
Qualitative comments/reasons for the reported profit in relation to previous years' results, the industry and the general economy as a whole (trading conditions, demand and supply, prices, stock levels etc.)

Review of operations – productivity (8)
Quantitative/qualitative comments on productivity, or reasons for underutilisation, measures taken to enhance productive capacity such as better management of product line or relocation of manufacturing operation, cost efficiency. Others may include impact of weather on agricultural products, political instability of a foreign subsidiary affecting supply of materials, etc. Example of quantitative information is cost per passenger mile in the case of a public transport company.

E. PRODUCT/ SERVICE INFORMATION

Discussion of major types of products/services/projects (7)

General discussion of market share of products/service (7)
Any mention of the company being the market leader of that industry or quantitative share of the market

Improvement in product quality (6)
Discussion on how the improvement was achieved, for example new production technique or a newly set up Quality Department, refurbishment or renovations in the case of hotels, etc.

Improvement in customer service (6)
Discussion on how customer service was improved such as opening up of more customer service centres, more parking spaces in the case of shopping malls, launching of company website where customers can email their concerns to, etc.

Distribution of marketing network for finished products (6)
A listing of sales offices throughout the country/internationally

Awards /ratings received (6)
Any mention of external awards or ratings received by the company

F. SEGMENTAL INFORMATION

Geographical production (7)
Breakdown of production by geographical location

Line of business production (7)
Breakdown of production by type of product

G. RESEARCH AND DEVELOPMENT

Discussion of Company's R&D activities (6)
Any discussion of company's present or future research and development program

H. EMPLOYEE INFORMATION

Breakdown of employees by line of business (6)
Number of employees in each of the different sector the company is operating in

Breakdown of employees by level of qualification/executive vs non-executives (6)
Number of employees in executive and non-executive positions, or number of employees holding certificates, diplomas and university degrees

Breakdown of employees by ethnic origin **
Number of Malays, Chinese, Indians and others employed by the company

Employee appreciation (6)
Any discussion on company's appreciation of employees through organising events such as family day/ or trips, annual dinner or bonus for the employees

Policy on training (6)
Any information on type of training whether in-house or collaboration with other institutions, frequency, categories of employees sent for training, etc.

Amount spent on training (6)

Number of employees trained (5)

Discussion of employee welfare (6)
Any mention of company providing housing loan subsidy or children education assistance for the employees

Safety policy (6)
Information on how the company maintains a safe and healthy working environment for the employees

Information on accidents
Any information on accidents at work such as number of lost time injuries for a certain number of man hour worked

I. OTHER CORPORATE SOCIAL RESPONSIBILITY INFORMATION

Statement on Internal Control
Disclosure of Statement on Internal Control

Value Added Statement
A statement showing how the income is distributed to the government (tax), shareholders (dividends), staff (salaries), retained, etc.

Product safety (6)
Any statement on how the company ensures that the product is safe for consumption/use

Environmental policy (6)
Any information on the company's commitment to environmental conservation or statement on environmental policy

Charitable donations/sponsorships (6)
Donations to any charities and sponsorships of any social events

Participation in government social campaign (6)
Any information on the company's involvement/participation for example in drug awareness program, health awareness campaign or blood donation drive, etc.

Community programs (health and education) (5)
Any information on whether the company was involved with community programs such as cleaning-up of sites, or scholarships awarded to the public

J. FINANCIAL RATIOS

Profitability ratios ***

Gearing ratios ***

Liquidity ratios ***

NTA per share **

Dividend yield **

K. MARKET RELATED INFORMATION

Stock exchanges where shares are traded ***

Volume of shares traded (trend) ***
Number /value of shares traded on a month by month basis

Volume of shares traded (year-end) ***
Total number/value of shares traded during the financial year

Share price information (trend) ***
A graph/chart showing daily share price during the financial year

Share price information (year-end) ***
Closing financial year-end share price

Market capitalisation (year-end) ***
Value of market capitalisation as at financial year-end

Domestic and foreign shareholdings ***
Proportion of shares held by foreigners and locals

Distribution of shareholdings (type) ***
Breakdown of shares held by parties such as government agencies, bumiputra and non-bumiputra individuals and companies, nominee companies, banks and financial institutions, foundations, investment trusts and charities.

Key:

* These are the grades awarded by the investment analyst discussed in section 4.7.1.1 (5)

** These items were added to the disclosure checklist during pilot testing on 25 company annual reports. The pilot test was done after receiving feedbacks from the investment analyst and the senior manager at the KLSE.

*** Two sets of the voluntary disclosure checklist were sent to the investment analyst. The first set contained all disclosure items without explanation for each item. The second set contained only those items with explanations attached to them. Items included under financial ratios and market related information were not explained further because these items are well and commonly understood by market participants. The investment analyst graded items in the second set which was without the financial ratios and market related information. Hence the absence of grades on items included under these two headings.

4-D: Comments from senior manager at the KLSE

Items that may be covered under the KLSE Listing Requirements

1. Statement of strategy/ objective (prospects of the listed issuer)
2. General discussion of future industry trend (brief description of industry trend and development)
3. Discussion of factors affecting the company's prospects (prospects of the listed issuer)
4. Review of operations (an analysis of group performance)

Words in parentheses are the exact wordings of the KLSE Listing requirements

Other comments

1. Discussion of R&D activities – MASB encourage a description of a company's research and development activities in the annual report
2. Employee information – disclosure in respect of this item is rather extensive e.g. breakdown of employees by line of business/ ethnic origin, employee appreciation, discussion of employee welfare; we are unsure of the significance of these disclosures to investors

4-E: The voluntary disclosure checklist: Sources of information

Items of information	Sources of information/ Prior studies that included these items in their checklists
A. GENERAL CORPORATE INFORMATION	
1. Brief history of company/ company profile	Hossain et al. (1994), Leventis (2001), Gray et al. (1995), Hossain et al. (1995), Meek et al. (1995), Suwaidan (1997), Depoers (2000), Chau and Gray (2002), Ferguson et al. (2002), Haniffa and Cooke (2002), Eng and Mak (2003)
2. Corporate vision and mission	Haniffa and Cooke (2002), Sample Annual Report, KLSE Corporate Awards
3. Corporate structure	Haniffa and Cooke (2002), KLSE Corporate Awards
4. Five-year financial highlights	Hossain et al. (1994), Sample Annual Report, KLSE Corporate Awards, Gray et al. (1995), Hossain et al. (1995), Suwaidan (1997), Haniffa and Cooke (2002), Chau and Gray (2002), Eng and Mak (2003)
B. SPECIFIC CORPORATE INFORMATION	
5. Statement of strategy/ objectives	Hossain et al. (1994), Leventis (2001), KLSE Corporate Awards, Chow and Wong-Boren (1987), Gray et al. (1995), Hossain et al. (1995), Meek et al. (1995), Suwaidan (1997), Ho and Wong (2001a), Haniffa and Cooke (2002), Chau and Gray (2002), Ferguson et al. (2002), Eng and Mak (2003)
6. Significant events calendar	Sample Annual Report
7. Acquisitions and expansion	Leventis (2001), Gray et al. (1995), Meek et al. (1995), Ho and Wong (2001), Haniffa and Cooke (2002), Chau and Gray (2002), Ferguson et al. (2002)
8. Disposals and cessation	Leventis (2001), Gray et al. (1995), Hossain et al. (1995), Meek et al. (1995), Ho and Wong (2001a), Haniffa and Cooke (2002), Chau and Gray (2002), Ferguson et al. (2002)
C. CHAIRMAN'S STATEMENT	
9. Overview of economic performance	KLSE Corporate Awards, Eng and Mak (2003)
10. General discussion of future industry trend	Hossain et al. (1994), Hossain et al. (1995), Haniffa and Cooke (2002), Ferguson et al. (2002)
11. Discussion of factors affecting the company's prospects	Cooke (1989), Hossain et al. (1995), Suwaidan (1997), Ho and Wong (2001a), Haniffa and Cooke (2002), Ferguson et al. (2002)

D. REVIEW OF OPERATIONS	
12. Review of operations by division-turnover	Depoers (2000), Eng and Mak (2003)
13. Review of operations by division-operating profits	Leventis (2001), Chow and Wong-Boren (1987), Gray et al. (1995), Suwaidan (1997), Chau and Gray (2002), Eng and Mak (2003)
14. Review of operations-productivity	Leventis (2001), Cooke (1989), Ferguson et al. (2002)
E. PRODUCT/ SERVICE INFORMATION	
15. Discussion of major types of products/ services/ projects	Chow and Wong-Boren (1987), Hossain et al. (1994), Leventis (2001), Sample Annual Report, Suwaidan (1997), Depoers (2000), Ho and Wong (2001a), Haniffa and Cooke (2002), Ferguson et al. (2002), Eng and Mak (2003)
16. General discussion of market share of products/ service	Hossain et al. (1994), Cooke (1989), Hossain et al. (1995), Suwaidan (1997), Depoers (2000)
17. Improvement in product quality	Haniffa and Cooke (2002)
18. Improvement in customer service	Haniffa and Cooke (2002)
19. Distribution of marketing network for finished products	Hossain et al. (1994), Leventis (2001), Chow and Wong-Boren (1987), Hossain et al. (1995), Suwaidan (1997), Haniffa and Cooke (2002), Ferguson et al. (2002)
20. Awards/ ratings received	Haniffa and Cooke (2002), KLSE Corporate Awards
F. SEGMENTAL INFORMATION	
21. Geographical production	Hossain et al. (1994), Leventis (2001), Gray et al. (1995), Hossain et al. (1995), Meek et al. (1995), Chau and Gray (2002)
22. Line of business production	Hossain et al. (1994), Leventis (2001), Gray et al. (1995), Hossain et al. (1995), Meek et al. (1995), Haniffa and Cooke (2002), Chau and Gray (2002)
G. RESEARCH AND DEVELOPMENT	
23. Discussion of company's R&D activities	Hossain et al. (1994), Sample Annual Report, KLSE Corporate Awards, Chow and Wong-Boren (1987), Gray et al. (1995), Hossain et al. (1995), Meek et al. (1995), Raffournier (1995), Suwaidan (1997), Chau and Gray (2002), Ferguson et al. (2002)
H. EMPLOYEE INFORMATION	
24. Breakdown of employees by line of business	Hossain et al. (1994), Leventis (2001), Gray et al. (1995), Hossain et al. (1995), Meek et al. (1995), Chau and Gray (2002)
25. Breakdown of employees by level of qualification/	Leventis (2001)

executives vs non-execcutives	
26. Breakdown of employees by ethnic origin	Company annual reports
27. Employee appreciation	Hossain et al. (1994), Hossain et al. (1995), Haniffa and Cooke (2002), Ferguson et al. (2002)
28. Policy on training	Hossain et al. (1994), Leventis (2001), KLSE Corporate Awards, Gray et al. (1995), Hossain et al. (1995), Haniffa and Cooke (2002), Chau and Gray (2002), Ferguson et al. (2002)
29. Amount spent on training	Hossain et al. (1994), Leventis (2001), Cooke (1989), Gray et al. (1995), Hossain et al. (1995), Meek et al. (1995), Suwaidan (1997), Chau and Gray (2002), Ferguson et al. (2002)
30. Number of employees trained	Hossain et al. (1994), Gray et al. (1995), Hossain et al. (1995), Meek et al. (1995), Chau and Gray (2002), Ferguson et al. (2002)
31. Discussion of employee welfare	Hossain et al. (1994), Gray *et al.* (1995), Hossain et al. (1995), Haniffa and Cooke (2002), Chau and Gray (2002), Ferguson et al. (2002)
32. Safety policy	Leventis (2001), KLSE Corporate Awards, Gray et al. (1995), Chau and Gray (2002)
33. Information on accidents	Hossain et al. (1994), Leventis (2001), Gray et al. (1995), Hossain et al. (1995), Meek et al. (1995), Chau and Gray (2002), Ferguson et al. (2002)
I. OTHER CORPORATE SOCIAL RESPONSIBILITY INFORMATION	
34. Statement on internal control	KLSE Corporate Awards
35. Value added statement	Hossain et al. (1994), Leventis (2001), Sample Annual Report, Cooke (1989), Gray et al. (1995), Hossain et al. (1995), Meek et al. (1995), Depoers (2000), Chau and Gray (2002)
36. Product safety	Leventis (2001), Gray et al. (1995), Meek et al. (1995), Chau and Gray (2002)
37. Environmental policy	Hossain et al. (1994), Leventis (2001), Sample Annual Report, KLSE Corporate Awards, Gray et al. (1995), Hossain et al. (1995), Meek et al. (1995), Haniffa and Cooke (2002), Chau and Gray (2002), Ferguson et al. (2002)
38. Charitable donations/ sponsorship	Leventis (2001), Gray et al. (1995), Meek et al. (1995), Haniffa and Cooke (2002), Chau and Gray (2002), Ferguson et al. (2002), KLSE Corporate Awards
39. Participation in government social campaign	Haniffa and Cooke (2002), Sample Annual Report
40. Community programs (health and education)	Hossain et al. (1994), Sample Annual Report, Cooke (1989), Gray et al. (1995), Hossain et al. (1995), Meek et al. (1995), Haniffa and Cooke (2002), Chau and Gray (2002), Ferguson et al. (2002), KLSE Corporate Awards

J. FINANCIAL RATIOS	
41. Profitability ratios	Hossain et al. (1994), Cooke (1989), Gray et al. (1995), Hossain et al. (1995), Meek et al. (1995), Suwaidan (1997), Depoers (2000), Haniffa and Cooke (2002), Chau and Gray (2002), Ferguson et al. (2002), Eng and Mak (2003)
42. Gearing ratios	Hossain et al. (1994), Leventis (2001), Gray et al. (1995), Hossain et al. (1995), Meek et al. (1995), Suwaidan (1997), Chau and Gray (2002), Ferguson et al. (2002), Eng and Mak (2003)
43. Liquidity ratios	Hossain et al. (1994), Leventis (2001), Cooke (1989), Gray et al. (1995), Hossain et al. (1995), Meek et al. (1995), Suwaidan (1997), Depoers (2000), Chau and Gray (2002), Ferguson et al. (2002), Eng and Mak (2003)
44. NTA per share	Company annual reports
45. Dividend yield	Company annual reports
K. MARKET RELATED INFORMATION	
46. Stock exchanges where shares are traded	Hossain et al. (1994), Gray et al. (1995), Hossain et al. (1995), Haniffa and Cooke (2002), Chau and Gray (2002), Ferguson et al. (2002)
47. Volume of shares traded (trend)	Haniffa and Cooke (2002)
48. Volume of shares traded (year-end)	Haniffa and Cooke (2002)
49. Share price information (trend)	Hossain et al. (1994), Leventis (2001), Gray et al. (1995), Hossain et al. (1995), Depoers (2000), Haniffa and Cooke (2002), Chau and Gray (2002), Ferguson et al. (2002)
50. Share price information (year-end)	Leventis (2001), Gray et al. (1995), Haniffa and Cooke (2002), Chau and Gray (2002)
51. Market capitalization (year-end)	Hossain et al. (1994), Leventis (2001), Hossain et al. (1995), Gray et al. (1995), Meek et al. (1995), Depoers (2000), Chau and Gray (2002), Ferguson et al. (2002)
52. Domestic and foreign shareholdings	Hossain et al. (1994), Cooke (1989), Hossain et al. (1995), Haniffa and Cooke (2002), Ferguson et al. (2002)
53. Distribution of shareholdings (type)	Leventis (2001), Chow and Wong-Boren (1987), Gray et al. (1995), Meek et al. (1995), Haniffa and Cooke (2002), Chau and Gray (2002)

4-F: List of disclosure items: Comparison to prior studies on Malaysian companies

	Disclosure items	Present study	Haniffa and Cooke (2002)	Hossain et al.(1994)
	GENERAL CORPORATE INFORMATION			
1.	Brief history of company	✓	✓	✓
2.	Description of organisational structure			✓
3.	Corporate vision and mission	✓	✓	
4.	Description of corporate structure	✓	✓	
5.	5-year financial highlights	✓		
6.	Financial highlights statement – 2 years		✓	
7.	Financial highlights statement - > 3 years		✓	
8.	Financial summary 3+ years		✓	✓
9.	Financial summary 6+ years			✓
10.	Major plants, warehouses and projects		✓	
11.	Major plant, warehouse, function size – home country			✓
12.	Major plant, warehouse, function size – foreign country			✓
	SPECIFIC CORPORATE INFORMATION			
13.	Statement of corporate general objective			✓
14.	Statement of financial objective			✓
15.	Statement of marketing objective			✓
16.	Statement of strategy and objective – general (past)		✓	
17.	Statement of strategy and objective – general (future)	✓	✓	
18.	Statement of strategy and objectives – financial (past)		✓	
19.	Statement of strategy and objectives – marketing (past)		✓	
20.	Statement of strategy and objectives – marketing (future)		✓	
21.	Impact of strategy on past results		✓	
22.	Impact of strategy on future results		✓	
23.	Significant events calendar	✓		
24.	Acquisitions and expansion	✓	✓	
25.	Disposals and cessation	✓	✓	
26.	Effects of acquisition on past results*		✓	
27.	Effects of acquisition on future results		✓	
28.	Effects of disposal on past results*		✓	
29.	Amount of consideration realized**		✓	
	CHAIRMAN'S REPORT			
29.	Overview of economic performance	✓		
30.	General discussion of future industry trend	✓	✓	✓
31.	Discussion of factors affecting a company's future	✓		

	prospects			
	INFORMATION ABOUT DIRECTORS			
32.	Picture of chairperson only		✓	
33.	Picture of all directors		✓	
34.	Name and age of directors***			✓
35.	Academic qualification of directors***		✓	✓
36.	Director business experience***			✓
37.	Director affiliations with other organisations***			✓
38.	Position or office held by executive directors		✓	
39.	Identification of senior management		✓	
40.	Functions of senior management		✓	
	REVIEW OF OPERATIONS			
41.	Discussion of past industry trend***			✓
42.	Review of operations by division – turnover	✓		
43.	Review of operations by divisions – operating profits	✓		
44.	Review of operations – productivity	✓		
	FUTURE PROSPECTS			
45.	Qualitative profit forecast		✓	✓
46.	Quantitative profit forecast			✓
47.	Sales forecast – descriptive			✓
48.	Sales forecast – quantitative			✓
49.	Forecasts assumptions		✓	✓
50.	Economic factors affecting future business	}	}	✓
51.	Political factors affecting future business	}*a*	} ✓	✓
52.	Technological factors affecting future business	}	}	✓
53.	Index of selling prices		]	✓
54.	Index of quantity sales		] ✓	✓
55.	Index of raw materials		]	✓
56.	Orders booked or order backlogs		✓	✓
57.	Discussion of company's prospects (general)***		✓	
	PRODUCT/SERVICE INFORMATION			
58.	Discussion of major types of products/services/projects	✓	✓	✓
59.	General discussion of market share of products/ service	✓		✓
60.	Improvement in product quality	✓	✓	
61.	Improvement in customer service	✓	✓	
62.	Distribution of marketing network for finished product	✓*b*	✓	
63.	Distribution of marketing network for finished product-domestic market			✓
64.	Distribution of marketing network for finished product-foreign market			✓
65.	Awards/ ratings received	✓	✓	
66.	Picture of major types of product		✓	
67.	Size, growth rate of product market			✓

68.	Proportion of local production raw materials			✓
69.	Discussion of competitors			✓
	SEGMENTAL INFORMATION			
70.	Geographical production	✓		✓
71.	One line of business production		✓	
72.	All lines of business production	✓	✓	✓
73.	Geographical capital expenditure		✓	✓
74.	Market share analysis		✓	
75.	Discussion of competitors		✓	
	RESEARCH AND DEVELOPMENT (R&D)			
76.	Discussion of company's R&D activities	✓		
77.	Company's policy on R&D			✓
78.	Discussion of future R&D	*c*		✓
79.	Forecast of R&D expenses			✓
80.	New product development		✓	✓
81.	Number of research personnel employed			✓
	EMPLOYEE INFORMATION			
82.	Breakdown of employees by line of business	✓		✓
83.	Breakdown of employees by level of qualification	✓		
84.	Breakdown of employees by ethnic origin	✓		
85.	Employees appreciation	✓	✓	✓
86.	Amount spent on training	✓		✓
87.	Number of employees trained	✓		✓
88.	Discussion of employee welfare	✓	✓	✓
89.	Safety policy	✓		
90.	Information on accidents at workplace	✓		✓
91.	Recruitment problems		✓	
92.	Picture of employees' welfare		✓	
93.	Profit sharing schemes policy		✓	
94.	Number of employees****		✓	✓
95.	Corporate policy on employee training	✓	✓	✓
96.	Nature of training		✓	
97.	Equal employment policy			✓
98.	University graduate recruitment information			✓
99.	Breakdown of employees by geographic area			✓
100.	Categories of employees by gender			✓
101.	Cost of safety measures			✓
102.	General redundancy information			✓
	OTHER CORPORATE SOCIAL RESPONSIBILITY INFORMATION			
103.	Statement of internal control	✓		
104.	Value added statement	✓		✓
105.	General value-added information			✓
106.	Product safety	✓		
107.	Environmental policies	✓	✓	
108.	Qualitative information on environmental protection programme	*d*		✓

109.	Quantitative information on environmental protection programme			✓
110.	General philanthrophy		✓	
111.	Community programs (health and education)	✓	✓	
112.	Description of community involvement			✓
113.	Community involvement (quantitative)			✓
114.	Charitable donations/sponsorships	✓		
115.	Participation in government social campaign	✓	✓	
	FINANCIAL OVERVIEW			
116.	Return on capital employed	}	}	✓
117.	Return on shareholders equity	}✓	}✓	✓
118.	Leverage ratios	✓		✓
119.	Liquidity ratios	✓		✓
120.	Other ratios			✓
121.	NTA per share	✓		
122.	Dividend yield	✓		
123.	Effects of interest rates on current results			✓
124.	Effects of interest rates on future results			✓
125.	Qualitative information on advertising			✓
126.	Quantitative information on advertising			✓
127.	Information on off-balance sheet financing			✓
128.	Intangible assets valuation other than goodwill			✓
	MARKET RELATED INFORMATION			
129.	Stock exchanges where shares are traded	✓	✓	✓
130.	Market capitalization at year end	✓		✓
131.	Share price trend/behaviour	✓	✓	✓
132.	Share price information (year-end)	✓	✓	
133.	Volume of shares traded (trend)	✓	✓	
134.	Volume of shares traded (year-end)	✓	✓	
135.	Domestic and foreign shareholding	✓	✓	✓
136.	Distribution of shareholding (type)	✓	✓	

Key:

a Items (50) to (52) are included in (31) in this thesis.
b Item (62) in this thesis covers both (63) and (64).
c Item (78) is included in (76) in this thesis.
d item (108) is included in (107) in this thesis.
* required disclosure under MASB 11 effective for financial statements covering periods beginning on or after 1 January 2000
** required disclosure under MASB 5 effective for financial statements covering periods beginning on or after 1 July 1999
*** required to be disclosed in annual reports effective 1 June 2001 (KLSE, 2001; Appendix 9C Part A)
**** required disclosure under MASB 1 effective for financial statements covering periods beginning on or after 1 July 1999

4-G: Interview questionnaire

Part One: General interview questions

1	**Financial Controllers**	***Research questions***	***Thesis section***
a	What do you think is the role of the annual report produced by your company?	SRQ 5	8.2
b	How much importance do you place on the disclosure of voluntary information in the annual report?	SRQ 5	8.4
c	What key headings (or themes) of information do you voluntarily disclose in your annual report?	SRQ 1	8.5
d	Why would your company disclose additional information voluntarily in the annual report?	SRQ 3	8.6
e	Besides the reasons you mentioned in (d) above, what other factors influence your company's decision on disclosure policy in your annual report?	SRQs 2, 3&5	8.6
f	Where does the annual report sit in your entire process of communication with all stakeholders (written and spoken)?	SRQs 1&5	8.2
2	**Investment Analysts**		
a	How much importance do you place on the annual reports of companies in your decision making process? How reliable and credible do you think is the annual report? Do you also rely on other types of corporate communication?	SRQs 1&5	8.3
b	Why do you think that some companies are more informative and others secretive in disclosing information in annual reports?	SRQ 5	8.6
c	What do you see as the most important types (or themes) of voluntary disclosure in annual reports?	SRQ 1	8.5
d	What factors do you think influence a company's decision on the types (or themes) of information disclosed in an annual report?	SRQs 2&3	8.6
e	Do you feel that the annual report meets your information needs and if not, which type of information would you most like to see in an annual report?	SRQs 1&5	8.3&8.5
f	In relation to (e) above, what is your opinion on whether the additional information you require should be mandated or voluntarily provided?	SRQ 5	8.5
3	**Regulators**		
a	Based on your experience, what is the extent and quality of voluntary information disclosed in annual reports?	SRQ 1	8.4
b	In your opinion, what are the key themes of information that should be disclosed to enhance the quality of annual reports?	SRQ 1	8.5
c	Why do you think that some companies are more inclined to provide extensive information voluntarily in annual reports than others?	SRQ 3	8.6
d	Apart from the reasons you mentioned in (d) above, what other factors determine a company's disclosure policy?	SRQs 2&5	8.6
e	Do you feel that the present financial reporting requirements satisfy the information needs of users of annual reports?	SRQ 5	8.3
f	In relation to (f) above, do you anticipate any area that needs further disclosure in annual reports, and should this be regulated or provided voluntarily by companies?	SRQ 5	8.5
4.	**External Auditors**		
a	Based on your experience, why do you think companies may disclose information beyond that which is statutorily required in annual reports?	SRQ 3	8.6

b	Are there any other factors, beside those you mentioned in (b) above, that you think may influence a company's decision on disclosure policy?	SRQs 2&3	8.6
c	In the audit process, (i) how much emphasis do you place on voluntary disclosures in an annual report, and (ii) do you discuss with your clients the benefits and risks of additional disclosure in annual reports?	SRQ 5	8.4
d	Do you feel that the annual report satisfies the information needs of the various user groups?	SRQ 5	8.3
e	Do you anticipate any area that needs further disclosure in an annual report, and should this be mandated or provided voluntarily by companies?	SRQs 1&5	8.5
5	**Bankers**		
a	How much importance do you place on corporate annual reports in your decision making process?	SRQs 1&5	8.3
b	Do you feel that the annual report provides adequate information for your decision making purposes? Which types of information do you consider important to be disclosed in an annual report?	SRQs 1&5	8.3&8.5
c	Why do you think are some companies more informative and others secretive in disclosing information in annual reports?	SRQ 3	8.6
d	Are there any other factors, besides those you mentioned in (c) above, that influence a company's decision on disclosure policy?	SRQs 2&3	8.6
e	Where does the annual report sit in terms of providing information regarding your (potential) client companies, compared to other forms of corporate communication?	SRQs 1&5	8.3
f	Is there any area that you feel needs further disclosure in annual reports, and should this be mandated or provided voluntarily by companies?	SRQ 5	8.5

Part Two: Questions relating to findings from statistical analysis

Questions	Research questions	Thesis section
A. Why do you think significantly ***more*** voluntary information is disclosed in annual reports by		
i. companies with a bigger number of employees	SRQ4	7.2.1
ii. more profitable companies	SRQ4	7.2.3
B. Why do you think significantly ***less*** voluntary information is disclosed in annual reports of companies		
i. with a higher proportion of director ownership	SRQ4	7.2.2
ii. with a higher proportion of family members on the board	SRQ4	7.2.4
C. What are your views on whether independent directors have significant influence on the amount of information voluntarily disclosed in annual reports?	SRQ4	7.3.1
D. What are your views on whether the proportion of Malay directors has a significant influence on voluntary social information disclosed in annual reports?	SRQ4	7.3.2

CHAPTER 5: THE EXTENT OF VOLUNTARY INFORMATION DISCLOSURE IN ANNUAL REPORTS

5.1 Introduction

This chapter answers SRQ1 of the study which is as follows;

SRQ1: ***What is the extent of voluntary disclosure in annual reports of companies included in the KLSE Composite Index?***

As discussed in section 4.7.1, the extent of voluntary information disclosure in company annual reports is measured using a researcher-constructed voluntary disclosure index. The measurement involves a two-stage evaluation process; the first examines the extent of total voluntary information disclosed while the second measures disclosure level by type of information (i.e. financial, strategic and corporate social responsibility information).

Section 5.2.1 reports the extent of total voluntary disclosure while section 5.2.2 reports the extent of voluntary disclosure by type of information. The subdivision of information into these three categories helps to assess the relative disclosure of types of information in company annual reports. It also gives an opportunity to investigate why certain types of information are disclosed more than others. Section 5.3 compares the results of the present study to prior research on accounting disclosure. Analysis and interpretation of findings are presented in section 5.4. Summary and conclusions are provided in section 5.5.

5.2 The extent of voluntary disclosure in annual reports

To evaluate the extent of voluntary information disclosure, the voluntary disclosure checklist containing 53 voluntary items was applied to 87 company annual reports. An issue with using a disclosure index is reliability of the instrument. Reliability refers to whether an instrument administered to the same subject on different occasions can produce the same results (Easterby-Smith et al., 2001: p. 121). That is

whether the scores awarded to companies in this study can be replicated by another researcher or if scoring is done at a different time. The issue of reliability of scores is addressed in this thesis by extensive examination of annual reports. All annual reports were read twice by the researcher to ensure consistency in scoring. The second examination was done after analysing all annual reports in the first round, rather than immediately after each annual report, to reduce the chances that the first scoring might influence the second scoring and to allow consistency in scoring all the annual reports. In the few cases where differences exist between the first and second scoring,[79] the annual reports were subjected to a third final assessment.

In scoring company annual reports, the researcher is faced with the issue of whether non-disclosure was due to a non-applicable item. To ensure that companies are not penalised for non-disclosure, the entire annual report is read. The criteria used to decide non-applicability of items to certain companies are listed in Appendix 5-A. As explained in section 4.7.1.2, the relative voluntary disclosure index for each company is computed by the ratio of the actual number of items disclosed by a company to the maximum number of items applicable to that company. The extent of voluntary disclosure in corporate annual reports is expressed in percentage form. The voluntary disclosure indices computed represent the dependent variable in this study.

5.2.1 The total voluntary disclosure index

Table 5-1 provides the descriptive statistics and frequency for the total voluntary disclosure index. The scores range from 6.3% to 74.0% with a mean disclosure index of 31.4%. The table also shows that the scores are not normally distributed as indicated by skewness and kurtosis values of 0.750 and 0.100 respectively. This non-normality is further supported by the non-parametric Kolmogorov-Smirnov test (or K-S Lilliefors).[80] The positive skewness value indicates that the scores are clustered to the left at low values. This can be seen in the frequency section of

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[79] The Pearson correlation coefficients between the two scorings were 0.949 for total voluntary disclosure, 0.896 for financial information, 0.814 for strategic information and 0.969 for corporate social responsibility information. All coefficients are significant at the 1% level.

[80] Skewness and kurtosis value of 0 indicates a perfectly normal distribution; Kolmogorov – Smirnov with a non-significant result (sig > .05) indicates normality, a significance of <.05 suggests violation of the assumption of normality (Pallant, 2001; pp. 53 & 58).

Table 5-1 where 75 companies (86.2%) scored below 50%. The positive kurtosis indicates that the distribution is relatively peaked, rather than flat as is the case with negative kurtosis. The peaked nature of the distribution can be seen in the same table where 31 (35.6%) company indices are in the range of 20 - 29.9%.

Table 5-1: The total voluntary disclosure index (VDI)

Descriptive Statistics					
Minimum (%)	6.3	Skewness	0.750	KS	0.120
Maximum (%)	74.0	SE skew	0.258	KS Sig.	0.003
Mean (%)	31.4	Kurtosis	0.100		
		SE kurt	0.511		

Frequency		
VDI (%)	**No of Companies**	**%**
70 – 79.9	3	3.4
60 – 69.9	2	2.3
50 – 59.9	7	8.1
40 – 49.9	14	16.1
30 – 39.9	12	13.8
20 – 29.9	31	35.6
10 – 19.9	16	18.4
1 – 9.9	2	2.3
Total	**87**	**100.0**

Only 12 companies (13.8%) disclosed 50% or more of the 53 items included in the index. These results show that even among the most actively traded stocks on the KLSE, there is considerable variability in the amount of information voluntarily disclosed in annual reports and only 12 companies can be said to be good disclosers according to the classification of Wallace (1988).[81] The results also imply that company size and share activities are not conclusive factors determining Malaysian corporate voluntary disclosure.

The sample of companies examined in this thesis includes five companies which were awarded the KLSE 2001 Corporate Sectoral Awards (see section 3.5.4.3). In this study, the voluntary disclosure indices awarded to these companies are 35.4%, 46.0%, 46.2%, 58.0% and 73.6% respectively. All indices are above the mean

[81] Wallace (1988) considered indices above 50% to be good, however acknowledged that such rating is judgemental.

disclosure index of 31.4%. Although four of the five indices are not among the top five disclosers in this study, further analysis shows that with the exception of one company, the other four companies are ranked either first or second in their respective sectors. Thus, there are some similarities between the rankings of companies examined in this study and those which won the KLSE 2001 Corporate Sectoral Awards.[82]

5.2.2 Voluntary disclosure by category of information

Table 5-2: Frequency of voluntary disclosure indices by category of information

	Financial information		**Strategic information**		**Corporate social responsibility**	
Mean (%)	35.6		39.3		20.2	
Min (%)	10.5		7.7		5.9	
Max (%)	85.0		86.7		82.4	
VDI (%)	Number of Companies	%	Number of Companies	%	Number of Companies	%
80 – 89.9	1	1.2	2	2.3	1	1.2
70 – 79.9	2	2.3	4	4.6	2	2.3
60 – 69.9	7	8.1	4	4.6	1	1.2
50 – 59.9	12	13.8	18	20.7	6	6.9
40 – 49.9	8	9.2	16	18.4	11	12.6
30 – 39.9	16	18.4	12	13.8	5	5.8
20 – 29.9	30	34.5	20	23.0	8	9.2
10 – 19.9	11	12.6	9	10.3	14	16.1
1 – 9.9	0	0.0	2	2.3	11	12.6
0	0	0.0	0	0.0	28	32.2
Total	**87**	**100.00**	**87**	**100.00**	**87**	**100.0**

Examination of disclosure by type of information as shown in Table 5-2 reveals further variability in the level of information disclosure among these companies. While financial information disclosure scores range from 10.5% to 85.0%, those of strategic information are between 7.7% and 86.7%. The disclosure indices in respect of corporate social responsibility information show relatively lower levels. Among the 59 companies that made some social disclosure, the lowest score is 5.9% while the maximum is 82.4%. A total of 28 (32.2%) companies did not disclose any

[82] The adjudication criteria for the KLSE Corporate Award comprises of a number of categories. Corporate disclosure policy is one of the merit criteria included in the adjudication process (see section 3.5.4.3).

corporate social responsibility information in their annual reports. These results suggest that compared to financial and strategic information, corporate social responsibility disclosure was given less attention by preparers in the annual reports of even the largest and most actively traded stocks in Malaysia.

5.3 Comparison with prior disclosure studies

This section compares the total voluntary disclosure indices computed in the present study to those documented in prior research and previous studies on Malaysian company annual reports.

5.3.1 Comparison with studies in other countries

Table 5-3 shows the range of disclosure indices reported in prior studies. The variation in the range of disclosure indices can be expected for a number of reasons. Firstly, each study differs in terms of sample selection, both in criteria and size. Secondly, the checklists used for measuring the extent of disclosure were not standard. Thirdly, each country differs in terms of economic, legal and institutional environment. Thus, the pressures for corporate disclosure in different countries can be expected to vary. Additionally, events and the time of study may also affect the expectations for company disclosure. Nonetheless, based on the sample and range of disclosure indices documented in prior studies as shown in Table 5-3, it may be said that the range observed in this study of between 6.3% and 74.0% for the 87 company annual reports investigated are comparable to previous studies and sufficient for analysis.

Table 5-3: Range of total voluntary disclosure indices documented in prior studies

Study	Country	Sample	Range of disclosure indices (%)
Eng and Mak (2003)	Singapore	158	2 – 66 (w)
Chau and Gray (2002)	Hong Kong	60	3.8 – 40 (u)
	Singapore	62	2.9 – 27.2 (u)
Ferguson et al. (2002)	Hong Kong	142	3.33 – 43.53 (u)
Ho and Wong (2001a)	Hong Kong	98	5 – 85 (u)
Depoers (2000)	France	102	7.69 – 64.61 (u)
Patton and Zelenka (1997)*	Czech Republic	50	34 – 80 (u)
Hossain et al. (1995)	New Zealand	55	2 – 55 (u)
Wallace and Naser (1995)*	Hong Kong	80	55.32 - 87.23 (w)
Wallace et al. (1994)*	Spain	50	29 – 80 (w)
Cooke (1991)	Japan	48	1 – 41 (u)
Cooke (1989)	Sweden	90	12.95 – 69.72 (u)
Chow and Wong-Boren (1987)	Mexico	52	0 - 17 (u), 0 - 79.37 (w)

* includes mandatory and voluntary items
u - unweighted; w - weighted

5.3.2 Comparison with prior research on Malaysian companies

In comparison to a previous study by Hossain et al. (1994) on voluntary disclosure in Malaysian corporate annual reports, the present study shows a wider range in company disclosure indices. Using data from 1991 accounts, Hossain et al. (1994) reported a mean disclosure index of 15.8% with disclosure indices in the range of 4.0% to 35.0% for the 67 company annual reports investigated. Twenty-five of the 53 items in the checklist in this thesis (see section 4.7.1.1 (6) on the construction of the checklist) are among the 78 items included in the checklist in Hossain et al. (1994). Based on the minimum and maximum scores observed in Hossain et al. (1994) and the present study, it may be said that there is some increase in the level of information voluntarily disclosed in Malaysian company annual reports. However, the present results may partly be attributable to sample companies which represent the largest and most actively traded stocks on the KLSE. Larger and more actively traded stocks are expected to disclose more information because these companies are more subject to investors' and analysts' demand for information (Lang and Lundholm, 1993).

In another study on voluntary disclosure in Malaysian company annual reports, Haniffa and Cooke (2002) using data from 1995 accounts, reported a mean of 31.3%

with disclosure indices in between 6.0% and 70.0%. There is a similarity between the range of total voluntary disclosure indices in the present study and Haniffa and Cooke (2002). It was expected that voluntary disclosure in annual reports after the 1997 financial crisis would improve (see sections 3.4.2 and 3.5.4.1). On the contrary, the results seem to suggest that voluntary disclosure in company annual reports have largely remained at the same levels. This appears to imply that efforts of regulators to enhance corporate transparency did not succeed in encouraging companies towards more voluntary information disclosure.[83] However, it is possible that Malaysian companies are taking more time to response to the government's call for increased corporate transparency. That is because this study was undertaken immediately after the new regulations came into effect in 2001 (see section 3.5.4.1).

5.4 Analysis of voluntary disclosures

This section analyses disclosure levels for each category of information. The extent of disclosure (the percentage of companies disclosing) for each item of information in the disclosure checklist is shown in Appendix 5-A. It can be seen from the table that only 11 of the 87 items included in the checklist were disclosed by at least half of the companies investigated (refer to the rank column). The table also shows that none of the items included under corporate social responsibility is ranked within the top ten items in terms of percentage of companies disclosing the items. These findings imply that there is still scope for improvement in voluntary disclosure in Malaysian company annual reports especially in the corporate social responsibility area.

The relatively higher level of disclosure in respect of financial and strategic information can be expected because previous research has shown that these items

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[83] However, in another study by Haniffa (1999), the range of voluntary disclosure indices was found to be between 3.5% and 50.0%. The study examined voluntary disclosure in Malaysian companies using a sample of 139 annual reports for the year 1994. Using a more comprehensive checklist comprising 123 voluntary items, Haniffa (1999) reported a mean disclosure index of 19.2%. On the basis of range and mean disclosure index, it may be said that the results of the present study show some increase in the level of voluntary information disclosed in Malaysian company annual reports.

are ranked highly by analysts in terms of importance (Ho and Wong, 2001b). The relatively low level of social information disclosure has been documented in a number of prior studies. Naser and Nuseibeh (2003a) found that the percentage of companies which disclosed the four items of social information included in their voluntary disclosure list was between 3.0% and 26.0%.[84] In a study on Nigerian corporate annual reports, Wallace (1988) reported that the mean disclosure index in respect of social data was 30.4% compared to historical summary (77.0%), balance sheet (65.2%), measurement methods (47.4%) and other financial statements (46.7%).[85] Firer and Meth (1986) also documented similar results in their study on voluntary disclosure in South African company annual reports. None of the social information included in the list of 46 items were ranked within the top ten in terms of companies disclosing that information in the annual reports. McNally et al. (1982) also reported that information on corporate social responsibility and indications of employee morale were disclosed by less than 10% of sample companies surveyed. The following sections discuss in more detail the extent of disclosure for each category of information.[86]

5.4.1 Financial information

Appendix 5-A shows that within the financial information category, the five-year financial highlight statement is the most widely disclosed item (95.4%), followed by the list of stock exchanges where shares are traded (81.6%), and a review of operations by division-turnover (79.3%). In contrast, market capitalisation (4.6%), liquidity ratio (5.8%) and dividend yield (7.2%) are items least frequently disclosed by companies investigated.

[84] These four items were information on donations (3%), information on training and human resources development (20%), percentage of foreign labour force in different sections of the company (20%) and information on university graduates recruitment policy (26%). In respect of non-social items included in the list, the percentage of companies that disclosed the information was in between 0% to 95%, with three items being disclosed by more than 90% and two items not disclosed by any of the companies investigated. These two items were top management names and dividend policy.
[85] However, Wallace's (1988) checklist contains both mandatory and voluntary items.
[86] In each category, a general comparison is also made to prior research. As explained in section 5.3.1, sample selection and disclosure checklist may partly contribute to the difference in results.

In contrast to the high score observed for the five-year financial highlights statement, with the exception of Firer and Meth (1986), two other prior studies reported relatively low percentage of companies disclosing items similar to the five-year financial highlights statement in the annual reports. Firer and Meth (1986) had an item called 'historical summary of important operating and financial data' which was ranked eighth out of 46 items in actual disclosure in annual reports. 'Financial summary for more than five years' was disclosed by only 14% of companies in Ho and Wong (2001a) while 'financial statistics for more than two years' was disclosed by 18% of sample companies in Naser and Nuseibeh (2003a).

The relatively high percentage of companies that disclosed this item in the present study could be due to a number of factors. Firstly, the KLSE Corporate Awards lists 'financial highlights and historical summaries' as one of their adjudication merit criteria.[87] Other criteria used include 'clear and comprehensive commentaries on the performance, operations and prospects of the company. That may provide some explanation for the high level of disclosure observed in respect of the five-year financial highlights statement and the review of operations by division - turnover.[88] Secondly, the disclosure of review of operations by division - turnover can be regarded as 'voluntary related to mandatory' (see sections 4.5, 4.7.1.1 (5) and Appendix 4-D). Thus the high percentage of companies that disclosed this item can be expected. Thirdly, the high percentage of companies disclosing the five-year financial highlights statement could also be attributable to the item being commonly disclosed such that it might have resulted in a 'bandwagon effect' among Malaysian listed companies (see [C8.73] in Chapter 8 on the comments made by a financial controller where 'five-year financial highlights' was mentioned as an item voluntarily disclosed by most companies). Companies might have felt compelled to provide this information as non-disclosure could be interpreted as having something to hide or not following the common practice. Data availability is perhaps another contributing factor. Yearly financial highlights such as PAT, ROCE, EPS and NTA

[87]Source: KLSE Corporate Awards: Adjudication Criteria
http://www.klse.com.my/website/listing/corpawards/criteria.htm 06/06/02

[88] These two items were also graded 9 by the investment analyst whose opinion was sought in constructing the checklist (see Appendix 4-C).

can be expected to be compiled by most companies for internal purposes. Hence the marginal cost of providing this information in the annual report could be expected to be quite low.

Market capitalisation does not appear to be disclosed by a majority of companies. Other market related information such as volume of shares traded and domestic and foreign shareholdings were also not disclosed by quite a substantial number of companies. The reason for this is probably because the information can be obtained from other sources such as the KLSE website [89], KLSE Annual Companies Handbook[90] and Investors Digest[91]. A rather similar pattern of disclosure was also reported by Ho and Wong (2001a) where financial ratios and share price information and analysis were disclosed by 32.0% and 5.3% of companies investigated respectively.

5.4.2 Strategic information

Discussion of major types of product appears to be the item most disclosed (86.2%) in this category, followed by acquisitions and expansions (77.6%) and discussion of factors affecting a company's future prospects (74.7%). The three items least disclosed in this category are general discussion of future industry trend (8.1%), statement of strategy/ objectives (10.3%) and improvement in customer service (25.3%).

Description of major products produced/services was one of the five items disclosed by more than 80.0% of the New Zealand companies surveyed in McNally et al. (1982). The item was ranked first in Firer and Meth (1986) in terms of number of companies that disclosed the item. Ho and Wong (2001a) found that 60.2%[92] of company annual reports included in their study provided information on description

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[89] http://www.klse.com.my This website also provides links to other websites which provide KLSE market information. These websites provide daily information on stock market performance.

[90] A yearly handbook which provides financial and related information on companies listed on the KLSE.

[91] A monthly publication of the KLSE.

[92] In terms of ranking by percentage of companies that disclosed the item, this item was ranked second in Ho and Wong (2001a).

of company products and services. Naser and Nuseibeh (2003a) also reported that 95.0% of companies investigated disclosed information on different types of products in their annual reports. Thus the extent of disclosure of this item observed in this study may be said to be generally consistent with those documented in prior research.

Information on acquisitions and expansions, specifically reasons behind those corporate developments are also commonly provided perhaps to support related mandatory requirements. For example, MASB 11 requires the disclosure of the effect of acquisitions and disposals of subsidiaries on the financial results of the group. This requirement became operative for financial statements covering periods beginning on or after 1 January 2000.[93] Similarly, MASB 5 requires the disclosure of cash flows arising from acquisitions and disposals of subsidiaries. This requirement became operative for financial statements covering periods beginning on or after 1 July 1999.[94] If voluntary disclosure is provided to support mandatory requirements, then this implies that the interaction between mandatory and voluntary disclosures may provide an explanation for variations in the extent of disclosure for different items of information.

Although the KLSE Listing Requirements stipulates the disclosure of the company's prospects in the annual report, no guideline is given on what the discussion should focus on or the depth of the discussion. Companies are thus left to decide how much detail they are willing to provide in the annual report. Discussion of factors affecting a company's future prospects is one of the items that can be regarded as 'voluntary related to mandatory' (see sections 4.5, 4.7.1.1 (5) and Appendix 4-D). Hence it is not surprising that a high proportion of companies investigated disclosed this information in their annual reports. Firer and Meth (1986) had an item 'discussion of factors which will influence next year's results including an indication of the firm's relationship to its industry and the economy' which is similar to the definition provided by discussion of factors affecting a company's future prospects in this study

[93] Source: MASB 11 paragraphs 47(b)(iv) and 49.
[94] Source: MASB 5 paragraphs 39 - 42 and 53.

(see Appendix 4-C). The item was ranked second in terms of importance by both investment analysts and directors surveyed and ranked fourth in terms of actual disclosure in annual reports in Firer and Meth (1986). In this study, this information was given a rating of 8 by the investment analyst whose opinion was sought in refining the checklist (see Appendix 4-C).There is thus some support from prior research for the results observed in respect of this item. The high percentage of companies providing this information in the annual reports may indicate that companies do to a certain extent, respond to the information needs of users of annual reports.

In contrast, the low level score attained by general discussion of future industry trend is quite unexpected as this information can be regarded as closely related to 'industry trend and development' which is an information required by the revised KLSE Listing Requirements 2001 (KLSE, 2001; Appendix 9C-02 paragraph 69a).[95] This suggests that companies choose what they want to disclose. Perhaps sensitive information such as 'future industry trend' and 'statement of strategy/ objectives' which involve company strategic position are less disclosed for fear of giving a wrong prediction, for fear of competitors' reactions or that the cost of providing the information was too high (Firer and Meth, 1986).

5.4.3 Corporate social responsibility

The items in this category which were disclosed by most companies in this thesis are policy on training (50.6%), followed by community programs (39.1%) and charitable donations (36.8%).[96] Even the Statement on Internal Control which is a mandatory disclosure for companies with financial year ending after 31 December 2001 (see section 3.5.4.1) scored low at 14.9%. That seems to reject the idea of Malaysian companies as early adopters of regulatory requirement. Information items least

[95] Annual reports issued on or after 1 June 2001 are to comply with this requirement.
[96] Support of charitable projects, provision of scholarship and other community relations efforts are among the adjudication criteria used in evaluating companies for the KLSE Corporate Awards. Other factors considered include training and development programmes for employees, incentive schemes as well as adequate health, safety and protection measures for employees in the work place.
http://www.klse.com.my/website/listing/corpawards/criteria/htm 06/06/02

disclosed are breakdown of employees by ethnic origin, level of qualification and line of business.

As mentioned in section 5.2.2, the range of disclosure for this category is between 5.9% and 82.4%. Haniffa (1999) who examined 134 Malaysian company annual reports for the year 1994 reported social disclosure ranging from 2.4% to 53.7%. On the basis of minimum and maximum level of disclosure, it may be said that the present results show an increase in the level of social information disclosed in annual reports. The present results indicate that comparatively more social information was provided in company annual reports for the year 2001.

In terms of number of companies making social disclosure in annual reports, the present study shows a higher percentage (59 companies [68%]) compared to a previous study by Andrew et al. (1989). In their study on 119 Malaysian and Singapore companies, Andrew et al. (1989) reported only 31 (26%) companies made some disclosure on their social activities in the annual reports. A lower extent of disclosure was also reported by studies that examined managerial perceptions of corporate social reporting in Malaysia (Teoh and Thong, 1984; and Rashid and Ibrahim, 2002) (see Table 2-6 in Chapter 2). This appears encouraging but the present finding that 28 companies did not disclose any corporate social responsibility information in their annual reports casts some doubts on whether Malaysian managers are aware of the concept of corporate social responsibility. Although the study by Ahmad and Rahim (2003) on Malaysian companies reported that 27 out of 29 Malaysian managers surveyed rated their companies as either 'aware' or 'highly aware' of the concept of corporate social responsibility, the response rate was very low with only 29 out of 250 managers replying to the questionnaire.

Nonetheless, disclosure in annual reports should not be regarded as a conclusive measure of corporate disclosure. Teoh and Thong (1984) and Rashid and Ibrahim (2002) reported that the percentage of companies disclosing their social activities in the annual reports was much less than the extent of social involvement indicated by each company (see section 2.6.3). It was also reported in Teoh and Thong (1984) that

some companies did not include social information in their annual reports because the information was reported through newsletters and company magazines or because companies could see no reason for disclosing this information in the annual reports (see Table 2-6[1e] in Chapter 2). This also suggests that the amount of social information disclosed in annual reports should not be taken as the absolute measure or indication of a company's involvement in social activities.

Comparison of results on an item by item basis shows some similarities between this study and Ahmad and Rahim (2003). In that study, the three items regarded by most respondents to be important areas of corporate social responsibility are 'proper working conditions', 'donations to support community services' and 'sponsorship of public community activities' (see Table 2-6[6c] in Chapter 2). 'Training employees' is the next area regarded as constituting a part of being socially responsible. Three of those four items are also the items disclosed by most companies (in the category of corporate social responsibility) investigated in the present study. The high score for 'policy on training' observed in the present study may be explained by the importance attached to employee training by the Malaysian government.[97] As part of the steps taken by the government to boost economic recovery, employers are encouraged to increase training and retrain their workers to upgrade the workforce in various sub-sectors.

The mean percentage of companies disclosing corporate social responsibility information in the annual reports is 20.2%. Four out of seven (57%) social and environmental information scored more than the mean but only four out of 10 (40%) of employee information scored more than the average. The mean percentage of companies disclosing social and environmental information is also higher at 23.5% compared to employee information at 17.8%. The three highest ranked items in this category are policy on training, community programs and charitable donations (see Appendix 5-A). The high ranking of community programs and charitable donations (consistent with Ahmad and Rahim, 2003; see paragraph above) suggests that more companies provided information on philanthropic activities, rather than information

[97] Source: Ministry of Human Resources, Malaysia http://www.jaring.my/ksm/ncrp.htm 18/09/02

about employees (apart from policy on training) in annual reports. That could imply that public accountability is becoming an important agenda for corporate social disclosure in Malaysian companies. This finding is not consistent with Andrew et al. (1989) and Haniffa (1999) who observed human-resources theme to be the most prevalent area among all social disclosures in annual reports. Teoh and Thong (1984) also reported that human resources were the theme of social disclosure most disclosed as indicated by the majority of company chief executives interviewed. In contrast, 'community involvement' was ranked either third or fourth in these three studies (see Table 2-6 in Chapter 2).

The difference in results could be attributable to a number of factors. Teoh and Thong (1984) and Andrew et al. (1989) examined Malaysian corporate social disclosure practice in the '80s, a period when the NEP was still in operation. This policy was implemented to restructure the society, in particular to reduce income imbalances among the major ethnic groups and to ensure Bumiputra corporate ownership of at least 30% (see section 3.3.1). The relatively higher disclosure of employee related information during that period could be a response to the emphasis placed by the Malaysian government on eradicating poverty, narrowing income imbalances and improving the quality of life. Perhaps the level of importance attached to employee-related information has not decreased over the years but philanthropic activities are given more attention than in previous years. That could also partly explain the higher proportion of companies disclosing philanthropic activities in this study compared to Haniffa (1999).[98] The relatively higher scores for philanthropic activities are not surprising given that the disclosure of these items can put companies in a better light such as improving a company's image. It has been suggested that creating a positive image can contribute to a company's competitive advantage because people are more prepared to do business with a company that portrays a positive image (Hooghiemstra, 2000). The fourth ranked item in the corporate social responsibility category in this thesis is environmental policy. This is another type of information that has been suggested to be provided by companies to manage public impression (Neu et al., 1998).

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[98] The percentage of companies disclosing participation in government social campaign and community programs in Haniffa (1999) was 18.0% and 15.8%.

Information on employees (ethnic origin, qualification and line of business) was each graded 6 by the investment analyst (see Appendix 4-C). The senior manager at the KLSE was also unsure of the significance of disclosure of this information to investors (see Appendix 4-D).[99] The low level of scores observed for employee information reinforces the view of the two experts that these items are not considered as important as other types of information to be disclosed in company annual reports. It is also possible that information on ethnic breakdown involves sensitive issues and breakdown by line of business may give some indication of the competitiveness of each sector of the company activities. That may partly explain the low percentage of companies disclosing these items in the annual reports.

5.5 Summary and conclusions

The examination of voluntary disclosure in annual reports of companies selected for analysis showed a range of disclosure level from as low as 6.3% to a maximum of 74.0% (see Table 5-1). Further investigation into sub-categories of information revealed that corporate social responsibility disclosure is the category least disclosed by companies included in this study. A total of 28 companies did not disclose any corporate social responsibility information in their annual reports. In contrast the lowest score for financial information was 10.5% and that for strategic information was 7.7% (see Table 5-2). These findings imply that corporate social responsibility information disclosure in annual reports is given less attention by Malaysian companies as compared to financial and strategic information.

Examination by item of information showed that financial and strategic information are disclosed by a higher proportion of companies investigated in this study. Appendix 5-A shows that none of the corporate social responsibility items is included in the top ten items disclosed by companies investigated. This finding can be expected because users of annual reports such as analysts and stockbrokers regard social and environmental disclosures to be of minimal value to their decision making

[99] It was decided to include information on employees in the final checklist as this study is not focusing on any particular user needs of information (see section 4.7.1.1(6)).

process (Deegan and Rankin, 1997; and Milne and Chan, 1999) (see section 2.6.1). The findings that financial and strategic information were disclosed by a higher percentage of companies perhaps imply that the provision of additional information in company annual reports is determined largely by market pressures. Companies competing for additional capital may be motivated to provide additional information to reduce information asymmetries in the market thereby making company shares more attractive. Companies with a larger number of analysts following may disclose more information to satisfy the information demand by analysts (Lang and Lundholm, 1993). It would appear that in this context, capital need theory and information costs theory provide the motivation for companies to disclose additional financial and strategic information.

The analysis (see sections 5.4.1 and 5.4.2) also suggested that the interaction between mandatory and voluntary disclosure may also explain some of the variation in the extent of information disclosure in the financial and strategic category. Additionally market expectations, common practice resulting in 'bandwagon effect' (Cooke, 1989 & 1991) and costs factors (Buzby, 1975; and Firth, 1979) were also suggested in the analysis as possible reasons for financial disclosure. With regards to items which scored relatively low level of disclosure, the existence of other and better sources of corporate information was proposed as one of the reasons. Stock market information such as volume of trade, market capitalisation and geographical distribution of shareholdings in Malaysia can also be obtained from the KLSE Annual Companies Handbook and the Investors Digest. The low level of score observed in respect of information that can be regarded as sensitive in nature such as 'statement of strategy and objectives' may be attributable to fear of competitors' reactions. Proprietary costs of disclosure depend on industry competitiveness (Verrecchia, 1983). Hence companies in more competitive industries may be expected to have less incentive to disclose strategic information. That suggests the application of proprietary costs theory in explaining voluntary strategic information disclosure.

This study found that corporate social responsibility information is the category least disclosed in company annual reports investigated. The fact that there was still a number of companies not disclosing any social information in annual reports implies that perhaps awareness of the concept of corporate social responsibility among Malaysian managers is still rather low (see section 5.4.3). However, the amount of corporate social responsibility information disclosed in annual reports should not be taken as a conclusive measure for a company's extent of social activities. That is because non-disclosure does not necessarily mean non-involvement in socially responsible activities but may be due to other factors such as the information being disseminated through other forms of corporate communication (Teoh and Thong, 1984; and Rashid and Ibrahim, 2002) [see also Table 2-6 in Chapter 2]. The results also showed that philanthropic activities are gaining more attention probably because the image it portrays can put companies in a better light. This suggests that political costs theory may help explain corporate social responsibility disclosure in Malaysian companies.

This chapter has assessed the extent of voluntary information disclosure in corporate annual reports. The wide range of disclosure indices computed indicates that companies differ in their voluntary disclosure policy. That raises the question of what factors influence a company's voluntary disclosure policy in their annual reports. The next chapter reports the results of regression analysis examining the association between the extent of voluntary disclosure in annual reports and variables identified in section 4.8 in this thesis.

APPENDIX

5-A: The extent of voluntary disclosure by item of information

		No of Companies			
		**Appl.*	**Discl.*	%	Rank
A.	**FINANCIAL INFORMATION**				
I.	**General corporate information**				
1	5-year financial highlights	87	83	95.4	1
II.	**Specific corporate information**				
2	Overview of economic performance	87	29	33.3	18
III.	**Review of operations**				
3	Review of operations by division-turnover	87	69	79.3	4
4	Review of operations by divisions-operating profits	87	43	49.4	12
5	Review of operations by divisions-productivity	87	34	39.1	13
IV.	**Segmental information**				
6	Geographical production	21	2	9.5	42
7	Line of business production	52	13	25.0	32
V.	**Financial ratios**				
8	Profitability ratio	87	34	39.1	13
9	Gearing ratio	87	13	14.9	39
10	Liquidity ratio	87	5	5.8	49
11	NTA per share	87	64	73.6	7
12	Dividend yield	83	6	7.2	46
VI.	**Market related information**				
13	Stock Exchanges where shares are traded	87	71	81.6	3
14	Volume of shares traded (trend)	87	15	17.2	34
15	Volume of shares traded (year-end)	87	15	17.2	34
16	Share price information (trend)	87	29	33.3	18
17	Share price information (year-end)	87	23	26.4	30
18	Market capitalization (year-end)	87	4	4.6	51
19	Domestic and foreign shareholdings	87	15	17.2	34
20	Distribution of shareholdings (type)	87	14	16.1	38
B.	**STRATEGIC INFORMATION**				
I.	**General corporate information**				
21	Brief history of company/company profile	87	25	28.7	25
22	Corporate vision and mission	87	26	29.8	22
23	Corporate structure	85	47	55.3	9
II.	**Specific corporate information**				
24	Statement of strategy/objectives	87	9	10.3	41
25	Significant events calendar	87	24	27.6	28
26	Acquisitions and expansion	49	38	77.6	5
27	Disposals and cessation	46	25	54.4	10
III.	**Chairman's Report**				
28	General discussion of future industry tend	87	7	8.1	44
29	Discussion of factors affecting a company's future prospects	87	65	74.7	6
IV.	**Product/Service information**				
30	Discussion of major types of products/ services/ projects	87	75	86.2	2
31	General discussion of market share of products/ services	87	26	29.9	22

32	Improvement in product quality	87	32	36.8	16
33	Improvement in customer service	87	22	25.3	31
34	Distribution of marketing network for finished products	87	27	31.1	21
35	Awards/ ratings received	87	29	33.3	18
V.	**Research and Development**				
36	Discussion of company's R&D activities	29	20	69.0	8
C.	**CORPORATE SOCIAL RESPONSIBILITY**				
I.	**Employee information**				
37	Breakdown of employees by line of business	87	4	4.6	51
38	Breakdown of employees by level of qualification/ exec v non	87	5	5.8	49
39	Breakdown of employees by ethnic origin	87	3	3.5	53
40	Employees appreciation	87	25	28.7	25
41	Policy on training	87	44	50.6	11
42	Amount spent on training	87	7	8.1	44
43	Number of employees trained	87	15	17.2	34
44	Discussion of employees welfare	87	21	24.1	33
45	Safety policy	87	25	28.7	25
46	Information on accidents at workplace	87	6	6.9	47
II.	**Social and Environmental information**				
47	Statement on Internal Control	87	13	14.9	39
48	Value Added Statement	87	6	6.9	47
49	Product safety	87	8	9.2	43
50	Environmental policy	87	26	29.9	22
51	Charitable donations/ sponsorship	87	32	36.8	16
52	Participation in government social campaign	87	24	27.6	28
53	Community programs (health and education)	87	34	39.1	13

Key:
**Appl - applicable; Disc - disclosed*
R&D - Research and Development

The following are the criteria used to decide on non-applicability of items to companies;

1. Geographical production – companies with no material operations overseas.
2. Line of business production – companies which provide services such as those in the telecommunication services, airport maintenance services, hotels, shipping companies, retailers, and gaming.
3. Dividend yield – four companies did not declare any dividends during the financial-year 2001. This information was obtained by referring to the Income Statement in the annual reports.
4. Corporate structure – two companies did not have any subsidiaries or associates. This was deduced by the fact that these two companies did not prepare consolidated financial statements. Reference was also made to the notes to the accounts in the annual reports.
5. Acquisitions and expansion/ Disposals and cessation – reference was made to the notes to the accounts especially items a) Profit before tax and b) Acquisitions and Disposals to determine whether any acquisition or disposals were made during the year
6. R & D activities – reference was made to the notes to the accounts especially items a) Profit before tax to see if any R & D expenditure was incurred during the year, and b) Subsidiary and Associate companies to see if any of these companies' principal activities were in R & D.

CHAPTER 6: STATISTICAL RESULTS AND ANALYSIS

6.1 Introduction

This chapter answers SRQ2 and SRQ3 which are as follows;

SRQ2: ***Which variables are statistically significant in explaining variations in voluntary disclosure levels in annual reports of companies investigated?***

SRQ3: ***How may the variations in the level of annual reports voluntary disclosure of these companies be explained in terms of the Malaysian culture and economic environment and the relevant theoretical frameworks?***

SRQ2 seeks to identify factors that are significantly associated with the variation in the level of voluntary information disclosed in corporate annual reports. To answer this question, statistical techniques of correlation and multiple regression are undertaken. The analysis is first conducted by examining the effect of each individual variable on the voluntary disclosure index (univariate analysis) and secondly by examining a number of independent variables simultaneously (multivariate analysis) to determine their joint effect in explaining voluntary disclosure pattern among companies. Section 6.2 reports the results of univariate analysis while section 6.3 describes the multivariate analysis. The regression results are presented in section 6.4. In both types of analysis, a two-stage evaluation is carried out, the first to identify factors influencing total voluntary disclosure. The investigation of factors affecting sub-categories of information (financial, strategic and corporate social responsibility) follows. The two-stage evaluation process helps in determining whether variables that are statistically significant or non-significant in the total disclosure model prove the same in the sub-category disclosures.

SRQ3 is answered by analysing and interpreting the statistical output within the context of the Malaysian business environment and the relevant theoretical frameworks. Comparisons are also made to prior research. All variables (significant and non-significant) investigated in this study are discussed in turn according to the categories (ownership structure in section 6.5, corporate governance in 6.6, culture in

6.7 and company-specific in 6.8) specified during the development of hypotheses. Discussion in this manner highlights the types of factors that predominantly explain voluntary disclosure practice in Malaysian corporate annual reports. Section 6.9 summarises and concludes the chapter.

6.2 Univariate analysis

The descriptive statistics for the continuous independent variables included in this study are shown in Appendix 6-A. To examine the correlation between the dependent variable (voluntary disclosure indices) and continuous independent variables, *Pearson* product moment correlation coefficients (r) were computed. Correlation coefficients were computed for both untransformed and normal scores data for comparative purposes.[100] As mentioned in section 4.9.3, untransformed data were also tested using non-parametric Spearman's Rank Order (rho) correlation. The statistical outputs of the three correlation analysis presented in Table 6-1 show consistent results in respect of the following variables;

1. The proportion of shares held by executive and non-independent directors, the proportion of family members on the board and the proportion of Malay directors on the board are significant at the 1% level.
2. The proportion of shares held by the ten largest shareholders, the proportion of shares held by government institutions and number of employees are significant at either the 1% or the 5% level.
3. The proportion of foreign ownership, the proportion of independent non-executive directors and gearing are not significant at the 1% and the 5% level.

Results regarding profitability are mixed. While the normal scores and Spearman's (rho) indicate profitability to be significant at the 1% level, the variable is not observed to be a significant factor explaining voluntary disclosure in the Pearson correlation analysis using untransformed data.

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[100] See section 4.9.1 in Chapter 4 for tests on data normality.

The statistical results above also show that all variables are consistent in terms of direction of association with the total disclosure indices. The univariate analysis indicate that the proportion of shares held by the ten largest shareholders, the proportion of Malay directors on the board, number of employees and to a lesser extent government ownership and profitability, are significant and positively associated with the extent of voluntary disclosure in annual reports. The proportion of shares held by executive and non-independent directors and the proportion of family members on the board are significant and negatively associated with the extent of total voluntary disclosure in annual reports of companies included in the KLSE Composite Index.

Table 6-1: Correlations between continuous independent variables and total disclosure indices

Independent Variables	Untransformed (Pearson)	Normal Scores	Untransformed (Spearman's rho)
OwnTen (%)	.217**	.319***	.300***
DirOwn (%)	-.439***	-.438***	-.486***
GovtOwn (%)	.329***	.249**	.239**
ForOwn (%)	-.041	-.026	-.029
FamD (%)	-.372***	-.430***	-.422***
IndNED (%)	.057	.004	.036
MalayD (%)	.336***	.341***	.368***
Employ	.400***	.313***	.238**
Prof	.172	.281***	.339***
Gear	.114	.198	. 209

statistically significant at the 1%*** or the 5%** level

In contrast, the weak correlations between disclosure indices and the proportion of foreign ownership, the proportion of independent non-executive directors on the board and gearing suggest that these variables do not relatively influence voluntary information disclosure in annual reports.

To determine whether the categorical variables included in this study have an impact on the overall level of voluntary disclosure, two statistical tests were performed. These were the independent-samples *t* test and the non-parametric Mann - Whitney *U* test. The results of the independent-samples *t* test presented in Table 6-2 suggest

that there is not a statistically significant difference (Sig. two-tailed >.05)[101] between the mean voluntary disclosure index of companies with independent and non-independent Chairman. This implies that an independent Chairman does not significantly influence the extent of voluntary disclosure in corporate annual reports. This result could partly be attributable to sample data that is not symmetrically distributed. Nonetheless, the Mann - Whitney U test which yields a z value of -0.913 (p=0.361) supports the results of no significance observed in the independent-samples *t* test.

Table 6-2: T-test and Mann-Whitney U test for categorical independent variables

		Chairman		
	Independent	***Non-Independ***	**t-value**	**2 tailed prob**
N	22	65	0.570	0.570
Mean	0.3311	0.3088		
Std deviation	0.1325	0.1664		
Mann-Whitney *z* = -0.913	2 tailed probability 0.361			
		Regulatory change		
	On or before 30/06/01	**After 30/06/01**	**t-value**	**2 tailed prob**
N	32	55	0.198	0.844
Mean	0.3100	0.3170		
Std deviation	0.1673	0.1540		
Mann-Whitney *z* = -0.471	2 tailed probability 0.638			
		Industry Type		
	Manufacturing	***Non-Manuf***	**t-value**	**2 tailed prob**
N	30	57	-1.500	0.137
Mean	0.2796	0.3327		
Std deviation	0.1291	0.1696		
Mann-Whitney *z* = -1.429	2 tailed probability 0.153			

These statistical tests were also conducted on regulatory change and industry type. As shown in Table 6-2, there is no significant difference in the mean disclosure scores between companies with financial year ending before or on 30 June 2001 and

[101] A probability value (p) of </= .05 suggests statistically significant difference in the mean dependent variable scores between the two groups of independent variables (Pallant, 2001; p. 180).

after 30 June 2001 (Sig. = 0.844). The results regarding industry type also show non-significant difference in the mean disclosure score (Sig. = 0.137). In both cases, the non-significance is supported by the Mann - Whitney *U* tests.

6.3 Multivariate analysis

As mentioned in section 4.9.4, multiple regression analysis was applied to shed light on the joint effects of the independent variables on the dependent variable. A multiple regression model can also identify variables which, when combined in one regression equation, are the statistically best predictors of the dependent variables.

6.3.1 The regression model

The full regression model[102] is as follows;

$$VDI = \beta_0 + \beta_1 OwnTen + \beta_2 DirOwn + \beta_3 GovtOwn + \beta_4 ForOwn + \beta_5 FamD + \beta_6 IndNED + \beta_7 ChairInd + \beta_8 FYE + \beta_9 MalayD + \beta_{10} Size + \beta_{11} Prof + \beta_{12} Gear + \beta_{13} Indus + \varepsilon$$

[102] Some company specific variables which had been included in the analysis during the early stages of this research were finally excluded. They were auditor type, international listing, number of shareholders, assets-in-place, market capitalisation, turnover and total assets. Auditor type was excluded because 74 out of the 87 companies investigated in this study were audited by Big-Fives. International listing was excluded because only three companies had foreign listings. Number of shareholders and assets-in-place were excluded because they were not statistically significant and their inclusion did not increase the explanatory power of the regression models. Market capitalisation, turnover and total assets were excluded because they were highly correlated with one another and with many other independent variables. Number of employees was retained as the size measure because the variable was not highly correlated with the other independent variables. Appendix 6-B shows operationalisation and data source for the independent variables considered in this study.

Where;

Table 6-3: The regression variables

Variable	Definition
VDI	Voluntary Disclosure Index
$\beta_0 \ldots\ldots \beta_{13}$	Regression coefficients
Ownership structure	
OwnTen	Proportion of shares held by the ten largest shareholders
DirOwn	Proportion of shares held by executive and non-independent directors
GovtOwn	Proportion of government shareholding
ForOwn	Proportion of shares held by foreigners
Corporate governance	
FamD	Proportion of family members on the board
IndNED	Proportion of independent directors on the board
ChairInd	Independent Chairman
FYE	Financial year-end
Cultural	
MalayD	Proportion of Malay directors on the board
Company-specific	
Size	Number of employees
Prof	Profitability
Gear	Gearing
Indus	Type of industry
ε	Error term

6.3.2 Multicollinearity

The degree of collinearity among the independent variables, computed using normal scores[103] is shown in Appendix 6-C. It can be seen from the table that the highest Pearson correlation coefficient is between government ownership and the proportion of shares held by the ten largest shareholders ($r = 0.567$). Government ownership is also highly correlated with the proportion of Malay directors on the board ($r = 0.526$) and both combinations show correlations significant at the 1% level. These coefficients are however below the cut-off point of 0.70.[104] Nonetheless it was decided to run a separate regression for government ownership and another incorporating the proportion of shares held by the ten largest shareholders and the proportion of Malay directors on the board. Prior research on accounting disclosure

[103] Normality is discussed in section 4.9.1 and normal scores in section 4.9.2.2.
[104] See section 4.9.4.1 for the discussion on the cut-off point for multicollinearity.

studies has mostly included only one of the highly correlated variables in each of their regression equations. [105]

The high correlation between the proportion of shares held by the ten largest shareholders and government ownership suggests that in the Malaysian context, these large block shareholders are usually government institutions. The high association between the proportion of Malay directors on the board and government ownership is not unexpected because the majority of government civil servants in Malaysia are Malays. Hence government tends to appoint Malays to represent the government's interests on corporate boards.

However, a certain degree of multicollinearity can still exist even when the correlation coefficients are relatively small. Another means of testing multicollinearity is to compute the VIF. [106] VIF is reported in the next section.

6.4 Regression results

This section first analyses the regression results on total voluntary disclosure. The analysis in respect of regression on types of voluntary information disclosure follows. The discussion in respect of categories of variables considered in this study is presented in sections 6.5 to 6.8.

6.4.1 Total voluntary disclosure

The regression analysis was run using the standard multiple regression on SPSS. The standard multiple regression involves all the independent variables being entered in

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[105] Examples of these studies include Cooke (1989, 1991), Wallace et al. (1994), Inchausti (1997), and Suwaidan (1997). Their correlations were however higher than 0.70. Leventis (2001) included one size measure in each of his regression equation because some of the correlations between the size measures were slightly less than 0.6. Inclusion of variables that are highly correlated in one equation can result in one of the variables reporting non-significance even though its significance has been widely documented in prior research. For example, Patton and Zelenka (1997) partly attributed their finding of non-significance of the log of assets variable to the fact that variables that were highly correlated with log of assets were also included in the same model. In that study, log of assets was observed to be highly correlated with the number of employees (r=0.565). Both variables were included in the same regression and only number of employees was found to be significant.

[106] VIF is estimated by the following equation: $VIF = 1/(1-R^2)$ where R^2 is estimated by regressing each independent variable on all other independent variables (Gujarati, 1999; p. 325).

the equation (Pallant, 2001; p. 140). To accommodate for the highly correlated variables, separate regression combinations were run. Variables correlated at r = 0.50 or more were tested alternately. Thus, government ownership does not appear in the same model as ownership by the ten largest shareholders or the proportion of Malay directors on the board (r > 0.50). The model reported here is the one that produced the highest adjusted R squared. The alternative model is presented in Appendix 6-D.

Table 6-4 shows that the largest VIF is 2.022 and the VIFs of all other independent variables are below 2. Collinearity is considered a problem only when VIF exceeds 10 (Neter, et al., 1983; p. 392; and Gujarati, 1995; p. 339). These results further support the lack of presence of multicollinearity in the regression model.

Table 6-4: Standard multiple regression results[107] for total voluntary disclosure

Adjusted R^2			38.2 %		
F statistics			5.660		
Significance			0.000		
Variables					
	Beta	t value	Significance	Tolerance	VIF
Constant		1.204	.232		
Ownership structure					
DirOwn	-.345	-3.134	.002***	.613	1.631
GovtOwn	-.102	-0.835	.406	.495	2.022
ForOwn	-.011	-0.097	.923	.589	1.699
Corporate governance					
FamD	-.236	-2.313	.024**	.713	1.402
IndNED[108]	-.098	-1.005	.318	.791	1.264
ChairInd	.078	0.748	.457	.693	1.444
FYE	-.032	-0.341	.734	.837	1.194
Company-specific					
Employ	.344	3.614	.001***	.823	1.215
Prof	.240	2.668	.009***	.918	1.089
Gear	.087	0.926	.357	.852	1.174
Indus	-.238	-2.521	.014**	.833	1.201

Coefficients are shown as significant at the 1%*** or the 5%** level

[107] SPSS 10.0 was used for the statistical analysis in this study.

[108] IndNED was also tested using a dichotomous procedure, i.e. by classifying whether the company's indNED is at least two or one-third (whichever is the higher) or otherwise. The results regarding independent directors using this procedure (on all regression models) remain statistically not significant.

As shown in Table 6-4, the model in respect of total voluntary disclosure which incorporates eight continuous and three categorical variables is significant ($p = .000$) with an adjusted R squared of 38.2%. This means that 38.2% of the variation in voluntary disclosure level in annual reports of companies investigated in this study can be explained by the eleven variables specified in the model. The explanatory power of this model is comparable to that of Raffournier (1995) [42%], lower than Depoers (2000) [53.76%], Leventis (2001) [50.9%] and Haniffa and Cooke (2002) [47.9%] but higher than Patton and Zelenka (1997) [24.3%], Hossain et al. (1994) [28.6%] and Ho and Wong (2001a) [31.4%].[109]

The proportion of shares held by executive and non-independent directors, number of employees and profitability are significant at the 1% level while the proportion of family members on the board and type of industry are significant at the 5% level, all in the predicted direction. The negative signs for the proportion of shares held by executive and non-independent directors, the proportion of family members on the board and industry type imply that companies in which the executive and non-independent directors held a higher proportion of shares, companies with a higher ratio of family members on the board and manufacturing companies disclose significantly less voluntary information in their annual reports. Companies with a larger number of employees and more profitable companies disclose significantly more information in annual reports than their counterparts. Thus the null hypotheses of H_2 (see section 4.8.1.2), H_{10} (see section 4.8.4.1) and H_{11} (see section 4.8.4.2) are rejected at 1% significance, H_5 (see section 4.8.2.1) and H_{13} (see section 4.8.4.4) are rejected at the 5% significance.

To assess the contribution of each independent variable, the Beta value under Standardised Coefficients is next referred to. The standardised coefficients represent

[109] A higher adjusted R squared (44.1%) can be obtained using market capitalisation as an additional independent variable in the standard multiple regression model (see Appendix 6-F). This combination was not chosen because the results of incorporating market capitalisation in a stepwise regression show that only market capitalisation and the proportion of family members on the board are statistically significant. The other variables found significant in the standard multiple regression lose their significance in the stepwise regression (see Appendix 6-G) Stepwise regression is discussed in section 6.4.1.1.

values of each variable converted to the same scale so as to enable comparison among them (Pallant, 2001; p.146). In the present model, the largest beta coefficient is -0.345 that is for the proportion of shares held by executive and non-independent directors. This means that the proportion of shares held by executive and non-independent directors makes the strongest contribution to explaining the dependent variable, when the variance explained by all other variables in the model is controlled for, followed by number of employees (beta = 0.344), profitability (beta = 0.240), industry type (beta = -0.238) and the proportion of family members on the board (beta = -0.236).

6.4.1.1 Stepwise regression model

As an alternative to the standard multiple regression, a stepwise regression model was also run for comparison of results. In a stepwise regression, variables are added to (and subtracted from) the equation one at a time (Kinnear and Gray, 2000: p.291). Variables are added one at a time, provided they meet an entry criterion and removed one at a time if they do not meet the retention criteria. In the SPSS stepwise regression routine, a variable that have been added at an early stage, may subsequently be removed. This study uses the defaults, which are .05 probability for entry and .10 probability for removal. Appendix 6-E shows the stepwise regression result on total voluntary disclosure incorporating all independent variables. It is evident from the table that the independent variables found to be statistically significant in the standard multiple regression, are also statistically significant in the stepwise regression. These results provide support for the significance of the proportion of shares held by executive and non-independent directors, the proportion of family members on the board, number of employees, profitability and industry type in determining voluntary information disclosure in Malaysian corporate annual reports.

6.4.1.2 Univariate and multivariate results for total voluntary disclosure

Table 6-5 summarises the statistical results of univariate and multivariate analysis using normal scores on the relationship between total voluntary disclosure indices and variables representing ownership structure, corporate governance, culture and company-specifics.

Table 6-5: Univariate and multivariate results

Variables	Significance level		Expected Sign	Sign observed	
	Univariate	*Multivariate*		*Univariate*	*Multivariate*
OwnTen	✓***	x	-	+	+
DirOwn	✓***	✓***	-	-	-
GovtOwn	✓**	x	+/-	+	-
ForOwn	x	x	+	-	-
FamD	✓***	✓**	-	-	-
IndNED	x	x	+/-	+	-
ChairInd	x	x	+/-	+	+
FYE	x	x	+/-	+	-
MalayD	✓***	x	+	+	+
Employ	✓***	✓***	+	+	+
Prof	✓***	✓***	+/-	+	+
Gear	x	x	+	+	+
Indus	x	✓**	+/-	-	-

✓ statistically significant at the 1%*** or the 5%** level

Consistent and significant results are observed between univariate and multivariate analysis in respect of the proportion of shares held by executive and non-independent directors, the proportion of family members on the board, number of employees and profitability.

The proportion of shares held by the ten largest shareholders, the proportion of foreign ownership, the proportion of Malay directors on the board, gearing and industry type show consistent direction of association. However industry type is only significant in the multivariate analysis. That probably implies that the combination of other variables in the multiple regression models have some sort of influence on the significance of industry type. In contrast, the proportion of shares held by the ten largest shareholders and the proportion of Malay directors on the board are only significant in the univariate analysis. This suggests that other variables are more significant in influencing total voluntary disclosure when all other variables are considered simultaneously in one regression run. The proportion of foreign ownership and gearing are not statistically significant in either the univariate or the multivariate analysis.

Of particular interest are the results regarding the variables for new governance initiatives. While the direction of association for independent chairman is consistent

between the univariate and multivariate analysis, the direction of association in respect of the proportion of independent directors and financial year-end is not consistent. None of the three variables (the proportion of independent non-executive directors, independent chairman and financial year-end) appears to be statistically significant in either the univariate or multivariate models. The non-significance of these variables perhaps implies that the inconsistent direction of association observed between the univariate and multivariate analysis is due to chance.

Another variable that show inconsistent direction of association with total voluntary disclosure indices is the proportion of shares held by government institutions. While government ownership shows statistically significant positive relationship in the univariate analysis, the variable is observed to be negatively associated with the extent of total voluntary disclosure but not statistically significant in the multivariate analysis.

All the variables tested in this study are discussed more in sections 6.5 to 6.8.

6.4.2 Disclosure by type of information[110]

The same steps taken in running the regression model for total voluntary disclosure were followed in identifying models with the highest explanatory power for each type of information disclosure. The model reported here is based on the combination of variables that produced the highest adjusted R squared. The alternative model based on standard multiple regression is presented in Appendix 6-D.[111]

[110] Pearson correlations between independent variables and disclosure indices for sub-categories of information disclosure in presented in Appendix 6-H.
[111] The stepwise regression results on sub-categories of voluntary information disclosure incorporating all independent variables are presented in Appendix 6-E.

Table 6-6: Standard multiple regression results for sub-categories of voluntary information disclosure

	Financial information			Strategic information			Corporate social responsibility information		
Adjusted R^2(%)	32.3			25.1			21.0		
F statistic	4.605			3.529			3.007		
Significance	0.000			0.001			0.002		
Variables									
	Beta	t	Sig.	Beta	t	Sig.	Beta	t	Sig.
Constant		0.932	.354		1.330	.188		0.965	.338
Ownership structure									
DirOwn	-.325	-2.815	.006***	-.262	-2.162	.034**	-.274	-2.197	.031**
GovtOwn	-.245	-1.910	.060*	-.158	-1.172	.245	.146	1.050	.297
ForOwn	-.226	-1.917	.059*	-.078	-0.633	.529	.189	1.488	.141
Corporate governance									
FamD	-.254	-2.373	.020**	-.106	-0.944	.348	-.122	-1.057	.294
IndNED	.004	0.039	.969	-.134	-1.251	.215	-.069	-0.632	.529
ChairInd	.082	0.760	.450	.155	1.361	.178	-.034	-0.291	.772
FYE	-.065	-0.662	.510	-.068	-0.651	.517	.023	0.212	.833
Company-specific									
Employ	.395	3.967	.000***	.319	3.051	.003***	.130	1.208	.231
Prof	.217	2.305	.024**	.282	2.844	.006***	.137	1.346	.182
Gear	.012	0.124	.902	.081	0.782	.437	.170	1.605	.113
Indus	-.125	-1.265	.210	-.311	-2.992	.004***	-.190	-1.777	.080*

Coefficients are shown as significant at the 1%***, 5%** or the 10%* level

As shown in Table 6-6, the models are also statistically significant for all three information types. However, the amount of explained variation in voluntary disclosure ranges from 21% in the case of corporate social responsibility information to 32.3% for financial information, with strategic information in between at 25.1%. It is also apparent from the table that the independent variables are not consistently statistically significant across information types. This finding provides support for the argument of Meek et al. (1995) that different factors are important in explaining voluntary disclosure of different types of information.

The proportion of shares held by executive and non-independent directors is the only variable consistently significant in all types of information disclosure. The negative relationship between the proportion of shares held by executive and non-independent directors and all three types of voluntary information disclosure suggests that companies in which executive and non-independent directors held a higher proportion of shares disclosed significantly less voluntary information in annual

reports than their counterparts. This finding supports Chau and Gray (2002) who reported that outsiders' interest (defined as shares not held by directors and dominant shareholders) to be significant and positively associated with the extent of voluntary information disclosure for all types of information in Hong Kong and Singapore listed companies (see section 2.5).

The proportion of family members on the board is significant and negatively associated with voluntary financial information disclosure. A significant and negative association between total voluntary disclosure was documented in prior study on Malaysian companies (Haniffa and Cooke, 2002). The significant negative association is also consistent with Ho and Wong (2001a) in respect of Hong Kong listed companies (see section 2.4.2).

Number of employees and profitability are significant and positively associated with the extent of voluntary and strategic information disclosure. Number of employees is used in thesis as a measure of company size. The findings suggest that larger companies as measured by number of employees and more profitable companies disclosed significantly more voluntary financial and strategic information in their annual reports. Company size was reported to be a significant variable influencing voluntary financial information disclosure in annual reports by Meek et al. (1995), Leventis (2001), Ferguson et al. (2002) and Chau and Gray (2002). However the significance of company size in influencing voluntary strategic information disclosure was documented only in Leventis (2001) and Ferguson et al. (2002).

Profitability was not found to be a significant variable in prior studies on sub-categories of voluntary information disclosure. However, Ng and Koh (1994) and Haniffa and Cooke (2002) documented significant positive association between profitability and the extent of total voluntary disclosure.

Manufacturing companies were not found to be a significant variable in prior research on sub-categories of information. However, the finding that manufacturing companies disclosed significantly less voluntary strategic information provides

support to Haniffa and Cooke (2002) who reported significant negative relationship between the extent of total voluntary disclosure and consumer and industrial products.

None of the two variables for new governance initiatives, the proportion of independent directors on the board and an independent chairman shows significant relationship in any type of information disclosure. Neither is the regulatory change in respect of the disclosure of Statement of Corporate Governance a significant variable influencing voluntary information disclosure. This suggests that efforts of the regulators in enhancing corporate governance, accountability and transparency did not immediately achieve the desired results.

Further discussion of the significance of each variable in influencing voluntary information disclosure is presented in the respective categories in sections 6.5 to 6.8.

Table 6-7: Explanatory power of regression models in prior studies on voluntary disclosure

Study	Country	Explanatory power (adjusted R squared)		
		Financial (%)	Strategic (%)	CSR (%)
Meek et al. (1995)	US, UK and CE	14.0	33.0	46.0
Leventis (2001)	Greece	27.7	52.0	37.6
and Chau and Gray (2002)	Singapore	64.9	42.6	46.0
	Hong Kong	35.0	22.5	32.2
Ferguson et al. (2002)	Hong Kong	33.0	25.1	14.7
Present study	Malaysia	32.3	25.1	21.0

CE – Continental European

In terms of the explanatory power of the regression models, Table 6-7 above shows that the results of the present study with regards to financial information and strategic information are comparable to Ferguson et al. (2002) and Chau and Gray (2002) in respect of Hong Kong companies. The present model on corporate social responsibility appears to be less specified than the majority of the studies in Table 6-7. However, the present model on corporate social responsibility is better specified than Ferguson et al. (2002).

The low levels of adjusted R squared observed in this study suggests that more than half of the variability in the level of voluntary information disclosure in Malaysian corporate annual reports cannot be explained by the variables included in the models. This means that there are additional factors influencing corporate policy which have not been captured by the models in the present study. This is taken further in section 6.9.

The next section discusses the regression results by category of information.

6.4.2.1 Financial information

Table 6-6 shows that of the three categories of information, financial disclosure is most explained by the variables specified in the model (adjusted R^2 = 32.3%). It is noted that all three ownership variables included in the model show statistically significant and negative relationship with the extent of voluntary financial information disclosure. The proportion of shares held by executive and non-independent directors is significant at the 1% level while government ownership and foreign ownership are marginally significant at the 10% level in explaining voluntary financial information disclosure. It is possible that because owner-managers are closely involved in the management of the company and a large ownership by the government and foreign investors mean that they are in a position to request for company information, additional financial information is not provided in the annual reports of these companies.

The proportion of family members on the board is also negatively associated and significant at the 5% level. That is probably because family businesses have a fewer number of external shareholders. Hence the pressure for additional disclosure can be expected to be less than in a widely held company. None of the variables for new governance initiatives and regulatory change is statistically significant in the financial information model.

Two company-specific variables, number of employees (at the 1% level) and profitability (at the 5% level) are observed to be statistically significant in this model. The significant positive association between number of employees and the extent of

voluntary financial disclosure in annual reports suggests that larger companies as measured by number of employees disclosed significantly more voluntary financial information in their annual reports. The significantly more voluntary financial information disclosure in larger companies may be a response to demand from analysts and prospective investors (Schipper, 1981). Disclosure of additional financial information may help reduce information asymmetry and transaction costs, thereby making company shares more attractive. The significance of profitability may be explained by a company wanting to signal its good performance to the market thereby supporting management continuance (Singhvi, 1968). Alternatively a profitable company may want to disclose additional information to screen themselves out from companies performing less well (Akerlof, 1970).

6.4.2.2 Strategic disclosure

Strategic information disclosure appears to be dominated by company-specific variables. Three of the four company-specific variables (number of employees, profitability and industry) are significant at the 1% level while the proportion of shares held by executive and non-independent directors is significant at the 5% level. Manufacturing companies disclosed less information of this type possibly because of industry competitiveness (see section 3.2). More profitable companies were observed to disclose more strategic information probably to signal that they expect to continue their good performance in the future. That in turn may help in retaining existing investors and attracting potential investors.

6.4.2.3 Corporate social responsibility

Corporate social responsibility disclosure is the category least explained by the variables specified in the model (adjusted R squared = 21.0%). The proportion of shares held by executive and non-independent directors is significant at the 5% level while industry type is marginally significant at the 10% level. The significant negative association between the proportion of shares held by executive and non-independent directors and the extent of corporate social responsibility disclosure probably may imply that owner-managed companies are less active in social activities. Hence the low of amount of social information disclosed in annual reports of owner-managed companies. Manufacturing companies also disclosed less social information than non-manufacturing companies. It is possible that with more reliance

on automation (see section 3.2), less employees are being employed in the manufacturing sector. That may mean that manufacturing companies have less information to report on employee-related matters.

The next section interprets the results of multivariate analysis by category of variables. Comparison is made to previous annual report disclosure studies, extant theoretical framework and factors proposed in the analysis to be relevant in Malaysia. The analysis is based on the results of the standard multiple regression shown in Table 6-4 and 6-6 unless otherwise stated.

6.5 Ownership structure

Table 6-8 shows that three of the four ownership structure variables (the proportion of shares held by executive and non-independent directors, government ownership and foreign ownership) show significant association in the financial information disclosure model. In addition, the proportion of shares held by executive and non-independent directors is statistically significant in explaining total and all types of voluntary information disclosure. The negative signs observed imply that companies with a higher proportion of director ownership, a higher proportion of government ownership and a higher proportion of foreign ownership disclose significantly less financial information in their annual reports.

Table 6-8: Ownership structure and voluntary information disclosure in annual reports

Variable	**Type of information disclosure**							
	Total		Financial		Strategic		CSR	
	Sig.	sign	Sig.	sign	Sig.	sign	Sig.	Sign
OwnTen	x	+	x	+	x	+	x	+
DirOwn	✓***	-	✓***	-	✓**	-	✓**	-
GovtOwn	x	-	✓*	-	x	-	x	+
ForOwn	x	-	✓*	-	x	-	x	+

✓ statistically significant at the 1% ***, 5%** or the 10%* level
x not statistically significant

6.5.1 Ownership by the ten largest shareholders

Of the four ownership structure variables, the proportion of shares held by the ten largest shareholders is not significant in any type of information disclosure (see Appendix 6-D). That contradicts Hossain et al. (1994) and Haniffa and Cooke (2002) who found statistically significant association between ownership by the ten largest shareholders and the extent of voluntary disclosure in Malaysian corporate annual reports. While Hossain et al. (1994) reported a significant negative association, Haniffa and Cooke (2002) in contrast, documented a significant positive relationship between the extent of voluntary disclosure in annual reports and the proportion of shares held by the ten largest shareholders. Hossain et al. (1994) suggested that voluntary disclosure helps to overcome agency costs as shareholdings become more dispersed. Haniffa and Cooke (2002) argued that companies choose to disclose less to avoid losing control.

The positive association observed in this thesis implies that large block shareholders are outsiders' who are able to exert pressure on companies to disclose additional information in the annual reports. The non-significance of this variable is probably partly attributable to the inclusion of other ownership variables such as the proportion of shares held by executive and non-independent directors and government ownership which were not considered in both Hossain et al. (1994) and Haniffa and Cooke (2002).

The findings highlight the importance of distinguishing the different strands of ownership because the results in respect of the proportion of shares held by the ten largest shareholders did not match those of the proportion of shares held by executive and non-independent directors. Neither did it match those of foreign ownership nor government ownership.

6.5.2 Director ownership

The significant negative association observed between the proportion of shares held by executive and non-independent directors and all types of voluntary information

disclosure in annual reports is consistent with the agency theoretic framework.[112] In the absence of large outside shareholders, an inside ownership concentration may lead to less information disclosure because there is no outside pressure for companies to disclose. The results provide support for extending the findings of Chau and Gray (2002) and Eng and Mak (2003) in respect of Hong Kong and Singapore to Malaysia that information disclosure is likely to be less in owner-managed companies.

Alternatively, agency theory also suggests that conflict of interests between shareholders and managers can be reduced by a manager holding a proportion of the company shares (Jensen and Meckling, 1976). The findings seem to suggest that ownership by directors helped in aligning the interests of outside shareholders and managers (directors). Companies in which managers (directors) held a higher proportion of equity ownership disclosed less information, possibly because outside shareholders believed that directors would not engage in activities that could have negative impact on the company's value. That is because a manager who owns a large portion of the company's shares bears the consequences and reaps the rewards of managerial actions that destroy and create value. Additionally owner-directors may not want to disclose additional information to discourage takeovers and protect the competitiveness of the company.

Director ownership may help solve or alleviate agency conflicts between shareholders and managers but, as the result implies, other stakeholders will receive less voluntary information in corporate annual reports. That has important consequences given that companies in Malaysia are highly concentrated with family members controlling and managing the majority of these companies. It perhaps signals that further regulation may be required in respect of certain information which is at present non-mandatory to ensure that all companies provide that information in their annual reports. That may help in achieving greater corporate transparency and accountability.

[112] Consistent results are observed in respect of this variable in the alternative standard multiple regression model (see Appendix 6-D) and in the stepwise regression model (see Appendix 6-E).

6.5.3 Government ownership

Government ownership is marginally significant at the 10% level in explaining voluntary financial information disclosure. No expectation was formed regarding the direction of the association. However, the negative sign observed is opposite to the findings of Suwaidan (1997) on Jordanian listed companies and Eng and Mak (2003) on Singaporean companies. The present results imply that companies with a higher proportion of government ownership disclosed significantly less voluntary financial information in their annual reports. A possible explanation for this finding is that these companies are already under close supervision by the government. It could also be that these companies do not need to impress or attract potential investors as financing matters are usually guaranteed by the government. [113] Thus, additional disclosure is not necessary in government controlled companies.

An alternative explanation may be that 'political ties' and affiliations restrict the extent to which these companies can voluntarily disclose information (Leuz and Oberholzer-Gee, 2003). Large companies in Malaysia appear to be politically connected (see section 3.3.5). Large, especially privatised companies in Malaysia are majority owned by the government (see Table 3-1 in Chapter 3). It is possible that government owned companies disclose less information to protect their political linkages or interests or even the beneficial owner.[114]

6.5.4 Foreign ownership

Foreign ownership is also marginally significant at the 10% level in explaining voluntary financial information disclosure. The negative association, however, contradicts Haniffa and Cooke (2002) who, using 1995 data found a significant positive association between foreign ownership and the extent of voluntary disclosure in Malaysian listed companies. This finding is quite unexpected because

[113] In a study by Naser and Nuseibeh (2003a) on Saudi companies, although the model did not directly test the association between corporate disclosure and government ownership, when explaining the low levels of disclosure in electricity companies, the authors attributed the finding to government ownership in those companies and government guaranteed returns in that sector.

[114] In an interview with an external auditor, beneficial ownership was suggested as one of the factors influencing disclosure in Malaysian corporate annual reports, "*some companies may not want to disclose certain information to protect the real owners...*" (A4) (see also section 8.6.2.16).

foreign shareholders would normally expect disclosure level of companies in which they have invested to be at least comparable to the standard in their home country. That could be true especially if these foreign investors are from developed countries where disclosure requirements are more stringent. On the other hand it could also be argued that foreign investors are constantly monitoring their investments overseas and any information required can be obtained directly and immediately from the companies. Disclosure in annual reports is mostly historical and not timely for decision making purposes. Because information can be obtained from private communication, additional disclosure in annual reports may not be necessary.

6.6 Corporate governance

Of the four corporate governance variables, only the proportion of family members on the board is significant at the 5% level in explaining total and financial voluntary information disclosures.[115] Table 6-9 shows that neither of the two new governance initiatives, independent non-executive directors and independent Chairman, is statistically significant in explaining any type of information disclosure. The fourth governance variable, regulatory change is also not statistically significant in any of the models. These results indicate that the regulatory changes in governance implemented since the Asian financial crisis of 1997 have not changed the impact on voluntary disclosure from that found by Haniffa and Cooke (2002) in respect of domination of family members on the board, for 1995 annual reports.

Table 6-9: Corporate governance and voluntary information disclosure in annual reports

Variable	Type of information disclosure							
	Total		Financial		Strategic		CSR	
	Sig.	sign	Sig.	sign	Sig.	sign	Sig.	Sign
FamD	✓**	-	✓**	-	x	-	x	-
IndNED	x	-	x	+	x	-	x	-
ChairInd	x	+	x	+	x	+	x	-
FYE	x	-	x	-	x	-	x	+

✓ statistically significant at the 1%*** , 5%** or the 10%* level
x not statistically significant

[115] Consistent results are observed in respect of this variable in the alternative standard multiple regression model (see Appendix 6-D) and in the stepwise regression model (see Appendix 6-E).

6.6.1 Family members on the board

The significant negative relationship between proportion of family members on the board and the extent of voluntary disclosure in corporate annual reports is not a surprise. A significant negative relationship between the proportion of family members on the board and the extent of voluntary disclosure has been observed in Ho and Wong (2001a) and Haniffa and Cooke (2002). The finding highlights that this traditional aspect of corporate governance is still strong in influencing voluntary information disclosure in Malaysian corporate annual reports. Chen and Jaggi (2000) also found a weaker relationship between independent non-executive directors and comprehensiveness of financial disclosure in Hong Kong family-controlled companies. These findings suggest that domination of family members on the corporate board have detrimental effects on disclosure quality in terms of less information disclosure in annual reports.

Family controlled businesses are usually closely-held. Agency conflicts in this type of companies can be expected to be less than in a diffused ownership company. Agency conflicts between insiders' and outsiders' interests can probably be mitigated through other forms of communication between the insiders and outside minority shareholders rather than in a public document such as the annual reports. Family businesses usually have less number of external shareholders. Hence there may be less demand or pressure for these companies to disclose extensively in their annual reports. Thus in addition to agency theory, information costs theory may provide an explanation for the low levels of disclosure in family controlled companies.

The finding is of importance to South East Asia and particularly Malaysia because of the prevalence of family owned businesses in these countries. A policy implication of this finding would be for regulators in Malaysia to consider imposing a limit on the proportion of family members on corporate boards. A larger outside involvement may help enhance corporate transparency. The Hong Kong Society of Accountants (HKSA) (1997; [116] cited in Ho and Wong, 2001a) already prescribes that the

[116] (HKSA, 1997) *Second Report of the Corporate Governance Working Group*

proportion of family members on Hong Kong corporate boards should not be more than 50%.

6.6.2 Independent non-executive directors

The weak relationship between the proportion of independent non-executive directors and the extent of voluntary disclosure in annual reports is consistent with Ho and Wong (2001a) and Haniffa and Cooke (2002). These studies highlight that the appointment of independent directors have not had a significant impact on corporate reporting and transparency. However, this finding contradicts that of Chen and Jaggi (2000) who reported significant positive association between the proportion of independent directors and comprehensiveness of financial disclosure in Hong Kong listed companies. The difference in results may be partly attributable to the checklists employed. Chen and Jaggi's (2000) checklist includes both mandatory and voluntary items (see Table 2-4[16] in Chapter 2). Thus, an explanation for the difference in results is that independent directors are likely to ensure that companies comply with mandatory requirements but are still not actively pressing companies to disclose more voluntary information (Ho and Wong, 2001a). Interestingly a more recent study by Eng and Mak (2003) on Singapore listed companies documented a significant negative relationship between the proportion of independent directors and the extent of voluntary disclosure in annual reports suggesting that voluntary disclosure plays a substitutive role to independent directors.

6.6.3 Independent chairman

The non-significance of independent chairman on the other hand, contradicts Haniffa and Cooke (2002) who, using data from 1995, found the variable to be statistically significant and negatively associated with the extent of voluntary information disclosure in annual reports of Malaysian companies. In addition, the present results show positive associations between an independent chairman and total information disclosure, financial information disclosure and strategic information disclosure. Only corporate social responsibility disclosure is observed to be negatively related to an independent chairman. Haniffa and Cooke (2002) concluded that the negative association between an independent chairman contradicts agency theory and that an

independent chairman obtains greater utility by keeping private information secret. The introduction of the MCCG in 1999 (see section 3.4.2) may have put some pressure on independent chairmen to show that they are carrying out their monitoring role. That could explain the positive association observed in this study. The non-significance of this variable may be partly attributable to the fact that this study was undertaken immediately after the new regulations came into effect in 2001 (see section 3.5.4.1). It is perhaps still early to assess the full impact of the introduction of the MCCG on corporate disclosure policy.

6.6.4 Regulatory change

Likewise, the mandatory disclosure of Statement of Corporate Governance in annual reports did not seem to have encouraged companies towards more disclosure in other areas. Naser and Nuseibeh (2003a) in their studies on Saudi non-financial companies report that the formation of the SOCPA [117] has had little impact on corporate reporting in Saudi Arabia. The authors argued that this could be due to either the body was still at its infancy or lack of enforcement mechanism. The same argument could prove true in the case of Malaysian companies because the mandatory disclosure of the Statement of Corporate Governance only became effective for companies with financial year-end after 30 June 2001 (see section 3.5.4.1). In terms of enforcement, the Financial Reporting Surveillance and Compliance Department was only set up in 1998 within the SC (see section 3.5.5). Cases of non-compliance so far have been dealt with by requesting the companies to explain for the deviation. The relatively new regulatory regime for financial reporting in Malaysian may partly explain the non-significance of the regulatory changes on corporate governance in influencing voluntary disclosure in annual reports.

The statistical results regarding variables representing new governance initiatives did not show any significant association with the extent of voluntary disclosure in annual reports. The requirement for independent directors to be at least one-third of the board members only came into effect on 31 July 2001. The MCCG which highlights

[117] The SOCPA issues accounting and auditing standards and has the authority to qualify public accountants (Naser and Nuseibeh, 2003a).

the crucial roles of a chairman was made public in 1999 and the requirement for the disclosure of the extent of compliance with the recommendations of the MCCG is only effective for companies with financial year ending after 30 June 2001. Given that this study evaluates the impact of new regulations immediately after its implementation, and the relatively new regulatory regime for financial reporting in Malaysia, it may be more appropriate to say that new governance initiatives were not significant in influencing voluntary information disclosure at the point of regulation change. Further work is needed to test the significance of these variables in future disclosure studies.

6.7 Culture

Table 6-10 shows that the cultural variable the proportion of Malay directors on the board is not statistically significant in any of the voluntary disclosure categories.

Table 6-10: Cultural and voluntary information disclosure in annual reports

Variable	**Type of information disclosure**							
	Total		Financial		Strategic		CSR	
	Sig.	sign	Sig.	sign	Sig.	sign	Sig.	sign
MalayD	x	+	x	-	x	+	x	+

✓ statistically significant at the 1% ***, 5%** or the 10%* level
x not statistically significant

6.7.1 Malay directors on the board

The results regarding the proportion of Malay directors on the board are inconsistent with the findings of Archambault and Archambault (2003) who reported a significant positive association between the extent of voluntary information disclosure and the proportion of Muslims in a country. [118] [However, the stepwise regression results (see Appendix 6-E) show the proportion of Malay directors to be positively associated with the extent of voluntary strategic information disclosure and significant at the 5%

[118] In developing the hypothesis regarding the influence of the proportion of Malay directors on the board in annual report voluntary information disclosure, religion of Malay directors which is Islam was put forward as a possible motivating factor for Malay directors to disclose additional information (see section 4.8.3.1).

level]. Haniffa and Cooke (2002) using 1995 data, also reported a significant positive association between the proportion of Malay directors on the board and the extent of voluntary disclosure in annual reports.

The present findings could imply that within a country, other intervening country-specific factors may have some effect on corporate reporting practice. Johnson and Mitton (2003) in their study on the performance of a number of Malaysian companies during the 1997 financial crisis found that despite the government public support for Bumiputra[119] businesses, political favouritism and not ethnicity was the significant factor determining the fortunes of these companies during the crisis. It may well be that Malay directors no longer feel they need to legitimise their position because political linkages are more important to the survival of a company. That may provide an explanation for the non-significance of Malay directors in influencing voluntary disclosure in Malaysian corporate annual reports documented in (the standard multiple regression) this study.

6.8 Company-specific

Table 6–11 summarises the statistical results on company-specific variables. All variables, with the exception of gearing, are observed to be statistically significant in explaining voluntary information disclosure in Malaysian corporate annual reports.

Table 6-11: Company-specifics and voluntary information disclosure in annual reports

Variables	Type of information disclosure							
	Total		Financial		Strategic		CSR	
	Sig.	sign	Sig.	sign	Sig.	sign	Sig.	Sign
Employ	✓***	+	✓***	+	✓***	+	x	+
Prof	✓***	+	✓**	+	✓***	+	x	+
Gear	x	+	x	+	x	+	x	+
Indus	✓**	-	x	-	✓***	-	✓*	-

✓ statistically significant at the 1%***, 5%** or the 10%* level
x not statistically significant

[119] Bumiputras are the *'sons of the soil'* of whom about 80% are Malays (see section 3.3).

6.8.1 Number of employees

Number of employees is used in this thesis as a measure of company size.[120] Larger companies as measured by company size might have disclosed more information because of demand by financial analysts (Lang and Lundholm, 1993). That suggests the application of information costs theory in explaining voluntary disclosure in annual reports. It could also be that because larger companies had greater need to raise funds in the capital market (Singhvi and Desai, 1971; and Buzby, 1975), disclosure of additional information helped reduce information asymmetry thereby reducing the cost of capital (Botosan, 1997; and Sengupta, 1998). Thus, capital need theory may also explain the significant positive association between company size and the extent of voluntary disclosure.

Additionally the establishment of the Financial Reporting Surveillance and Compliance Department in 1998 within the Securities Commission and the introduction of the MCCG in 1999 could have put some pressure on listed companies to adopt best accounting including disclosure practices in their annual reports. Larger companies may be more pressured to disclose additional information because of the desire to maintain reputation or credibility in the market or because of being more visible in the 'public eyes'. It could also be that companies with a larger number of employees might have disclosed more information to avoid excessive wage demand by employees. That implies political costs theory may provide an explanation for the higher levels of disclosure in larger Malaysian companies.

6.8.2 Profitability

Profitability appears to be significant and positively associated with total, financial and strategic voluntary information disclosure.[121] A significant positive association between profitability and the extent of voluntary disclosure was reported in previous

[120] Number of employees is also statistically significant in influencing total, financial and strategic voluntary information disclosure in the alternative standard multiple regression model (see Appendix 6-D) and in the stepwise regression model (see Appendix 6-E).

[121] Profitability is also statistically significant in influencing total, financial and strategic voluntary information disclosure in the alternative standard multiple regression model (see Appendix 6-D) and in the stepwise regression model (see Appendix 6-E).

study by Haniffa and Cooke (2002).[122] In contrast, Wallace and Naser (1995) and Chen and Jaggi (2000) observed significant negative relationship between profitability and the extent of disclosure in annual reports of Hong Kong listed companies. Meek et al. (1995) and Leventis (2001) however, did not find profitability to be a significant predictor of voluntary information disclosure.

The difference between the results observed in the present study and those of Wallace and Naser (1995) and Chen and Jaggi (2000) may be partly attributable to the checklists employed in the studies. Wallace and Naser (1995) and Chen and Jaggi (2000) look at comprehensiveness of disclosure with the checklist comprising both mandatory and voluntary. It is possible that companies performing less well disclosed more information to support or clarify mandatory disclosure and at the same time explain their poor performance.

A probable reason that could help explain the positive relationship observed in this study would be management's desire to support continuance of their position and compensation (Singhvi, 1968; and Inchausti, 1997). That implies legitimacy theory (management legitimising their position) may explain the significant positive association between profitability and the extent of voluntary disclosure. It might also be in the interest of management to disclose more information if it could signal to the public that they had performed better than the others. In this respect, additional disclosure could serve as a mechanism to screen the company from companies performing less well (Akerlof, 1970). Thus, signalling theory may provide another explanation for the significantly higher levels of voluntary disclosure in companies which are more profitable.

6.8.3 Gearing

Gearing was not found to be statistically significant with any type of voluntary information disclosure model (see Table 6-4 and 6-6). This implies that gearing level does not affect company disclosure policy. The non-significance of this variable has been documented in prior research (e.g. Chow and Wong-Boren, 1987; Wallace and

[122] Haniffa and Cooke (2002) however report results on total voluntary disclosure only.

Naser, 1995; Leventis, 2001; Ho and Wong, 2001a; Haniffa and Cooke, 2002; and Chau and Gray, 2002). It may be because bankers can always obtain the required information directly from their client companies, additional disclosure in annual reports does not add to information already possessed by the bankers.

6.8.4 Industry type

Industry type is statistically significant in explaining total and strategic voluntary information disclosure and marginally significant in influencing corporate social responsibility disclosure in annual reports.[123] Manufacturing companies appear to be disclosing less information than non-manufacturing companies. The variable shows most significance in the strategic information disclosure model. This suggests that the significant difference in the extent of voluntary information disclosure in annual reports between manufacturing and non-manufacturing companies is greatest in the strategic information category.

Companies in more competitive industries may not want to disclose too much information of this type for strategic reasons such as fear of adverse competitors' reaction.. Proprietary costs vary across industries (Verrecchia, 1983) hence disclosure levels can also be expected to vary across industries. Manufacturing is the leading sector of the Malaysian economy (see section 3.2). It is possible that proprietary costs considerations discourage manufacturing companies from disclosing additional information in their annual reports. This suggests that proprietary costs theory may explain the significant negative association between manufacturing companies and the extent of voluntary disclosure observed in this study.

6.9 Summary and conclusions

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[123] Industry type is at 5% significance in total and strategic voluntary information disclosure and at 10% significance in financial information disclosure in the alternative standard multiple regression model (see Appendix 6-D). In the stepwise regression (see Appendix 6-E), industry shows significant influence at the 5% level in total and strategic information disclosure.

This chapter has sought to identify factors influencing voluntary disclosure in the annual reports of listed companies in a period after the 1997 Asian financial crisis. That has been done in the context of Malaysia where enhanced corporate governance and transparency are being strongly promoted by the government to regain investors' confidence in the Malaysian capital market. The multivariate analysis undertaken in this chapter investigated the relationship between the extent of voluntary disclosure in annual reports of companies listed on the KLSE Composite Index and a number of variables representing ownership structure, corporate governance, culture and company attributes. Variations in the level of voluntary disclosure have been explained in terms of the Malaysian business culture and corporate reporting environment and the relative applicability of established disclosure theories.

Agency theory was used to explain the significance of director ownership (see section 6.5.2). The significance of the proportion of family members on the board was explained using agency and information costs theories (see section 6.6.1). Number of employees was used as a proxy for company size. Information costs, capital need and political costs theories were suggested as possible theoretical explanations (see section 6.8.1). That is because larger companies usually have greater need for external financing, have a larger number of analysts following and are more visible in the public eyes. Profitability was explained in the context of legitimacy and signalling theories (see section 6.8.2). More profitable companies were expected to disclose additional information to support continuance of management position and to signal good performance. Proprietary costs theory was suggested for the significance of industry type in influencing voluntary disclosure in annual reports (see section 6.8.4).

The proportion of Malay directors on the board was only significant in influencing strategic information disclosure in the stepwise regression (see section 6.7.1) providing some support to Haniffa and Cooke (2002). The analysis has suggested that perhaps political linkages and not simply ethnicity were more important factors influencing corporate reporting in Malaysia (see section 6.7.1). Another implication of the present finding is that the religion of Malay directors, which is Islam, did not

appear to be significantly influencing these directors towards more corporate transparency and disclosure in annual reports.

It needs to be highlighted that neither of the two new governance initiatives implemented since the 1997 financial crisis, the proportion of independent directors on the board and an independent chairman, appeared to have a significant impact on voluntary disclosure in Malaysian corporate annual reports. The mandatory disclosure of the Statement of Corporate Governance also did not seem to have encouraged companies towards more disclosure in other areas of the annual reports. These findings perhaps indicate that, especially in a developing country like Malaysia, it may take some time for regulatory changes to have a significant impact on company disclosure practice. The effectiveness of the regulatory authority such as the Financial Reporting Compliance and Surveillance Department (see section 3.5.5) can help promote corporate transparency if cases of non-compliance are severely dealt with. It may be concluded that variables representing new governance initiatives and regulatory change were not significant in determining corporate voluntary disclosure in annual reports in the period immediately after the implementation of new regulations on corporate governance. However, further work is needed to assess their impact on corporate disclosure in future studies.

The variables specified in the models have explained 38.2% of the variation in total voluntary disclosure, 32.3% of the variation in financial disclosure, 25.1% of the variation in strategic disclosure and 21% of the variability in corporate social responsibility disclosure. In all categories of information, the models only succeeded in explaining less than half of the variations in disclosure levels. This means that a large part of the variation in disclosure scores have not been captured by the models. The large amount of unexplained variation could refer to factors that are not easily quantifiable or not readily available.

The results of this chapter revealed the need to consider additional variables to explain voluntary disclosure in annual reports. A survey involving various user-groups and preparers of annual reports may provide further insights into other factors

or reasons influencing voluntary disclosure decision in Malaysian companies. Interviews may also help enhance the interpretation of statistical results. The next chapter reports the findings from interviews held with 27 market participants on their perceptions of (selected) variables tested in this study.

APPENDICES

6-A: Descriptive statistics of continuous independent variables

Independent Variables	Label	Min	Max	Mean
Top-ten ownership (%)	OwnTen	24.09	93.73	67.20
Ownership by executive and non-independent directors (%)	DirOwn	0#	71.71	21.42
Government ownership (%)	GovtOwn	0	84.18	20.66
Foreign ownership (%)	ForOwn	0.13	80.16	23.83
Family directors (%)	FamD	0	73.0	14.71
Independent directors (%)	IndNED	15.00	62.5	35.82
Malay directors (%)	MalayD	0	100.0	46.03
Number of employees	Employ	217	53,924	5,589
Profitability ratio	Prof	-0.69	1.8595	0.1492
Gearing ratio	Gear	0	4.1462	0.3616

Where the proportion was less than 0.0001, 0 is reported in the table.

6-B: Theoretical framework, independent variables, operationalisation, and sources

Theoretical framework	**Explanatory variables**	**Operationalisation/ proxy**	**Data source**
Ownership structure			
Agency, legitimacy, political costs	Ownership structure	• Ratio of shares held by the ten largest shareholders to total number of shares issued [OwnTen] • Ratio of shares held by executive and non-independent directors to total number of shares issued [DirOwn] • Ratio of shares held by government institutions [GovtOwn] • Ratio of shares held by foreigners [ForOwn]	Company Annual Reports Company Annual Reports Company Annual Reports Investors Digest** July 2002
Corporate governance			
Agency, information costs	Family Members	• Ratio of family members on the board to total directors [FamD]	Company Annual Reports
Agency	Board Composition	• Ratio of independent non-executive directors to total directors [IndNED] • 1 if Chairman is an independent director, 0 if otherwise [ChairInd]	Company Annual Reports Company Annual Reports
Political costs	Regulatory change	• 1 if company financial year-end is after 30 June 2001, 0 if before or on 30 June 2001 [FYE]	Company Annual Reports
Cultural			
Legitimacy, Political costs	Malay directorship	• Ratio of Malay directors on the board to total directors [MalayD]	Company Annual Reports
Company specific			

Political costs, agency, information costs, proprietary costs, capital need	Size	• Number of Employees [Employ]	Company Annual Reports
Signalling	Profitability	• ROCE ratio defined as Profit before Tax to Shareholders' Funds [Prof]	Company Annual Reports
Agency	Gearing	• Debt ratio defined as Long Term Loans to Shareholders' Funds [Gear]	Company Annual Reports
Proprietary costs	Industry Type	• 1 if it is a manufacturing company, 0 if otherwise* [Indus]	KLSE website; http://www.klse.com.my/website/listing/lcphome.htm (22/05/02) Department of Statistics, Malaysia

* Grouped according to (i) % contribution to country GDP/exports ** A monthly publication of the Kuala Lumpur Stock Exchange

6-C: Pearson correlations between continuous independent variables

	OwnTen	DirOwn	GovtOwn	ForOwn	FamD	IndNED	MalayD	Employ	Prof
DirOwn	-.355***								
GovtOwn	.567***	-.354***							
ForOwn	-.297***	-.045	-.476***						
FamD	-.344***	.480***	-.311***	.078					
IndNED	-.114	-.236**	-.064	.107	-.055				
MalayD	.331***	-.431***	.526***	-421***	-.305***	-.025			
Employ	.256**	-.074	.361***	-.139	-.032	-.005	.193		
Prof	.028	-.048	-.044	.119	-.094	-.110	.029	-.010	
Gear	.110	-.068	.248**	-.086	-.083	.137	.176	.109	.102

*** correlation significant at the 1% level (2-tailed)

** correlation significant at the 5% level (2-tailed)

6-D: Alternative standard multiple regression results for total voluntary disclosure and sub-categories of disclosure~

	Total voluntary disclosures			Financial information			Strategic information			Corporate social responsibility information		
Adjusted R^2	37.3			31.1			23.5			19.6		
F statistic	5.116			4.126			3.125			2.690		
Significance	0.000			0.000			0.001			0.005		
Variables												
	Beta	t	Sig.	Beta	t	Sig.	Beta	t	Sig.	Beta	t	Sig.
Constant		1.282	.204		1.210	.230		1.390	.169		.823	.413
OWNERSHIP												
OwnTen	.090	.806	.423	.137	1.168	.247	.018	.142	.887	.086	.677	.501
DirOwn	-.281	-2.332	'023**	-.291	-2.303	.024**	-.159	-1.193	.237	-.257	-1.884	.064*
ForOwn	.076	.650	.518	-.138	-1.126	.264	.048	.368	.714	.189	1.424	.159
CORPORATE GOVERNANCE												
FamD	-.210	-2.009	.048**	-.208	-1.899	.062*	-.086	-.749	.456	-.119	-1.003	.319
IndNED	-.064	-.645	.521	.043	.414	.680	-.089	-.820	.415	-.068	-.612	.542
ChairInd	.045	.415	.680	.051	.456	.650	.120	1.007	.317	-.050	-.409	.684
FYE	-.026	-.273	.785	-.059	-.583	.562	-.080	-.749	.456	.045	.418	.678
CULTURAL VARIABLE												
MalayD	.021	.173	.863	-.177	-1.414	.162	.119	.900	.371	.083	.617	.539
CONTROL VARIABLES												
Employ	.298	3.178	.002***	.330	3.358	.001***	.259	2.501	.015**	.141	1.328	.188
Prof	.244	2 .684	.009***	.238	2.504	.015**	.281	2.799	.007***	.128	1.241	.219
Gear	.063	.685	.496	-.026	-.272	.786	.045	.442	.660	.186	1.778	.080*
Indus	-.246	-2.437	.017**	-.185	-1.749	.085*	-.284	-2.547	.013**	-.185	-1.617	.110

~ In this model, government ownership is replaced by ownership by the ten largest shareholders and the proportion of Malay directors on the board.

Coefficients are shown as significant at the 1% ***; 5% **; or the 10% * level

6-E: Stepwise regression results for total voluntary disclosure and sub-categories of information

	Total voluntary disclosures			Financial information			Strategic information			Corporate social responsibility information		
Adjusted R^2	40.9			30.5			25.8			17.7		
F statistic	12.500			10.121			8.199			9.907		
Significance	0.000			0.000			0.000			0.000		
Variables												
	Beta	t	Sig.	Beta	t	Sig.	Beta	t	Sig.	Beta	t	Sig.
Constant		1.814	.073		.350	.728		1.533	.129		.565	.574
OWNERSHIP												
OwnTen	.078	.793	[Ex].430	.131	1.253	[Ex].214	.096	.904	[Ex].369	.075	.692	[Ex].491
DirOwn	-.296	-3.069	[In].003***	-.228	-2.191	[In].031**	-.187	-1.740	[Ex].086	-.358	-3.582	[In].001***
GovtOwn	-.059	-.578	[Ex].565	-.109	-1.005	[Ex].318	-.065	-.546	[Ex].586	.146	1.322	[Ex].190
ForOwn	.045	.500	[Ex].619	-.115	-1.237	[Ex].220	.119	1.122	[Ex].265	.039	.387	[Ex].699
CORPORATE GOVERNANCE												
FamD	-.218	-2.245	[In].028**	-.240	-2.299	[In].024**	-.124	-1.252	[Ex].214	-.186	-1.658	[Ex].101
IndNED	-.065	-.744	[Ex].459	.026	.276	[Ex].783	-.022	-.231	[Ex].818	-.123	-1.190	[Ex].238
ChairInd	.060	.655	[Ex].514	-.029	-.305	[Ex].761	.148	1.509	[Ex].135	-.054	-.520	[Ex].604
FYE	-.075	-.850	[Ex].398	-.100	-1.064	[Ex].291	-.080	-.833	[Ex].408	-.008	-.080	[Ex].936
CULTURAL												
MalayD	.016	.150	[Ex].881	-.042	-.391	[Ex].697	.201	1.993	[In].050**	.151	1.334	[Ex].186
CONTROL VARIABLES												
Employ	.335	3.938	[In].000***	.333	3.625	[In].001***	.260	2.655	[In].010**	.156	1.569	[Ex].121
Prof	.294	3.455	[In].001***	.219	2.369	[In].020**	.341	3.586	[In].001***	.169	1.703	[Ex].092
Gear	.066	.751	[Ex].455	.015	.156	[Ex].877	.055	.564	[Ex].574	.238	2.387	[In].019**
Indus	-.210	-2.459	[In].016**	-.133	-1.440	[Ex].154	-.219	-2.215	[In].030**	-.132	-1.315	[Ex].192

Coefficients are shown as significant at the 1% *** or the 5% ** level

[In] = variables included by the Stepwise regression

[Ex] = variables excluded by the Stepwise regression

6-F: Standard multiple regression results for total voluntary disclosure and sub-categories of information (incorporating market capitalisation as an independent variable)

	Total voluntary disclosures			**Financial information**			**Strategic information**			**Corporate social responsibility information**		
Adjusted R^2	44.1			37.4			26.8			27.8		
F statistic	6.457			5.131			3.536			3.659		
Significance	0.000			0.000			0.000			0.000		
Variables												
	Beta	t	Sig.	Beta	t	Sig.	Beta	t	Sig.	Beta	t	Sig.
Constant		0.504	.616		0.296	.768		0.900	.371		.293	.770
OWNERSHIP												
DirOwn	-.245	-2.228	.029**	-.231	-1.977	.052*	-.198	-1.574	.120	-.166	-1.327	.189
GovtOwn	-.155	-1.313	.194	-.295	-2.358	.021**	-.192	-1.420	.160	.089	0.665	.508
ForOwn	-.076	-0.698	.487	-.287	-2.483	.015**	-.120	-0.962	.340	.119	0.956	.342
CORPORATE GOVERNANCE												
FamD	-.253	-2.599	.011**	-.269	-2.614	.011**	-.117	-1.049	.298	-.140	-1.264	.210
IndNED	-.090	-0.977	.332	.011	0.111	.912	-.129	-1.221	.226	-.061	-0.585	.560
ChairInd	.080	0.815	.418	.085	0.815	.418	.157	1.393	.168	-.031	-0.277	.782
FYE	.010	0.106	.916	-.026	-0.271	.787	-.041	-0.393	.695	.068	0.655	.515
CONTROL VARIABLES												
MktCap	.338	2.937	.004***	.318	2.612	.011**	.216	1.641	.105	.364	2.781	.007***
Employ	.228	2.310	.024**	.286	2.737	.008***	.245	2.173	.033**	.005	0.047	.963
Prof	.114	1.196	.236	.099	0.975	.333	.202	1.839	.070*	.002	0.015	.988
Gear	.052	0.585	.560	-.020	-0.211	.833	.059	0.572	.569	.133	1.304	.196
Indus	-.157	-1.670	.099*	-.049	-0.488	.627	-.259	-2.410	.019**	-.102	-0.957	.342

Coefficients are shown as significant at the 1%***; 5%** or the 10%* level

6-G: Stepwise regression results for total voluntary disclosure and sub-categories of information (incorporating market capitalisation as an independent variable)

	Total voluntary disclosures			**Financial information**			**Strategic information**			**Corporate social responsibility information**		
Adjusted R^2	43.6			33.4			28.8			28.8		
F statistic	33.063			21.775			17.807			17.784		
Significance	0.000			0.000			0.000			0.000		
Variables												
	Beta	t	Sig.	Beta	t	Sig.	Beta	t	Sig.	Beta	t	Sig.
Constant		0.164	.870		0.104	.918		-0.083	.934		.631	.530
OWNERSHIP												
OwnTen	-.005	-0.053	Ex.958	.111	1.080	Ex.283	-.079	-0.747	Ex.457	-.060	-0.560	Ex.577
DirOwn	-.151	-1.576	Ex.119	-.128	-1.222	Ex.225	-.005	-0.050	Ex.960	-.167	-1.556	Ex.124
GovtOwn	-.020	-0.214	Ex.831	-.062	-0.623	Ex.535	-.183	-1.626	Ex.108	.103	1.006	Ex.318
ForOwn	-.024	-0.292	Ex.771	-.139	-1.560	Ex.123	.054	0.529	Ex.598	.034	0.365	Ex.716
CORPORATE GOVERNANCE												
FamD	-.315	-3.751	In.000***	-.295	-3.234	In.002***	-.085	-0.869	Ex.387	-.249	-2.642	In.010***
IndNED	.004	0.051	Ex.959	.076	0.844	Ex.401	-.029	-0.311	Ex.757	.006	0.061	Ex.952
ChairInd	.040	0.471	Ex.639	.001	0.013	Ex.989	.066	0.713	Ex.478	.022	0.237	Ex.813
FYE	.023	0.273	Ex.785	.011	0.118	Ex.906	-.062	-0.660	Ex.511	.086	0.905	Ex.368
CULTURAL												
MalayD	.168	1.960	Ex.054	.052	.549	Ex.584	.237	2.511	In.014**	.184	1.907	Ex.060
CONTROL VARIABLES												
MktCap	.536	6.383	In.000***	.460	5.043	In.000***	.456	4.835	In.000***	.449	4.756	In.000***
Employ	.107	1.180	Ex.241	.167	1.713	Ex.091	.023	0.223	Ex.824	.009	0.085	Ex.932
Prof	.026	0.285	Ex.777	-.012	-0.117	Ex.907	.135	1.309	Ex.194	-.030	-0.287	Ex.775
Gear	.040	0.468	Ex.641	-.035	-0.378	Ex.707	.030	0.304	Ex.762	.137	1.444	Ex.153
Indus	-.070	-0.841	Ex.403	-.009	-0.100	Ex.920	-.116	-1.211	Ex.229	-.064	-0.681	Ex.498

Coefficients are shown as significant at the 1% *** or the 5% ** level
In = variables included by the Stepwise regression
Ex = variables excluded by the Stepwise regression

6-H: Pearson correlations between continuous independent variables and disclosure indices by category of information (using normal scores)

Independent Variables	Financial Information	Strategic Information	Corporate Social Responsibility
OwnTen	.364***	.202	.224**
DirOwn	-.387***	-.268**	-.388***
GovtOwn	.190	.145	.293***
ForOwn	-.142	-.045	.045
FamD	-.396***	-.260**	-.323***
IndNED	.068	-.057	.025
MalayD	.223**	.333***	.294***
Employ	.344***	.250**	.179
Prof	.233**	.302***	.182
Gear	.108	.182	.263**

*** significant at the 1% level
** significant at the 5% level

CHAPTER 7: PERCEPTIONS OF INTERVIEWEES – INTERPRETATION OF STATISTICAL FINDINGS

7.1 Introduction

This chapter answers the following research question;

SRQ4: ***How does interview research with users and preparers of annual reports help the interpretation of statistical findings and help assess the relative applicability of theoretical models?***

This is answered by analysing the responses to Part Two of the questionnaire which sought views and opinions from interviewees on variables tested in the multivariate analysis. As explained in section 4.7.2.2, because of time constraints not all interviewees responded to this part of the questionnaire. The interviews concentrated primarily on variables which are statistically significant at either the 1% or 5% in the total voluntary disclosure model (see Table 6-4 in Chapter 6). However, some interviewees were also asked about non-significant variables. The choice of variables included in the interview questionnaire is explained further in sections 7.2 and 7.3.

Each interview quotation is numbered for ease of reference to later sections. Each quotation is also labelled with the respondent making the comment. General information about the interviewees is provided in Appendix 4-B. In cases where a company (or companies are) is mentioned during the interviews, the company is labelled accordingly. Companies labelled with a single letter such as [A] are those included in the statistical analysis in this thesis while those with double letters e.g. [GG] are not among the sample companies included in the statistical analysis.

Section 7.2 analyses responses to questions on variables found to be statistically significant in the regression model. The analysis of perceptions of interviewees regarding non-significant variables follows in section 7.3. Section 7.4 compares respondents' views on tested variables with the expected theoretical frameworks and statistical results. Section 7.5 compares interview findings with disclosure indices (computed in Chapter 5) for specific companies. Summary and conclusions are

provided in section 7.6. A model of theoretical interpretation of factors influencing voluntary disclosure in annual reports is presented in the conclusions.

7.2 Significant variables

All variables statistically significant at either the 1% or 5% level (with the exception of industry type) were included in the interview questionnaires. Interviewees were not asked about industry type because, in the initial statistical analysis, industry type was not found to be significant at either the 1% or 5% level. The four statistically significant variables included in the interviews were number of employees, director ownership, profitability and the proportion of family members on the board. Interview responses in respect of each of these variables are discussed in turn below.

7.2.1 Number of employees

Thirteen interviewees responded to the question of why companies with a bigger number of employees disclosed significantly more voluntary information in their annual reports. Of these, only two respondents felt that employees could exert pressure on companies to disclose additional information in the annual reports. It was suggested that if employees can influence corporate disclosure policy, it could be because of demand from the union or employee association in that company. Additional disclosure in the annual reports might have been provided to avoid excessive wage demand from employees.

> *"Employees may also be interested to know what is happening in the company. There could be a lot more demand by the union or the employee association in companies with bigger number of employees..."* (F2). [C7.1]

The other eleven respondents said that number of employees is a measure of company size, and that it is the company size that determines disclosure, rather than direct employee influence. A banker with one of the largest merchant banks in Malaysia claimed;

> *"Larger companies usually have a big number of employees. It's not so much a case of making the employees happy. It's more of wanting to retain their shareholders' confidence in the company, so the*

company will have to disclose more information. So, it's not the employees but company size that influences a company's disclosure level..." (B2). [C7.2]

Interviewees expected companies with a large number of employees to be large in size and large companies were expected to disclose additional information in the annual reports. Table 7-1 summarises the reasons given by interview respondents for more information disclosure by companies with a large number of employees.

Table 7-1: Number of employees – views from interview respondents

	F2	F9	A2	A4	R1	R2	R3	R4	R6	I1	I2	B1	B2	(13)
More institutional shareholders, analyst following						✓	✓	✓		✓	✓	✓	✓	7
International financing				✓		✓	✓				✓	✓		5
Better governance structure					✓	✓			✓					3
Government controlled		✓			✓							✓		3
Industry factor; labour intensive						✓	✓				✓			3
Demand from employees	✓		✓											2

As shown in Table 7-1, the most frequently cited reason for companies with a large number of employees to disclose more information is that these companies usually have more institutional investors or that these companies have higher analyst following.

> *"When a company becomes bigger and so much is coming from the market, you tend to entertain that information demand from the market. Companies such as [A]and [B]have big investor following. Hence they can be expected to disclose more information. It is a chain reaction from disclosure to investor following to information demand and back to disclosure..."* (R4). [C7.3]

The response suggests that large companies provide additional information to attract potential investors and at the same fulfil the demands of existing investors. A company can be expected to face additional pressures for information disclosure if the company is heavily invested by professionals such as institutional shareholders.

As is evident in the following excerpt, larger companies can be expected to have more institutional investors;

> *"Larger companies are more responsive to investors because portfolio fund managers usually invest in big companies. Larger companies also have more institutional investors, so additional disclosures by these companies may be to satisfy the information demand by the investors. It is also to the benefit of the company if additional disclosure can attract more people to be interested in the company...."* (R2). [C7.4]

Larger companies were also expected to disclose more information because of their reliance on international funding. Additional disclosure in the annual reports could have been a response to demand by international capital providers, or as part of strategies of companies to compete for international funding. A financial controller said;

> *"Big companies such as [A]and [B] with huge amount of international bonds may need to disclose more information to signal that they are providing value to the company. Relatively smaller companies such as [C] and [D] which have no such elaborate financing just comply with minimum requirements. [E] is another company with off-shore borrowing that I would expect to disclose more information..."* (F1). [C7.5]

This view that companies with more international financing will disclose more information is shared by an auditor who said the following;

> *"The underlying reason why large companies engage in voluntary disclosure is because they probably have to go to the international market to raise financing..."* (A4). [C7.6]

Additionally, interviewees also suggested that larger companies can be expected to have better governance structure. A director of one of the divisions at a regulatory body argued;

> *"Bigger companies usually have better structure of corporate governance partly because they are being watched by more people. Companies such as [A], [F], [GG], and [H] have clear separation between owners and managers, and these managers are professionals. These companies apply good corporate governance ..."* (R2). [C7.7]

The above response also implies that large companies are more in the 'public eyes' and additional disclosure may have been provided to avoid unnecessary government intervention. In addition the response suggests that large companies are usually

managed by high quality teams of management who can be expected to better appreciate the importance of corporate transparency.

Three interviewees attributed the positive association between number of employees and voluntary disclosure to government influence. A financial controller claimed; *"high number of employees because these companies are previously government departments such as [A] and [B]..."* (F9). [C7.8] Privatised companies were expected to disclose more information because government-controlled companies would appoint directors who do not have an interest in the company and hence can be expected to carry out their monitoring role more effectively. *"Larger companies, especially privatised entities, normally have senior government officers sitting on their boards, so you can expect higher level of corporate governance by these companies..."* (B1). [C7.9]

The level of public accountability in government controlled companies can be expected to be high because the ultimate shareholders are the public at large. Directors might have disclosed more information in anticipation of public interest or political pressures in these companies.

> *"[A] is a government institution, management totally separate from the shareholding, so management has got to show that they are responsible. In order to do that they have to disclose more information but I still feel that [A] for instance had not disclosed enough information..."* (R1). [C7.10]

The response suggests that large government-controlled companies are expected to have clear separation between owners and management. In government-controlled companies, directors might have felt more need to disclose information to inform shareholders who are not involved in the day to day running of the business, and the public at large, of the activities and performance of the companies. That would be one of the ways directors can discharge their responsibility and accountability to shareholders and other stakeholders.

Three interviewees pointed out that number of employees could indicate an industry factor. Certain industries such as garment manufacturing, plantation and service

sectors are usually labour intensive. *"Bigger companies usually employ a bigger number of employees especially those in the manufacturing and plantation sector..."* (R2). [C7.11]

> *"Big companies may have a high number of employees depending on industry. So maybe it's not the employees that drive disclosure. For some companies such as those in the service industry, of course they'll have more employees, and if you are in a manufacturing with high capital intensive, most likely you will use more machines, automation and maybe less employees..."* (I2). [C7.12]

The above responses seem to suggest that companies in industries which employ more people may have more information to disclose in respect of employees welfare and activities. Alternatively, the response may also imply that the interaction between company size and industry affects the amount of information voluntarily disclosed in annual reports.

7.2.1.1 Summary

The interviews appear to suggest that employees themselves are not expected to influence corporate disclosure policy in Malaysian companies. The majority of the interviewees attributed the significance of number of employees in explaining voluntary disclosure in annual reports to company size.

A number of reasons were suggested for the positive association between company size and voluntary disclosure. The most cited reasons were to satisfy the information demands of investors, to attract prospective investors to the company and to compete for international funding. That suggests the application of **information costs theory** and **capital need theory** in explaining voluntary disclosure. Large companies were also expected to have better governance structure with clear separation between owners and managers. Additional provision of voluntary information in the annual reports could have been used to mitigate **agency conflicts** between owners and managers. Government ownership was also suggested as a possible explanation. Government ownership probably implies accountability is higher, suggesting the application of **legitimacy theory**. A government-controlled company can also be expected to be more in the 'public eyes', implying **political costs theory** may also provide an explanation for voluntary disclosure.

Companies with a larger number of employees were also expected to have more employee-related information to report. Additional information may have been provided to show that the company also cares about its employees, thus **legitimising** the company as a good corporate employer. It was also suggested that companies with a larger number of employees provide more information because of demand from employees. Large companies may have provided additional information explaining company performance to avoid potential future costs in the form of excessive wage demand. This implies **political costs theory** provides a framework to explain why companies with a larger number of employees disclose more information in annual reports.

7.2.2 Director ownership

Interviewees were not surprised at the finding that companies with a higher proportion of director ownership disclosed significantly less information in the annual reports. Table 7-2 summarises the reasons given by interview respondents in respect of director ownership.

Table 7-2: Director ownership – views from interview respondents

	F 2	F 3	F 7	A 3	A 4	R 1	R 3	R 6	I 1	I 2	B 1	B 2	(12)
Ownership and management coincide	✓	✓				✓		✓			✓		5
Less number of external shareholders	✓		✓		✓		✓		✓				5
Lacking professional involvement				✓	✓	✓						✓	4
Less institutional investors							✓			✓		✓	3

Five interviewees opined that owner-managed companies disclosed less information because ownership and management coincide. As owners are also the directors of the company, there is no real need to engage in extensive disclosure in annual reports because owners have access to all company information.

> *"One of the criteria is independence of management from the board. When they are independent, they have to communicate more. The higher the proportion of shares held by a director, the more control they have and there is no real need to tell the world because they (owner-directors) know everything about the company..."* (R6). [C7.13]

A banker made the following the comment, *"that is because they own the company, so disclosure to the public is less of an issue to them..."* (B1). [C7.14] That implies that when managers are also owners of the company, additional disclosure is not necessary because owners are involved in the management of the company. Additionally, the response also suggests that when a manager holds a significant proportion of the company shares, outsiders' interest may be relatively small such that managers may not feel the need for extensive disclosure in a public document such as the annual report.

Five interviewees suggested that owner-managed companies may have a lower number of external shareholders. Because of their small number, these external shareholders may not be able to put pressure on companies to disclose additional information. An audit partner with a major international accounting firm argued;

> *"That is probably because a higher proportion of director ownership may mean that there are fewer number of external shareholders so there is less pressure to disclose more information. At the end of the day, if the company does not want to disclose a lot, the market should punish them..."* (A4). [C7.15]

Alternatively, the external shareholders in owner-managed companies may not be pressing for additional information. As explained by a regulator, *"the minority shareholders may not require such information..."* (R3). [C7.16]

Interviewees also suggested that perhaps owner-managed companies disclosed less information because they lacked professional involvement. *"Maybe because the company is owner-managed, it is in a state of potentially lacking professional involvement in the management of the company..."* (A3). [C7.17] A banker shared this view on owner-managed companies;

> *"Those companies with a higher proportion of director ownership are not run by professionals or are not invested by institutional investors. It's a very tightly controlled company; the shares in a way are also cornered..."* (B2). [C7.18]

The above response also attributed the low level of disclosure in owner-managed companies to the company having fewer institutional or professional investors. A

regulator was of the same opinion that owner-managed companies are not heavily invested by institutional investors;

> *"Smaller and owner-managed companies usually do not have many institutional investors. For these companies, the benefits of additional disclosure may not be that much..."* (R3). [C7.19]

It appears from the above response that because of fewer institutional or professional investors in owner-managed companies, the demand for information can be expected to be less. Hence, owner-managed companies may not find it beneficial to provide additional information.

7.2.2.1 Summary

All twelve interviewees were of the opinion that companies with a higher proportion of director ownership would disclose less information in the annual reports. It was suggested that in companies where ownership and management coincide, there is less need for additional disclosure because owners are involved in the management of the company and have access to internal information. Owner-managed companies could also mean that **agency conflicts** are less than would be the case in a widely-held company. Thus, additional information disclosure as a monitoring and bonding tool between shareholders and managers may not be necessary in owner-managed companies. Owner-managed companies were also expected to have fewer external shareholders or fewer institutional shareholders, implying that demand for information in owner-managed companies could be expected to be less. That suggests the application of **information costs theory** in explaining voluntary disclosure. Lastly, owner-managed companies were expected to be lacking professional involvement or did not allow outside participation. That could also contribute to the low level of voluntary disclosure in the annual reports of these companies. The practice of not allowing outside participation could be a tradition or **cultural** aspect of owner-managed companies.

7.2.3 Profitability

As for the significance of profitability, seven out of nine interviewees who responded to the question agreed that more profitable companies would disclose additional

information in the annual reports. Table 7-3 summarises the reasons given by interview respondents on the significance of profitability in influencing voluntary disclosure.

Table 7-3: Profitability – views from interview respondents

	F2	F9	A3	A4	R1	R2	R4	I2	B2	(9)
Tendency to disclose good news			✓	✓	✓	✓	✓	✓		6
Signalling well-managed					✓				✓	2
Investors' attention						✓				1
Less profitable may have more need to explain performance	✓	✓								2
Large company			✓					✓		2

Six interviewees suggested that the tendency was to disclose good news. *"Basically everybody wants to spread good news. If you are profitable, you are doing well, you would want to disclose a lot of things. When you are down, why would you tell everybody about your performance..."* (A4). [C7.20] The response implies that voluntary disclosure in annual reports is confined to favorable information only. Another audit partner also expressed the same view on voluntary disclosure; *"A company which is not making too much operating profits would be asking for trouble if they were to spend time, effort and money to produce additional information..."* (A3). [C7.21]

A regulator argued that companies which did not perform might not want to dwell too much on their performance or disclose additional information because people may interpret the poor performance as an indication of the quality of management. *"People don't want to disclose when they are making losses... It's also a reflection of poor management..."* (R1). [C7.22]

A banker also shared the view that a company's performance reflects its quality of management. *"More profitable indirectly may mean that the company is well managed. It relates to professionally run, so they don't mind to be open about it..."* (B2). [C7.23] The response implies that companies that are more profitable can be expected to disclose additional information because additional disclosure of

favourable information signals that the company is being run by a team of professional managers.

Signalling a company's good performance may also attract the attention of prospective investors;

> *"The tendency is to disclose good news only, probably because of attention from investors. For those companies not doing so well, not so profitable and making losses, they usually disclose less information..."* (R2). [C7.24]

The above implies that profitable companies disclosed more information because that may attract potential investors or that may help in retaining shareholders in the company. Disclosing more information about the company's good performance may build a shareholder's confidence in the company and screening company out from companies performing less well. Additionally, the response could also imply that profitable companies would be more motivated to disclose additional information in the annual reports if they were in need of additional financing.

Two interviewees suggested that profitability might be related to company size. *"Profitable companies are usually large in size compared to one loss making but nonetheless still a listed company..."*(A3). [C7.25] *"Those companies which are more profitable are more likely to be big companies such as [A], [B] and [H]. It boils down to institutional shareholders again..."* (I2). [C7.26] That appears to suggest profitable companies are expected to be large in size and that additional disclosure is provided in response to the demands from shareholders. These responses also imply that perhaps it is the interaction between company size and profitability that results in profitability showing a statistically significant positive association with voluntary disclosure.

In contrast, two interviewees were of the opinion that less profitable companies would have more incentives to disclose additional information. That is because less profitable companies may feel more need to explain or justify their poor performance. A financial controller was quite dismissive when asked whether more profitable companies would disclose additional information in their annual reports;

"I think a company with good investor relations initiatives or strategy will not use profitability as an excuse for better or lower level of disclosure. Looking at us, for example, we were listed on the Exchange in 1999. Our financial performance in 1999 was very good. Unfortunately our financial performance in year 2000 wasn't as good as it was in 1999. But we disclosed more information in our annual report for the year 2000 because we wanted to explain why profitability was not at the same level as in the year before. We were basically trying to explain to investors that it happened because of factors beyond our control, and factors which we did not anticipate earlier. For example the September 11 incidence that happened in 2001. That has resulted in a significant decline in profits for the year 2001. So we elaborate further and explained to investors why that was so. Historical information is important but it does not necessarily dictate what will be the future outlook of the company. That is also because some of the reasons are not recurring factors..." (F2). [C7.27]

Another financial controller was also of the opinion that poor performing companies would have more need to disclose additional information in the annual reports. *"I would have thought that less profitable companies would disclose more information. There's sometimes a good explanation on why a company is not so profitable..."* (F9). [C7.28]

7.2.3.1 Summary

The interviews have helped to further understand the motivations for companies to disclose additional information in the annual reports. Seven of the nine respondents agreed that more profitable companies would provide more voluntary information in the annual reports. Interviewees suggested that 'good news' disclosure would signal a company's good performance and quality of management while at the same time screening companies from companies performing less well. That suggests **signalling theory** can be used to explain voluntary disclosure in Malaysian company annual reports. An interviewee suggested that profitable companies might have disclosed additional information to help attract prospective investors. That implies **capital need theory** is also a possible explanation for voluntary disclosure. Additionally interviewees related profitability to company size and that disclosure of additional information is a response to investors' demand. This means that **information costs theory** can help explain voluntary disclosure. However, two interviewees were of the opinion that profitability should be negatively associated with the extent of voluntary

disclosure in annual reports. These interviewees argued that additional disclosure could help explain a company's poor performance. That implies that **accountability** to shareholders necessitate more explanation on a company's poor performance.

7.2.4 Family members on the board

It is evident from the interviews that there is no surprise in the finding that the proportion of family members on the board influences the corporate disclosure decision. A financial controller said, "*The [J] Group is an example of family-owned business. This type of company keeps their results very close to their chest...*" (F7).[124] [C7.29] All interviewees agreed that family-controlled companies would have a greater tendency to be secretive. Disclosing too much information may be regarded by these companies as inviting an unwelcome takeover. A number of reasons were suggested as shown in Table 7-4, with protecting family secrets being the most cited reason, followed by small company size, traditions, lower proportion of outsiders' interest and minimum number of independent directors.

> *"Family controlled companies are a reflection of the Malaysian market. This type of family oriented businesses does not tell much to others because they feel that the information is family matters..."* (R4). [C7.30]

> *"Family controlled businesses are usually secretive and defensive because they want to protect their interests, to make sure that the company will not be a target for a takeover bid. Information disclosed in annual report is sufficient to cater for the needs of minority shareholders only. Companies that are widely held are more inclined to disclose more information to make their share more attractive to investors..."* (F6). [C7.31]

The responses also suggest that unlike family-owned companies which prefer to remain closely-held, widely-held companies regard additional disclosure as necessary to attract more investors to the company. It was also suggested that perhaps family-owned companies are smaller in size and investors are less interested in these companies because of liquidity reasons. A regulator commented;

[124] See Table 7-8 for the disclosure score awarded to this company in this study.

"Family-owned companies are mostly medium and small-sized. Fund managers may not want to invest in smaller companies because these companies may be less liquid..." (R2). [C7.32]

Family-owned companies may not engage in extensive disclosure for fear of giving too much information which may attract a potential investor. Investors on the other hand, may not be interested in smaller companies that do not provide additional information that is necessary for them to make informed decisions. This implies that lack of demand for information is a contributing factor for family-owned companies to provide a minimum amount of voluntary information. The lack of demand for family-owned company information is suggested in the following response;

"Most of the stocks that we look at are those in which institutional investors hold between 20% to 30% of the company shares. We do follow some smaller companies controlled by a major shareholder. Some of them for example [I] is quite open to tell information during private meetings but not in the annual report. Family-owned companies tend to be smaller, they feel that there isn't a need, maybe there's not even demand for additional information about the company..." (I2). [C7.33]

In addition, the above response also suggests that some family-owned companies may be reluctant to disclose additional information in the annual reports because it is a public document. However, these companies may be willing to give additional information during private discussions between the company management and the analyst. This implies that family-owned companies may be prepared to furnish additional information to parties that are 'known' to them. That again implies that family-owned companies are protective of their closely-held companies.

Five interviewees stressed that most Asian companies are built from family businesses, and that the low level of voluntary information disclosed in the annual report is a practice inherited from the past.

"Most Asian companies are family-owned, it is not unique to Malaysia but Korea as well. In Malaysia, these companies are mostly medium sized except for example [K]. So when they go for listing, the family concept still carries through..." (R2). [C7.34]

"Smaller companies, most of them are family-based, which all along have been operating as private listed companies, usually keep all information to themselves. When they go for listing, it's a new world

for them, and they may not be able to comprehend what are the benefits to be derived from making the additional disclosure..."(R3). [C7.35]

"Practices inherited from the past. Family owned companies tend to be more secretive and tend to choose interpreting listing requirements towards their advantage, if you like. They are not out there to win awards or anything like that, so they don't bother disclosing..." (F9). [C7.36]

Table 7-4: The proportion of family members on the board – views from interview respondents

	F 2	F 6	F 7	F 9	A 1	A 3	R 2	R 3	R 4	I 1	I 2	B 1	B 2	(13)
Do not want to reveal family secrets to protect their interests	✓	✓	✓	✓	✓	✓			✓	✓				8
Mostly small companies and fund managers may not be interested in							✓	✓			✓	✓	✓	5
Practice inherited from the past. Most Asian companies are built from family businesses	✓		✓	✓			✓	✓						5
Lower proportion of outsiders' interest	✓					✓				✓			✓	4
Minimum number of independent directors								✓				✓		2

The above responses imply that there is no or minimal motivation for family-based companies to disclose additional information because these companies may be more concerned with carrying on with their family businesses rather than competing for external awards. These companies may feel that because they are able to survive without much dependence or reliance on external support or sources, they see no real need to disclose information beyond the regulatory requirements. Additionally the responses suggest that listing age may be a contributing factor to company information disclosure.

The proportion of outsiders' interest was cited by four respondents as another reason for the low level of voluntary information disclosure in family-owned companies. It was suggested that family-controlled companies might not need to go to the public to raise capital, thus public accountability for these companies could be less of an issue. *"It's more of their personal interests, they may not see the need to disclose more*

information to captivate the interests of other (potential) shareholders..." (B2) [C7.37]. *It's perhaps because it is very much family owned, there is not so much need to go to the public, there is nothing more they could show..."* (A3) [C7.38]. A financial controller made the following comment;

> *"To me at the end of the day public accountability will depend on the level of public interest in that company. Director ownership and family members on the board indicate that the moment there is quite a significant control, both in the form of shareholding and management, you can expect the level of voluntary disclosure to be much less..."* (F2). [C7.39]

The responses clearly show that the low levels of voluntary disclosure in family-controlled companies were expected because external shareholders in these companies may be relatively small in size. Consequently family-controlled companies may feel that the low level of public accountability does not require extensive disclosure in annual reports. Additionally the low proportion of outsiders' interest may mean that agency conflicts are relatively less than in a widely-held company.

An interviewee expressed concern about the practice of some family controlled companies which appoint directors who meet the definition of independent directors in the KLSE Listing Requirements, but are well known to, and appointed by the board (see also section 7.3.1). *"Some of these family-owned businesses appointed independent directors who are 'friendly' to them..."* (B1) [C7.40]. This friendly relationship casts some doubts on their ability to exercise their monitoring role. Another respondent suggested that family domination on the board would imply that corporate decision will be made by family directors because independent directors in this type of companies can be expected to be small in number. Independent directors being smaller in number as compared to family members on the board would not be able to exert influence in corporate decisions.

> *"If family members control the company, they can control the board. They can also appoint the minimum number of independent directors. So if family members control the board, they can decide and dictate what should be disclosed..."* (R3). [C7.41]

7.2.4.1 Summary

The interview responses on the relationship between the proportion of family members on the board and the extent of voluntary disclosure in annual reports have given support to statistical results in this thesis. All thirteen interviewees who responded to this question were of the opinion that companies with a higher proportion of family members on the board would disclose less voluntary information in the annual reports. The secretive nature of family businesses and following the practice of their predecessors were suggested as possible reasons for the low level of voluntary information disclosure. Protecting family business' secrets may be interpreted as a **cultural** aspect of family businesses. Additionally, family-businesses were expected to be smaller in size and may not attract the attention of fund managers. The lack of attention from fund managers implies that information demand for this type of companies could be less. Thus family businesses may find that the **costs** of providing additional **information** more than outweigh the benefits of providing it. Interviewees also suggested that these companies may not need to go to the market for external financing. That implies **capital need theory** can also explain why family controlled companies disclosed significantly less amount of voluntary information in their annual reports. Given that the need for external financing for family businesses may be less, the proportion of outside shareholders in these companies can be expected to be quite low. This suggests that **agency conflicts** in closely-held companies are relatively less because of their less diffused structure. The practice of appointing the minimum number of independent directors can be interpreted as a **cultural** aspect of family businesses of allowing only the minimum outside participation.

7.3 Non-significant variables

Two statistically non-significant variables were included in the interview questionnaire. They were the proportion of independent directors on the board and the proportion of Malay directors on the board. The decision to include these variables in the interview agenda was based on the following reasons. Firstly, the aim of this thesis was to examine whether regulations implemented since the 1997 Asian

financial crisis, particularly the corporate governance changes in 2001, had any impact on voluntary disclosure in annual reports. Contrary to expectations, this study found that none of the new governance initiatives was significant in the regression model. Thus, it was felt necessary to seek views from market participants on their perceptions on at least one of these variables. Secondly, the impact of culture on voluntary disclosure is one of the focus of this study. The cultural variable of the proportion of Malay directors on the board shows inconsistent results in the statistical models; a significant positive association in the stepwise regression model (see Appendix 6-E) but not statistically significant in the alternative standard multiple regression (see Appendix 6-D). The proportion of Malay directors was found to be statistically significant by Haniffa and Cooke (2002) in the reduced regression model in their study on Malaysian corporations using data from 1995 accounts. Opinions from interviewees may help clarify the results observed in this study. The responses to questions on these two variables are discussed in turn below.

7.3.1 Independent non-executive directors

Eight interviewees responded to the question on whether independent directors can be expected to have a significant influence on voluntary information disclosure in annual reports. It was apparent during some of the interviews that there was some scepticism on independent directors, whether they can really carry out their *'perceived'* role and exert influence in board decisions. Table 7-5 summarises the views of interview respondents on independent directors.

Table 7-5: Independent directors – views from interview respondents

	F9	A3	A4	R1	R2	R4	B1	B2	(8)
Doubts on independence	✓	✓	✓	✓	✓				5
Depends on type of plcs				✓	✓		✓		3
Expected to look after the minority's interests						✓		✓	2

Five interviewees expressed doubts on the 'independence' of independent directors because they (independent directors) are appointed by the board.

"I actually have a view on these so-called independent directors. How independent are they in the very first place? In my view they are not, there are very few independent directors. It boils down to who gets to appoint you to the board? If they are there at the invitation of the major shareholder, then they are representing the interests of the major shareholder..." (A3). [C7.42]

This view of independent directors being 'controlled' by the major shareholder is shared by a financial controller who claimed;

"In the Malaysian context, independent directors are still, if you like, to some extent driven by the management or the controlling shareholders..." (F9). [C7.43]

The above responses also suggest that an individual who meets the definition of independent may not be totally 'independent' because independence of mind-set is difficult to measure. As the following auditor explained;

"The definition of independent directors is actually governed by the KLSE Listing Requirements, in terms of shareholding, family relationship, whether they represent the major shareholder and so on. As regards to how independent they are, on paper they are independent. There's nothing much you can say. At the end of the day, I can appoint somebody on paper who might appear to be independent, but that person is not really independent. On the other hand, you might appoint somebody who is deemed to be dependent by the definition, but that person can be very impartial, very objective and very independent in such terms. It is a sad thing that we have to regulate all these through regulations, bye-laws and force people..." (A4). [C7.44]

Three of these five interviewees were also of the opinion that perhaps the extent of director independence is a function of the type of company they are appointed to. A regulator who was formerly a Managing Partner of a major international accounting firm argued;

"In respect of independent directors, as I said just now there are two categories of plcs, one is complete separation of shareholding and management, and the other the opposite. In the first category, these are professionals, they are free to express their opinion, they are not so called tied to the relationship. They were appointed for all we know by the government, so they have got to show that they contribute. In the other category, it is difficult to provide a definition to the independent directors and I'm not sure if there is such thing as

> *independent director when shareholding is significantly held by the majority shareholder..."* (R1). [C7.45]

The above response suggests that while the independence of independent directors can be expected to be high in government controlled companies, their independence in family owned or closely-held companies may be limited due to their 'ties' with the controlling shareholder. Another interviewee agreed with this view on government appointed directors and said, *"I know of a company, [LL]*[125] *where independent directors are able to exert significant influence in board's decision..."* (B1). [C7.46]

The same interviewee expressed her concerns that some independent directors who might not be conversant in corporate matters were appointed only to satisfy the KLSE Listing Requirements. These directors may be qualified to become independent directors but their background and work experience might not be adequate or sufficient for them to fully carry out their monitoring role in the company. This interviewee made the following comment;

> *"I've attended board meetings where independent directors were intimidated by the other board members. In other companies, independent directors asked simple questions for the sake of being seen as doing their job, where in reality they were not protecting the minority interest. I've also attended board meetings where independent directors did not seem to know what was going on, they were appointed because of the KLSE requirements..."* (B1). [C7.47]

The above observation may refer to isolated cases. However, the importance of the qualification of independent directors should not be under-estimated or overlooked. If independent directors are entrusted with ensuring that the rights of minority shareholders are well protected, and encouraging transparency in corporate activities and reporting, independent directors should be of individuals who have a reasonable understanding of corporate matters. Nonetheless, the revised KLSE Listing Requirements announced in January 2001 provide for directors of public listed companies to attend a mandatory training program to assist directors in effectively discharging their duties (see section 3.5.4.1). Additionally, qualification of directors is a required disclosure in company annual reports issued on or after 1 June 2001 (see

[125] [LL] is a government-controlled company.

section 4.7.1.1 (3)). That requirement could be interpreted as an expectation that corporate directors should be people of high calibre and professionally qualified.

Only two of the eight interviewees were of the view that because independent directors were supposed to look after the interests of the minority shareholders, the appointment of independent directors should lead to more information disclosure;

> *"Independent directors are the watchdogs. They look after the interests of the minority shareholders. One way for them to communicate to the minority shareholders is through this disclosure of information..."* (B2). [C7.48]

7.3.1.1 Summary

The interviews appear to imply that in the Malaysian context, independent directors are not expected to have a significant impact on information disclosure in annual reports. Six of the eight interviewees argued that 'independent' is a difficult concept because paper definition may not necessarily reflect real life situation. The independence of independent directors is questionable especially if he is appointed by the controlling shareholder in a closely-held company. Perhaps with the training programs conducted by the KLSE, independent directors will be more aware of their rights and obligations and with this awareness, they will be able to carry out their role more efficiently. The other two interviewees suggested a positive association between independent directors and information disclosure in annual reports. That implies a complementary rather than substitutive relationship between independent directors and information disclosure. The views of these two respondents on voluntary information disclosure in annual reports can be interpreted as a mechanism to reduce agency conflicts between insiders' interest and outside minority shareholders.

7.3.2 The proportion of Malay directors on the board

Interviewees were also asked whether the proportion of Malay directors on the board would have a significant impact on voluntary social information disclosure in corporate annual reports. A total of 14 interviewees responded to this question. Their views are summarised in Table 7-6.

Table 7-6: The proportion of Malay directors on the board – views from interview respondents

	F1	F2	F6	F9	A1	A3	A4	R1	R2	R3	R4	R6	B1	I1	(14)
No relationship between Malay directors and voluntary disclosure	✓	✓				✓		✓							4
Reasons for disclosure:															
Government owned, rely on government patronage			✓		✓		✓		✓	✓		✓	✓	✓	8
Recognition purposes				✓			✓				✓	✓			4
Institutional shareholders									✓	✓					2

Four interviewees did not think that racial composition would have a significant impact on corporate social disclosure in annual reports. One of them said,

> *"[MM]'s annual report is supposed to be the annual report of the year, but the majority of the directors are not Malays. To me it is not necessarily true that if a company has a higher ratio of Malay directors on the board, there will be more emphasis on social activities or level of corporate citizenship of that company disclosed. I think it depends on the company itself, it has nothing to do with race. If you look at [MM] annual report, at least 5 – 6 pages were allocated to their social contribution. I think it is more of the industry or the operating environment in which that company is in. That will to a certain extent dictate the level of social disclosure the company will undertake. For example [N], [A] or [B] where their so-called market is basically the masses, they have to make sure that they are in the good books of the masses, and that they are being seen by all parties concerned that they are responsible corporate citizens, both from an environmental perspective and social charitable work for the people... and similarly with banks, because they are basically taking people's money and charging interests to people who borrow money, they don't want to be seen as banks that are very profit driven and not giving back to society. So it is not the racial composition that will dictate the level of social disclosure but I think it's more of the industry that they are in. Companies in industries where their client base does not cut across the entire nation tend to be less socially relevant. For example if you are a cargo operator and your clients are basically the international freight forwarders, and you don't interact directly with the public, you may not have to do much of social work, because you don't have to be accepted by the public. You can continue to do business even if you don't contribute back to the nation..."* (F2). [C7.49]

The above response also suggests that companies which provide basic necessities to the public can be expected to disclose more social information.[126] Unlike previous studies which mostly documented industry sensitivity as affecting social disclosure (see section 2.6.2), this response implies that market-size of the end-users of a company product may be a determining factor for companies to be involved in social activities and hence disclosure in annual reports. Future studies on corporate social responsibility disclosure may consider classifying companies into market-size of end-users to see if companies that provide consumables which are used by the public in their day to day activities disclose more socially related, particularly philanthropic activities in their annual reports.

An audit partner with a major international accounting firm who is also a council member of a professional accountancy body in Malaysia, felt that social disclosure is provided for publicity purposes.

> *"I don't think the drive to disclose social information has anything to do with being a Chinese or a Malay as an individual...all these people are doing it for reasons, such as it will put them in a better position...."* (A3). [C7.50]

A regulator who formerly was an audit partner with a major international accounting firm said this;

> *"Honestly I'm not sure if there is any relationship between information disclosure and the proportion of Malay directors on the board. If you look at [MM], it is a highly respected institution, has been gaining awards after awards because of corporate governance, accounting disclosure in annual reports, they also participate in a lot of socially responsible activities except that I think maybe the publicity on it has been given less focus. When you look at the [P] Group, they actually have aggressive marketing initiatives, public relations initiatives and I think they also participate actively in these socially responsible activities. In the category of plcs that have less government involvement, and making less money maybe they focus less on socially responsible activities, and you cannot blame them for that, because they are there to make money first... I highlighted [MM] and [P] Group because one is a Chinese and the other a Malay company, and I don't think there is any difference in terms of their socially responsible activities. So I think the issue of being Chinese or*

[126] The corporate responsibility disclosure scores awarded to these companies in this thesis are reported in Table 7-8.

Malay is not really the factor. Both originated from family businesses, both are very far sighted and very profitable..." (R1). [C7.51]

The response implies that race is probably not a significant factor influencing corporate social responsibility disclosure. Instead, government ownership and profitability were suggested as possible determinants of corporate social disclosure.

The other ten interviewees had some doubts on the association between the proportion of Malay directors on the board and voluntary disclosure of social information in the annual reports. However, these interviewees suggested reasons why companies with a higher proportion of Malay directors on the board might disclose additional social information in the annual reports. Eight of the ten respondents were of the opinion that companies with a higher proportion of Malay directors would more probably be government-controlled or rely on government patronage. *"It is possible that Malay directors in Bumiputra owned or government owned companies disclosed more because of greater degree of public accountability..."* (I1). [C7.52] It was also suggested that government-controlled companies may feel more need to be involved in social activities because these companies have other objectives rather than solely for profit-making purposes. Thus Malay directors may feel that disclosing more social information in the annual reports would inform the public that the company is operating in accordance with the goals of the nation. This view is evident in the following quotation;

> *"Most of these companies are owned by the government through the Ministry of Finance. It is one of the social aspirations of these companies to help the Bumiputras. Chinese companies are very profit oriented and don't care much about social obligations. Chinese companies may indulge in social activities only if they rely on government patronage, for example [K]. That is because they have to be seen as giving back to the society..."* (B1). [C7.53]

A regulator also agreed that government-controlled companies do not exist only for profit-making purposes;

> *"I suppose these are Bumiputra controlled companies, or government controlled, with large institutional investors. For these companies, they exist not purely for profit making purposes. For example [LL], they have many professional directors and these directors may feel*

that they must portray some socially responsible image..." (R3). [C7.54]

Additionally the above response also implies that companies in which Malay directors are appointed to represent the government's interest would disclose additional information because of accountability to the public and these directors are professionals. This view of professional directors being more transparent in reporting is shared by a banker who further added that professionalism together with separation between management and ownership could ensure greater corporate transparency.

> *"I suppose these are companies with large institutional investors or owned by government institutions such as [RR]. Companies such as [A]and [B] have more professional directors who are appointed by the government, these directors are not shareholders of the company..."* (R2). [C7.55]

Four interviewees felt that Malay directors would probably disclose more social information in the annual reports for recognition or image purposes. A partner with a major international accounting firm was adamant that race has no relationship with information disclosure;

> *"I don't think there is much link between Malay directors and disclosure in annual reports. When you say Malay directors, are they some figureheads meaning they don't serve any role except to serve as the Chairman. These directors are probably appointed by the government and thus may feel that they have to present a nice image both to the public and the government. If you look at Bumiputra controlled companies, they tend to have Bumi directors or civil servants representing the government interests. If they disclose more, it is probably just by pure chance, these people being technocrats and all that, they want to comply with good practice..."* (A4). [C7.56]

In addition to government's influence, the above response appears to suggest that additional disclosure of social information was provided so that the company is seen to be a good corporate citizen. Malay directors might felt that portraying a socially responsible image would lead them to be more recognised by the public. The view that perhaps companies with a higher proportion of Malay directors disclose more information because they want more recognition is shared by a regulator;

> *"Maybe because they want more recognition. But I still think it is the size of the company that determines the level of disclosure, if a*

company has more staff, it has more information to report. Whether it is really the Malay factor or those are companies controlled by government so that they put more Malay directors but at the same time because of their size they report more, then somehow it is linked to the number of Malay directors..." (R6). [C7.57]

Additionally the above response implies that companies with a larger number of employees would disclose more social information because these companies would have more employee-related information. Future research on corporate social responsibility disclosure may consider segregating items into three sub-categories such as employee-related, environmental and community-related to see if different factors influence the three sub-categories of information. Previous studies have documented that environmental disclosure is significantly influenced by industry type (e.g. Ness and Mirza, 1991; and Brown and Deegan, 1998). It was suggested by an interviewee (F2, see C7.49) that companies which provide consumables which are used in the day to day activities may engage in more community or philanthropic activities because these companies may feel more need to be accepted by the public. Companies with a larger number of employees may provide additional information on employee matters (R6, see C7.57) possibly because they can be expected to have better provision for employee facilities and welfare. The segregation of corporate social responsibility items may help in determining whether different variables are influencing the sub-categories of disclosure.

7.3.2.1 Summary

With regards to the relationship between the proportion of Malay directors on the board and the extent of voluntary corporate social responsibility disclosure in annual reports, the interview responses indicated that race was not expected to influence disclosure in annual reports. Respondents who felt that Malay directors might lead to more corporate social responsibility disclosure in annual report attributed that to government ownership in the company hence public accountability or for recognition purposes. That implies that if companies with a higher proportion of Malay directors on the board were to disclose additional information in the annual reports, it is to show that they (the Malay directors) are aware of social obligations. Companies being seen as socially responsible corporate citizens would legitimise the appointment and position of Malay directors in government-controlled companies.

In developing the hypothesis regarding the relationship between Malay directors and voluntary information disclosure in annual reports, the religion of these directors, which is Islam, was also suggested as a possible reason for Malay directors to encourage companies towards more transparency (see section 4.8.3.1). However, none of the respondents mentioned or suggested religious beliefs as the motivation for more information disclosure. Thus there is no support to suggest that Islam influences corporate decision on voluntary disclosure in annual reports.

7.4 Linking interview findings to expected theoretical frameworks and statistical results

This section compares respondents' views on tested variables with the expected theoretical frameworks and statistical results.

7.4.1 Significant variables

The comparison in respect of variables found to be statistically significant is summarised in Table 7-7.

7.4.1.1 Number of employees

Table 7-7 shows that all interviewees expected companies with a larger number of employees to disclose additional information in their annual reports. Interviewees suggested that larger companies are usually heavily invested by institutional investors and have big analysts following or have better governance structure. These explanations are consistent with information costs and agency theories. The suggestion that companies with a bigger number of employees disclosed more information because of demand from employees may be explained by the political costs theory.

Interviewees also suggested that larger companies usually rely more on international funding. That implies larger companies have a higher proportion of foreign ownership or foreign debt. However, contrary to interviewees' opinion, the Pearson correlation between foreign ownership and number of employees is -.139 (see

Appendix 6-C) and the correlation is not statistically significant. The multiple regression analysis also shows that foreign ownership is marginally significant at the 10% level and negatively associated with voluntary financial information disclosure (see Table 6-6). The negative association between foreign ownership and number of employees, and between foreign ownership and the extent of voluntary financial information disclosure implies that in statistical terms, there is no support for interviewees' suggestion that the positive association between number of employees and voluntary disclosure is driven by foreign ownership.

Table 7-7: Statistical and interview analyses of significant variables

	Statistical analysis			Interview analysis		
Variables	Expected theoretical framework	Expected sign	Actual sign (see Table 6-3)	Sign confirmed?	Reasons given by interviewees	Theoretical interpretation
Number of employees	(see section 4.8.4.1) Political costs Agency theory Information costs Proprietary costs Capital need	Positive	Positive	Yes (13/13)	(see section 7.2.1) Institutional investors and analyst following Better governance structure International financing Government-controlled Industry related Employee demand	(see section 7.2.1.1) Information costs Agency theory Capital need Political , Legitimacy Legitimacy theory Political costs
Director ownership	(see section 4.8.1.2) Agency theory	Negative	Negative	Yes (12/12)	(see section 7.2.2) Ownership and management coincide Fewer external & institutional investors Lacking professional involvement	(see section 7.2.2.1) Agency theory Information costs Cultural

Profitability	(see section 4.8.4.2) Signalling theory	Positive/ Negative	Positive	Mixed 7/9 – Positive	(see section 7.2.3) Tendency to disclose good news Signalling quality of management Investors attention Large company with more institutional investors	(see section 7.2.3.1) Signalling theory Signalling theory Capital need theory Information costs
				2/9 – Negative	More need to justify poor performance	Accountability
Family members on the board	(see section 4.8.2.1) Agency theory Information costs theory	Negative	Negative	Yes (13/13)	(see section 7.2.4) Protecting family secrets Small companies & fund managers are less interested in small companies Family practice Lower proportion of outsiders' interest Minimum independent directors	(see section 7.2.4.1) Cultural Information costs Cultural Capital need, Agency Cultural

Interviewees also suggested that companies with a bigger number of employees are usually government-controlled. The Pearson correlation between number of employees and government ownership is 0.361 (see Appendix 6-C) and the correlation significant at the 1% level. This means that companies with a bigger number of employees have a higher proportion of government ownership. That provides support to interviewees' suggestion that larger companies are usually government-controlled. However, the multiple regression analysis shows that government ownership is marginally significant at the 10% level and negatively associated with the extent of voluntary financial information disclosure (see Table 6-6). This would suggest that government ownership is not the explanation for the positive association between number of employees and voluntary disclosure. Thus there is limited statistical support for interviewees' suggestion that government ownership is the reason for the positive association between number of employees and voluntary disclosure.

There were suggestions by three respondents that number of employees could be industry related. The multiple regression results regarding industry type shows that manufacturing companies disclosed less voluntary information and the relationship was significant at the 5% level (see Table 6-4). However, Pearson correlation between industry type and number of employees shows positive association at 0.119 (but not statistically significant) which means that manufacturing companies have a bigger number of employees. The weak positive relationship between number of employees and industry type and the significant negative association between industry type and voluntary disclosure in the multiple regression analysis are not consistent with interviewees' suggestion that type of industry is driving the results on number of employees.

The findings above demonstrate the benefits of linking two sets of results, in this case, the statistical findings and the interview analysis, to see whether the results support one another. In particular interviewees suggested the possible interaction between number of employees and a number of variables; namely foreign ownership, government ownership and industry type, thereby implying that these variables are

not totally independent from one another. Not all opinions of interviewees appear to be consistent with statistical results. The inconsistencies between interview findings and statistical results do not necessarily mean that one of the two findings is flawed. Interview findings show the different perceptions of interviewees while statistical analysis reflects the average results of all data used in the statistical testing. In this respect, it may be said that interviews can be used to explore the findings more thoroughly.

7.4.1.2 Director ownership

As shown in Table 7-7, in terms of the direction of association, all twelve interviewees agreed with the negative association observed between director ownership and the extent of voluntary disclosure in annual reports. With regards to theoretical explanation, the development of the hypothesis on the association between director ownership and voluntary disclosure was based on agency theory which suggests that managerial ownership can help alleviate agency conflicts (see section 4.8.1.2). In addition, interviewees suggested that owner-managed companies may have fewer external shareholders which might not be strong enough to pressure owner-directors to disclose additional information. Having fewer external shareholders would imply that information demand for this type of companies could be minimal. Lastly, the suggestion by interviewees that owner-managed companies lack professional involvement probably reflects a cultural aspect of closely-held businesses of not allowing outside participation. Thus, interviews have provided additional insights into explaining the relationship between director ownership and voluntary disclosure.

7.4.1.3 Profitability

The view of two interviewees that less profitable companies would have more need to explain their poor performance is consistent with Wallace and Naser (1995). Thus, there is some support from prior research that profitability is negatively associated with the extent of disclosure. Using profit margin as a measure of profitability, Wallace and Naser (1995) attributed the negative relationship between profitability and the extent of disclosure in Hong Kong company annual reports to management wanting to provide more information as part of their accountability to stakeholders. This could also be interpreted as signalling bad news to avoid adverse selection

(Milgrom, 1981). This is taken further in section 9.4.4. However, the majority of interviewees (see Table 7-7) were of the opinion that more profitable companies would disclose more information to signal their good performance. That is consistent with the theoretical explanation on which the hypothesis on profitability was based (see section 4.8.4.2). Additionally, interviewees also suggested that profitable companies may want to disclose additional information to attract more investors to the company and profitable companies are large in size with more institutional investors. Thus, interviews have provided an alternative interpretation by suggesting a possible interaction between profitability, disclosure and attracting (prospective and professional) and retaining investors.

7.4.1.4 Family members on the board

Table 7-7 shows that interviewees agreed with the negative relationship observed between the proportion of family members on the board and the extent of voluntary disclosure in annual reports. Consistent with theoretical expectations, interviewees suggested that closely-held and relatively fewer external shareholders as reasons for the lower amount of voluntary information disclosed in family-owned companies. Interviewees also highlighted that family-controlled companies might have disclosed less information because of protecting family secrets and following family practice. The appointment of the minimum number of independent directors could not provide enough pressure on these companies to disclose additional information voluntarily. Those factors probably reflect a cultural aspect of family businesses. Additionally, interviewees suggested that family owned companies may not need to go to the market for external financing. Thus, the interviews have helped to provide other possible reasons for the low level of disclosure in family-controlled companies.

7.4.2 Non-significant variables

This section compares interviewees' opinions on two of the variables found to be not significant in the statistical analysis.

7.4.2.1 Independent non-executive directors

In respect of independent directors, the statistical results do not show any significant association which means that the proportion of independent directors on the board

does not significantly influence the level of voluntary disclosure in annual reports. The majority of the interviewees (six out of eight) had doubts on whether independent directors can carry out their perceived monitoring role. This view on independent directors supports the argument of Anwar and Tang (2003) that although independence of directors can be defined based on proximity and relationship, independence of mindset is difficult to regulate. It may be concluded that the non-significance of independent directors in the statistical model is supported by interviews.

7.4.2.2 Malay directors on the board

The proportion of Malay directors is also not significant in the statistical model.[127] Interviewees generally did not regard racial composition of the board to be a significant factor determining voluntary disclosure. Four interviewees dismissed the idea that the proportion of Malay directors on the board would have a significant impact on voluntary disclosure in annual reports. Interviewees were of the view that if companies with a higher proportion of Malay directors disclosed more information in the annual reports, it was due to government's influence in those companies or for recognition purposes. The Pearson correlation between the proportion of Malay directors and government ownership is 0.526 (see Appendix 6-C) which means that there is a higher proportion of Malay directors in companies with a higher proportion of government ownership. That supports interviewees' opinion on the relationship between Malay directors and government ownership. However, government ownership is only marginally significant in explaining voluntary disclosure of financial information (see Table 6-6) and the relationship is in the negative direction. As explained in section 6.5.3, companies with a higher proportion of government ownership may not need to disclose additional information for various reasons. This probably implies that there are other confounding factors apart from government ownership that may have weakened the influence of Malay directors on voluntary disclosure (see also section 6.7).

[127] However, a significant positive association between the proportion of Malay directors and voluntary strategic information disclosure was observed in the stepwise regression model (see Appendix 6-E). The proportion of Malay directors was also found to be statistically significant by Haniffa and Cooke (2002) in the reduced regression model in their study on Malaysian corporations using data from 1995 accounts.

7.5 Interview responses and disclosure indices

This section compares interview findings discussed in the preceding sections with disclosure indices computed in Chapter 5. It needs to be mentioned that interviewees were not directly asked about their opinion on the extent of voluntary disclosure in each specific company annual report. Interviewees were only informed that the sample companies subjected to statistical analysis were those non-financial companies included in the Composite index. The specific reference to companies by some interviewees was made on the interviewees' own initiatives. However, because some of the companies mentioned by interviewees were those included in the statistical analysis, there is an opportunity to compare interviewees' opinions and the disclosure scores measured for these companies. In this respect, interview evidence contributes to validation of disclosure indices computed in Chapter 5.

As can be seen in Table 7-8, the interview responses in respect of the extent of voluntary disclosure in specific company annual reports generally support the scores awarded to each company. Company [A] was mentioned eight times by seven interviewees (two comments were in respect of corporate social responsibility disclosure) while [B] was mentioned by six respondents. The responses indicated that [A] and [B] can be expected to provide more voluntary information than other companies (see relevant sections under Ref). The voluntary disclosure indices of 53.1% and 56.0% respectively are well above the mean disclosure score of 31.4% (see section 5.2.1) and in terms of ranking, [A] is ranked ninth together with one other company and [B] is ranked eighth. [A] was mentioned by the highest number of respondents. However, the disclosure index is not the highest. One respondent did say that in his opinion, [A] had not disclosed enough information (see C7.10). That response suggests that [A] could have provided more information than it already did. That indirectly implies that although [A] is among the companies expected to provide more voluntary information in annual reports, its disclosure level may not be the highest among Malaysian companies. [128]

[128] See also C8.36 and C8.40 in Chapter 8 where [B1] mentioned [A] and [B] as big companies with good corporate governance and [A4] mentioned [A] and [B] as big companies which rely more on external funding and thus expected to disclose more information in their annual reports.

Interviewee F1 was suggesting that [C] and [D] would disclose less information while [E] could be expected to disclose more information (see C7.5). There is thus support from an interview for the relative magnitudes of disclosure scores in respect of [C] and [E] where [C] scored below while [E] scored above the mean disclosure index. However, the interviewee's opinion in respect of [D] does not appear to support the disclosure score awarded to this company, because [D] scored above the mean disclosure index. Interestingly, [C] and [D] are companies in the same industry. Interviewee F1 suggested that these two companies would disclose relatively low level of voluntary information because relatively smaller companies do not rely much on international financing (see C7.5). It is possible that because these two companies are in the same industry and hence can be expected to face the same amount of competition, [F1] was expecting them to provide the same level of voluntary information in the annual reports. Thus even though this interviewee's opinion on company size as a factor influencing voluntary disclosure is consistent with the statistical results (see Table 6-4) and much of prior empirical evidence (see Table 4-4), company size is not the conclusive measure of the extent of voluntary disclosure in annual reports of Malaysian companies. That is because other factors such as director ownership, family members on the board and profitability as evident in Table 6-4, are also significant determinants of voluntary disclosure in Malaysian company annual reports.

The scores in respect of [F] and [H] are also supported by interview findings. These companies were expected to disclose more information and this is reflected in the voluntary disclosure indices. Interviewee I2 mentioned [I] as an example of a closely-held company (see section C7.33) and hence could be expected to disclose less information. [J] and [K] are other examples of family-owned businesses (see C7.29 and C7.34). The total voluntary disclosure indices for [I], [J] and [K] and [P] of 9.8%, 14.3%, 21.6% and 12.2% respectively are well below the mean disclosure score. [K] scored higher than the other three companies probably because unlike most family-owned businesses which generally are small or medium in size, [K] is relatively bigger in size (see C7.34).

Three companies, [A], [B] and [N] were expected to engage in more social activities (see C7.49). That view supports the corporate social responsibility disclosure scores awarded to these three companies in this thesis. The corporate social responsibility disclosure scores for [A], [B] and [N] of 58.9%, 52.9% and 52.9% respectively are above the mean score for this information category of 20.2% (see Table 5-2 in Chapter 5). [K] and [P] are family-owned companies, [K] being a Chinese owned company while [P] is owned by Malays. It was suggested by an interviewee that if [K] disclosed more social information that was because the company relied on government patronage (see C7.53). However Table 7-8 shows that the corporate social responsibility disclosure score for [K] is 5.9% which is one of the lowest score observed in this thesis. Interestingly [P] also scored 5.9% in respect of corporate social responsibility disclosure. The same scores observed in respect of [K] and [P] is consistent with the opinion of interviewee R1 where he argued that race is not a factor determining the extent of company involvement in social activities (see C7.51). With regards to the low level of corporate social responsibility information disclosed in these two companies, it is possible that social activities are reported in other forms of corporate communication such as newsletters or brochures.[129]

[129] See also footnote 144 in Chapter 8.

Table 7-8: Interview responses and disclosure indices

Co	R	VDI (%)		Comments from																	
				F1		F2		F7		F9		R1		R2		R4		I2		B1	
		Total	**CSR**	Ref	S	Ref	S	Ref	S	Ref	S	Ref	S	Ref	S	Ref	S	Ref	S	Ref	S
A	9	53.1	58.9	C7.5	✓	*C7.49*	✓			C7.8	✓	C7.10	✓	C7.7 *C7.55*	✓ ✓	C7.3	✓	C7.26	✓		
B	8	56.0	52.9	C7.5	✓	*C7.49*	✓			C7.8	✓			*C7.55*	✓	C7.3	✓	C7.26	✓		
C	38	31.4	11.8	C7.5	✓																
D	19	42.9	47.1	C7.5																	
E	12	50.0	41.2	C7.5	✓																
F	28	39.2	47.1											C7.7	✓						
H	14	46.0	35.3											C7.7	✓			C7.26	✓		
I	86	9.8	0.0															C7.33	✓		
J	74	14.3	0.0					C7.29	✓												
K	63	21.6	5.9											C7.34	✓					*C7.53*	✓
N	6	59.2	52.9			*C7.49*	✓														
P	79	12.2	5.9									*C7.51*	✓								

Co - Company
R - Rank by total VDI
VDI - Voluntary disclosure index
Total - Total voluntary disclosure
CSR - Corporate social responsibility
Ref - Reference to the relevant comments in the chapter
S - Comment supports disclosure index?
✓ - Yes
Reference in italics refer to comments on corporate social responsibility disclosure

7.6 Summary and conclusions

This chapter has analysed and interpreted views from market participants on variables tested in the statistical model. The aim was to further understand managerial motives or reasons for providing voluntary information in annual reports and to gauge whether these reasons can be explained by theoretical frameworks originating from developed countries.

In terms of significance, all interviewees agreed that number of employees, director ownership, profitability and family members on the board would have an impact on corporate voluntary disclosure. Number of employees was regarded by the majority of interviewees as representing company size. Interviewees were not surprised with the negative association observed between the extent of voluntary disclosure and director ownership and family members on the board, and the positive association between voluntary disclosure and number of employees and profitability. However, two interviewees were of the view that profitability could be negatively related to voluntary disclosure (see Table 7-7). Although only a minority of respondents was of an opposite opinion, this does not mean that their views should be disregarded. The interview findings highlight that perceptions may vary. It is possible that in actual practice some less profitable companies disclose more voluntary information than their counterparts. However, their number may be relatively small compared to profitable companies such that the negative association between profitability and the extent of voluntary disclosure is not evident in the statistical results. This shows that personal interviews can be used to explore the findings more thoroughly.

Figure 7-1 shows relevant theoretical frameworks that may explain the significance of tested variables. These variables are number of employees, director ownership, profitability and family members on the board. The reasons suggested for the significance of each variable are listed in the box of each variable. These reasons are matched against relevant theoretical frameworks. The link between each reason and theories as shown in Figure 7-1 reflects the strongest theory that explains each reason based on analysis of interview responses.

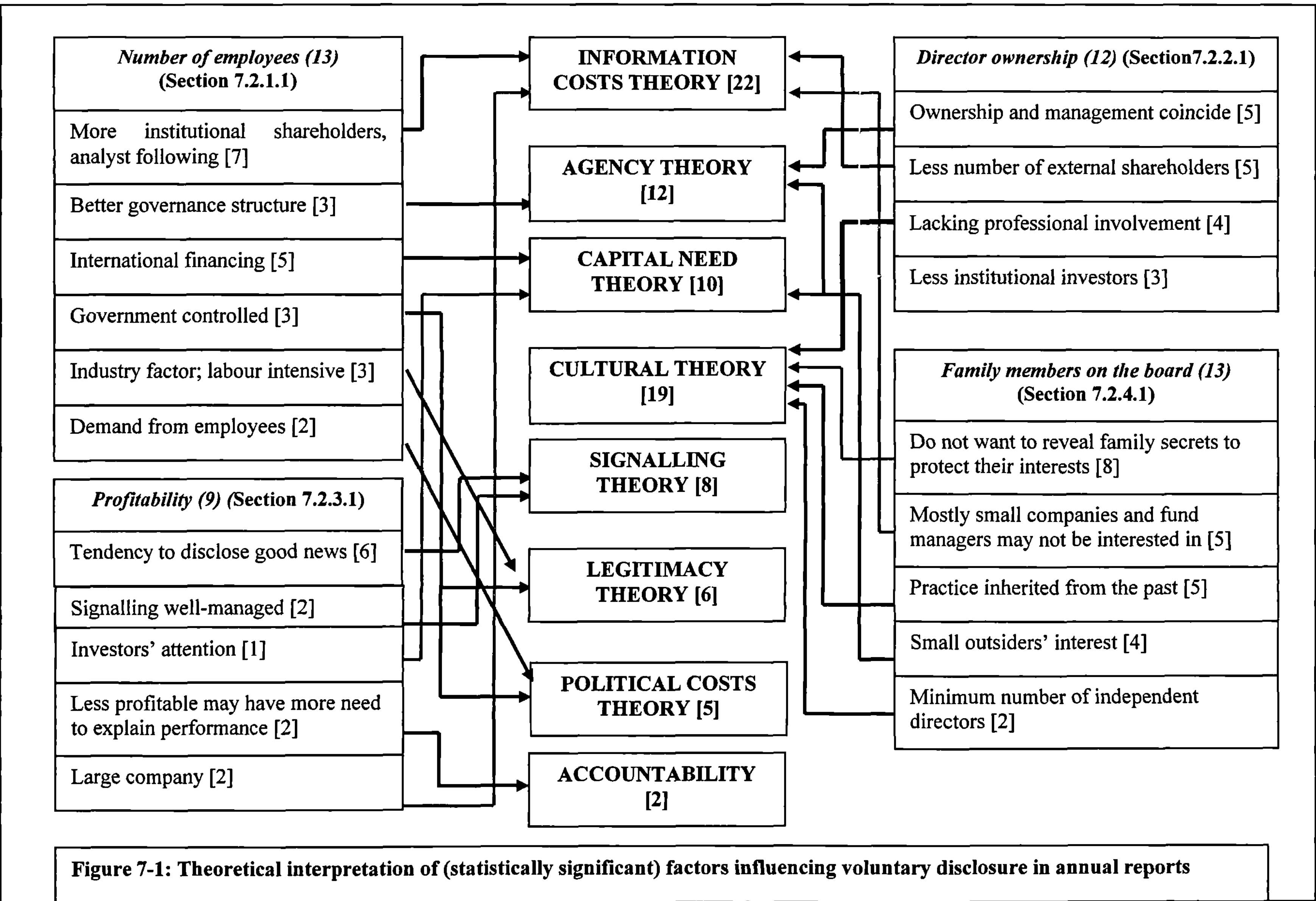

Figure 7-1: Theoretical interpretation of (statistically significant) factors influencing voluntary disclosure in annual reports

The analysis suggests that the theory most relevant in explaining voluntary disclosure in Malaysian company annual reports is information costs. As Figure 7-1 shows, the significance of four variables in the regression analysis can be explained by information costs theory. Respondents suggested larger companies have more institutional investors and analysts following (7/13) while owner-managed companies were expected to have fewer external (5/12) and institutional (3/12) shareholders. Family businesses are generally small in size, thus fund managers may not be interested in (5/13). Profitable companies were expected to be large in size. The extent of voluntary information disclosure was suggested as being a response to information demand from external shareholders (2/9). [130]

The theory with the next highest amount of votes is cultural, able to explain the significance of director ownership and the proportion of family members on the board in influencing voluntary disclosure in annual reports. Interviewees attributed the low level of voluntary disclosure in owner-managed companies to lacking professional involvement (4/12). Family businesses were suggested to be protective of their family secrets (8/13), following the practice of their predecessors (5/13) and appoint the minimum number of independent directors (2/13). The practice of appointing the minimum number of independent directors can be interpreted as allowing the minimum outside participation.

Agency theory appears to be relevant in explaining the significance of three variables, number of employees, director ownership and the proportion of family members on the board. However, in terms of the number of votes, agency is ranked third behind cultural theory. Larger companies were expected to have better governance structure with clear separation between owners and managers (3/13). In contrast, owner-managed companies disclosed less information because ownership and management coincide (5/12). Interviewees suggested that family-controlled companies perhaps had a lower proportion of outsiders' interest (4/13), additional information disclosure was not necessary because agency conflicts can be expected to be quite low.

[130] Figures in brackets represent the proportion of respondents giving those answers.

Capital need theory is relevant in explaining the significance of the number of employees, profitability and the proportion of family members on the board. Interviewees suggested that larger companies rely more on external funding (5/13) and profitable companies may have disclosed more information to attract the attention of potential investors (1/9). Family-controlled businesses were expected to have less need for external financing, hence the low level of voluntary disclosure in this type of companies (4/13).

Signalling good performance (6/9) and quality of management (2/9) appear to be the explanation for higher level of voluntary disclosure in annual reports of more profitable companies.

Political costs and legitimacy theories are also able to explain why large companies disclosed more voluntary information in their annual reports. Interviewees suggested that larger companies are usually majority owned by the government (3/13). Additional disclosure by these companies may have been provided in anticipation of public interests and/or political pressures in these companies. Interviewees also suggested that perhaps companies with a larger number of employees have more information to disclose in respect of employee-related matters (3/13) or because of demand from employees (2/13).

With regard to independent directors, majority of interviewees had reservations on whether independent directors can carry out their perceived monitoring role (see Table 7-5). Thus, independent directors are not expected to have a significant impact on corporate disclosure. That gives support to the non-significance of independent directors observed in the statistical model on voluntary disclosure. This finding also implies that new governance initiatives relating to independent directors implemented since the 1997 Asian financial crisis did not succeed in encouraging companies towards more information disclosure at the point of regulatory change.

Interviewees did not consider race as an important factor influencing voluntary disclosure. However, a number of reasons was suggested for the possible influence

of Malay directors on corporate voluntary disclosure (see Table 7-6), the main one being government-ownership. Government ownership was also suggested for the significance of number of employees. However, as discussed in sections 7.4.1.1 and 7.4.2.2, although the relationship between government ownership and number of employees and between government ownership and Malay directors are in the positive direction, the multiple regression model shows government ownership to be marginally significant at the 10% level but negatively associated with the extent of voluntary financial information disclosure. This perhaps implies that further work is needed to understand the relationship between these variables. It is possible that intervening factors which have not been considered in the statistical analysis might have influenced the relationship observed between these variables. As discussed in sections 6.5.3 and 6.7.1, political ties may be one of the factors confounding the results in respect of government ownership and Malay directors.

The interviews have also helped to validate scores awarded to companies included in the statistical analysis (see Table 7-8). Based on the interview responses, it may be concluded that the voluntary disclosure indices computed in Chapter 5 fairly reflect the level of voluntary information disclosure in annual reports of large and actively traded Malaysian companies. Of the twelve companies mentioned by interviewees, only one company disclosed more than expected by an interviewee (see section 7.5). However, the score of this company [D] is not far out from the mean disclosure index (score awarded is 42.9% while the mean disclosure index is 31.4%). The indices for the other eleven companies are generally consistent with interviewees' opinions.

The next chapter analyses responses to interview questions which seeks opinions from interviewees on issues related to voluntary disclosure in annual reports. The analysis helps to identify other factors influencing voluntary disclosure in annual reports which have not been captured in the statistical models.

CHAPTER 8: PERCEPTIONS OF INTERVIEWEES - ISSUES RELATED TO VOLUNTARY DISCLOSURE IN ANNUAL REPORTS

8.1 Introduction

The purpose of this chapter is to answer SRQ5 that is;

SRQ5: ***What are the perceptions of users and preparers of annual reports on issues related to voluntary disclosure in annual reports?***

Responses gathered from Part One of the interview questionnaires which seeks opinions on a number of issues related to voluntary disclosure in annual reports are analysed and interpreted to further unravel factors influencing voluntary disclosure in Malaysian corporate annual reports.

Each interview quotation is numbered for ease of reference to later sections. Each quotation is also labelled with the respondent making the comment. General information about the interviewees is provided in Appendix 4-B. In cases where a company (or companies are) is mentioned during the interviews, the company is labelled accordingly. Companies labelled with a single letter such as [A] are those included in the statistical analysis in this thesis while those with double letters e.g. [GG] are not among the sample companies included in the statistical analysis.

Section 8.2 summarises the role and importance of annual reports as perceived by financial controllers interviewed. Users' perceptions of annual reports are discussed in section 8.3. Section 8.4 analyses respondents' views on voluntary disclosure in annual reports. This is followed by their views on themes of voluntary disclosure in annual reports in section 8.5. Section 8.6 discusses factors influencing voluntary disclosure as suggested by interview respondents. The discussion is divided into two parts; section 8.6.1 discusses 'quantifiable' factors while section 8.6.2 looks at factors which can be considered as 'qualitative but potentially quantifiable'. Section 8.7 concludes the chapter by summarising the findings on interviewees' perceptions

of factors influencing voluntary disclosure in annual reports and linking the findings to relevant theoretical frameworks.

8.2 The role and importance of annual reports as perceived by preparers

The first question posed to financial controllers was about their perceptions on the role of annual reports. All answered that the provision of information was the main purpose. The target audience of annual reports mentioned by the respondents were the shareholders, analysts and prospective investors, the public and other users such as creditors. Fulfilling regulatory requirements was cited by four respondents as one of the purposes of the annual report. Table 8-1 summarises the role of annual reports as perceived by financial controllers.

Table 8-1: The role of annual reports – views from financial controllers

	F1	F2	F3	F4	F5	F6	F7	F8	F9	(9)
Provision of information to:										
Shareholders	✓	✓	✓	✓	✓	✓				6
Analysts and prospective investors		✓	✓				✓			3
The public	✓			✓				✓		3
Others such as creditors, bankers				✓					✓	2
Regulatory requirements		✓		✓			✓		✓	4

As shown in Table 8-1, information to shareholders is most frequently suggested by the financial controllers interviewed (six out of nine). A financial controller commented that the annual report is the only channel through which the company communicates with the minority shareholders;

> *"...the annual report is the only form of communication between the company and the minority shareholders. But if you are referring to the shareholder-directors, of course we meet quite regularly, and about 45% of our shareholders sit on the Board of Directors..."* (F4). [C8.1]

That seems to imply that companies which are owner-managed or with a large inside concentration may not provide information other than that required because information can be obtained internally. This suggests that in closely-held companies the preparation of annual reports is largely for regulatory purposes.

Three financial controllers viewed the role of the annual report as providing information to analysts and prospective investors. This suggests that the annual report is one of the communication tools used by companies to disseminate information to interested external parties;

> *"We look at our investors, from which crowd are they from....fund managers from overseas will definitely read annual reports, however the information we provide in the annual report cannot be too detailed on future plans as that will involve company strategy..."* (F3). [C8.2]

The above also implies that companies may to a certain extent tailor the content of their annual reports to suit their audience requirements. Companies which are followed by international investors may be inclined to disclose additional information to satisfy the information demand of these investors. The response also suggests that companies which are in more competitive industries may be reluctant to disclose additional information for fear of giving too much information to competitors.

The provision of information to the public was cited by three financial controllers as the role of annual reports. A financial controller of a privatised company said, *"...we try to be transparent in various aspects including corporate social activities..."* (F2) [C8.3] suggesting public accountability is on the company agenda. Another respondent implied that the annual report can be used for image building purposes, *" the annual report provide information about what the company is doing, and as a public relation tool..."* (F8) [C8.4]. The financial controller who suggested provision of information to creditors as one of the role of annual report said, *"users such as creditors would also want to know more about our company especially now because of the stage we are in* (the company was incurring heavy losses), *they will be very curious about the information we disclose in our annual report..."* (F4) [C8.5]. That

suggests that the provision of information in an annual report is also determined by the performance of that company.

Four respondents cited fulfilling regulatory requirements as the role of annual reports. A financial controller said this;

> "*what we are doing is basically to comply with laws and MASB standards which are getting quite tight each year, with new regulations and new formats, and staff need to be updated with these new regulations...*" (F4). [C8.6]

This implies that some companies in Malaysia may not provide information other than those items required because companies are still grappling with understanding mandatory requirements. [131] This view is shared by a regulator who said, "*some companies have difficulties in understanding these new regulations and some companies have problems in interpreting accounting standards...*" (R5) [C8.7]. The issue of ambiguity of accounting standards was also highlighted by a senior official at the MASB who was contacted at the initial stage of this research (see section 4.3).

Financial controllers were also asked about the importance of annual reports as a tool of communication with all stakeholders. It was obvious from the responses that although the annual report was an important communication tool, other forms of communication were regarded as equally important. Interviewees pointed out that some companies hold regular meetings with analysts, have investor relations units, corporate communications departments, corporate websites and brochures.

> "*We have an investor relations unit and also the corporate communication unit that continuously communicates with the investors and the public at large in terms of the activities, direction, and also the future of the company. The annual report is one of the very important communication tools for us. And the fact that the annual report needs to be done on an annual basis, gives us an opportunity to continuously update the information. In terms of ranking, it ranks very high in terms of how we make use of the annual report for the purpose of communicating what happened in the company to the people outside. We print close to 40,000 copies of annual reports even though our shareholders are only about 36,000. The other 4,000 copies are circulated to various parties that matter.*

[131] In a study by Abd-Elsalam and Weetman (2003), a lower degree of compliance was observed with less familiar IASs disclosures in Egyptian company annual reports.

These are people such as prospective investors, the press, the media both local and international, and investment and research analysts..." (F2). [C8.8]

The above comment highlights that information about company activities may not necessarily be channelled through the annual reports only. That has implications for the amount of information voluntarily disclosed in annual reports. Table 8-2 summarises other forms of corporate communication used by companies interviewed. Among the three forms of corporate communication most frequently suggested by interviewees, only analyst briefings and private discussions are voluntary in nature. Among voluntary forms of reporting (analyst briefings/ private discussions, investor relations, corporate communication, brochures and newsletters, websites) analyst briefings and private discussions were suggested by the highest number of respondents. This perhaps indicates that private voluntary reporting is becoming a preferred mode of corporate communication in Malaysia. That is not surprising given the benefits of private communication compared to public disclosure reported in prior research in the UK (Holland, 1998a & b; and Barker, 1998).

Table 8-2: Other forms of corporate communications used by companies interviewed

	F1	F2	F3	F4	F5	F6	F7	F8	F9	(9)
Quarterly reporting in the newspapers	✓				✓			✓		3
Announcement to the KLSE	✓		✓		✓					3
Analyst briefings, private discussions			✓				✓		✓	3
Board of directors meeting				✓		✓				2
Investor relations unit		✓								1
Corporate communication unit		✓								1
Corporate brochures and newsletters			✓							1
Corporate websites			✓							1

The existence of other forms of corporate communication implies that the level of voluntary disclosure in annual reports should not be regarded as a conclusive measure of a company's extent of voluntary reporting.

This section has discussed preparers' views on the role of annual reports. It was reported that all preparers regarded the annual report as a tool for communicating corporate information to the various stakeholders, the main one being shareholders. The responses also suggested a number of factors such as ownership structure, type of industry and corporate performance that could determine corporate disclosure policy. The costs and benefits of disclosure for each company vary, hence a variation in the level of information voluntarily disclosed in company annual reports can be expected. For example, a company in which the major shareholders are very much involved in the management of the company may not find the necessity to disclose additional information in the annual reports. The next section discusses users' perceptions of annual reports.

8.3 Users' perceptions of annual reports

All eight bankers and investment analysts interviewed agreed with the importance of annual reports and stated that the annual reports were their primary source of information. The following is an example of a response from one of the bankers interviewed;

> *"We need the annual reports for our analysis of public listed companies. When companies come to us for corporate exercise, the first thing that we look for is the annual report. The annual report determines whether we should take on the company's request, as it gives an indication of how healthy the company is, with information such as gearing. That is important if the corporate exercise is to restructure the debt. It is also a benchmark for assessing forecasts and projections prepared by companies. But the annual report is not the sole document that we rely on. For example, the Securities Commission may require us to compare results of Company X (our client company) to other similar companies in the same business. In that case we may have to obtain some other information, for example from Bloomberg. This is especially useful for initial public offerings. So the annual report also gives some indication on whether the company is ready for listing..."* (B1). [C8.9]

The above response also indicates that the annual report is not the only information a banker relied on in making decision. This view is supported by another banker who commented, *"we have our own special department that issues daily reports for each industry and each client company. We cannot rely 100% on third party information..."* (B4). [C8.10]

It was made apparent by bankers and investment analysts during the interviews that even though the annual report was an important 'starting point' in their analyses of companies, additional source such as market intelligence and company visits were required for them to make the final decisions. An investment analyst stressed that from their perspectives, financial information is the most important piece of information and that company visits are more important than annual reports for analysts to gain the required information.[132]

> *"we place importance on financial numbers. Annual report is history, rather than the future. When you go for company visits, you can expect what their plans are. When you have their plans, analysts will do some forecasts for the next one or two years..."* (I4). [C8.11]

Another investment analyst suggested private meetings as an efficient way of obtaining company information;

> *"In general there is a lot of hidden signal in annual report. I make it a point to read the Chairman's Statement, the Operations Report and I go through the accounts. When I want the background of the company that I don't know, or you want to find things about the company, one source will be the annual report because it is the official voice, or story of the company within a regulated framework. However, if I want to really know what is happening in the company, I would probably rather have coffee with somebody who really knows what's happening in the company because the market for reputation may be more efficient..."* (I1). [C8.12]

In addition, the response also implies that the annual report is regarded as an important company source of information because of its credibility in terms of the rules governing the preparation. This view is supported by a banker who said, *"the annual report would have been audited by the auditors. It cannot be a free-flow*

[132] That is consistent with Barker (1998) who reported that analysts ranked direct contact with the company and analysts' meeting as the two most important sources of information.

information whereby the management can simply put in figures to impress the public..." (B2). [C8.13]

The interviews with bankers and investment analysts appear to suggest that the annual report is regarded as an important company document as a first step in the evaluation of companies. However, additional information can be obtained by bankers by requesting information from their client companies and analysts can gather much more information from company visits and communication with company management. If bankers and analysts can obtain corporate information through alternative means, this would suggest that a company may not provide additional information in the annual reports unless there is demand from other types of users.

Regulators and users were also asked about the adequacy of information disclosed in annual reports. Table 8-3 summarises respondents' views on this question.

Table 8-3: Adequacy of information disclosed in annual reports – ***views from users and regulators***

Respondents	**External Auditors**				**Regulators**						**Bankers**				**Investment Analysts**			
	1	2	3	4	1	2	3	4	5	6	1	2	3	4	1	2	3	4
Yes (✓)			✓					✓				✓						
No (x)	×	×		×	×	×	×		×	×	×		×	×	×	×	×	×

As shown in table 8-3 above, only three out of eighteen respondents were of the opinion that information contained in the annual reports satisfies users' needs. The other fifteen interviewees were quite hesitant when answering the question. These fifteen respondents took quite a bit of time to say that the annual report is not entirely adequate. One auditor put the blame on the investing public rather than the company as he believed that supply of information is determined by its demand;

> *"In the Malaysian context, the annual report is used principally by the shareholders who hopefully ask important, relevant questions during the AGM. The annual report, no matter how complex you make it, it does not actually serve the intellectual purpose. I don't see any clever questions being asked at AGM, there are more questions like can we have more dividends. So really the way I see it at the moment sadly, the annual report is more of a formal requirement, being used more as a marketing tool to promote the company image and there is nothing wrong with that.*

It's okay because that is not the fault of the company, the fault is with the investing public for not demanding more from the annual report, for not reading the annual report..." (A4). [C8.14]

There were also views that annual reports concentrate on historical results only and not enough information is provided regarding the future prospects of the company. A regulator commented, *"... accounts are based on historical cost and historical cost is never meant for decision making. It is based on historical data, is normally delayed information"* (R1) [C8.15]. This view is supported by an auditor, *"there is little one can get from the annual report as it reports on historical results. Investors require a bit more information especially with regards to projection of future prospects of the company..."* (A1) [C8.16]. A banker commented, *"annual report provides a 'snapshot' of a company's financial well-being as at a certain date..."* (B3) [C8.17], implying that annual report provides only an overview of a company's affairs and historical in nature. An investment analyst suggested that the annual report meets some of his information requirements but is not enough, *"we also need information such as the main key business drivers, for example what drives volume..."* (I1) [C8.18]. This respondent stressed that certain information required by analysts cannot be obtained from the annual report. Hence analysts have to resort to other medium of communication such as company visits and discussions with company management to gather additional information.

This section has analysed users' views on annual reports. Although the question posed was on the importance and adequacy of annual reports, the responses have indirectly provided some insights into factors influencing voluntary information disclosure in annual reports such as the existence of alternative and more efficient corporate communication channel and the demand for corporate information. The next section discusses interview responses to a more specific question, regarding voluntary disclosure in annual reports.

8.4 Views on voluntary disclosure in annual reports

Three out of nine financial controllers interviewed stressed that information disclosed in their annual reports was guided by mandatory requirements. *"The corporate governance guidelines have ensured that pertinent information required by the shareholders is disclosed..."* (F1) and *"as we all know annual report in Malaysia is very statutorily driven. Malaysian companies tend to just comply with statutory requirements and listing requirements..."* (F9) [C8.19]. These responses imply that some companies may not provide information beyond the regulatory requirements.

The other six financial controllers offered mixed views on the importance placed on voluntary disclosure in annual reports. A financial controller commented, *"investors would want a greater amount of information in the annual reports, but on the preparers' side, there is tendency not to disclose too much information especially if that information can be used to fire back at the company..."* (F7) [C8.20]. This respondent was referring to a hypothetical situation where a company was incurring losses and if too much information on company expenditure were to be disclosed in the annual report, the minority shareholders would start querying these expenditures. Two other financial controllers felt that voluntary disclosure of information in annual reports is important to make readers understand their companies' activities, or minimise misrepresentation of facts. A financial controller of a utility company stressed that voluntary disclosure of information in annual reports especially those relating to environmental issues is important to educate the public about their company activities. That suggests that for certain companies, in this case those operating in environmentally-sensitive industries, voluntary disclosure of environmental-related matters may be regarded as more important than it would be in other types of companies.

Another financial controller claimed that his company disclosed information more than that statutorily required;

> *"We follow at least the minimum standard. A company that is transparent can be expected to be followed by many investors ..."* (F2) [C8.21].

This respondent suggests that voluntary disclosure of additional information is important because it can help attract potential investors' attention.

On the auditors' part, when asked how much emphasis they place on disclosure of voluntary information in the audit process, all four answered in the negative. However, an auditor mentioned that he did recommend his client companies to disclose certain things based on good practices, but it was entirely up to the client companies whether to take up the recommendations because the disclosures were voluntary and hence company initiatives. Another auditor stated that he did go through the non-mandatory sections of the annual reports, *"we do play an advisory role in the final checking of the annual report. We go through for example the Chairman's Report if requested by clients..."* (A2) [C8.22]. However, as evident in the response, auditors' opinion on information voluntarily disclosed in the annual reports is only given when there is a request from the client company.

The interviews with regulators gave the impression that the amount of information voluntarily disclosed in Malaysian corporate annual reports is rather minimal;

> *"Although we make use of the annual report extensively, it is only as a supporting document because information contained in an annual report is not that detailed. Most of the time, disclosure is more on mandatory information, not so much voluntary. Companies comply to the extent required by law..."* (R3). [C8.23]

Another regulator also shared the same view that the preparation of annual report is very statutorily driven. However, he expects companies to provide more information in the annual reports with the implementation of the MCCG;

> *"Generally in Malaysia, people tend to go on a checklist basis, what is the minimum until the Code on Corporate Governance comes in. The Code to a certain extent encourages you to be more communicative while you have a list of mandatory requirements. I think the Code will be the one that stimulates voluntary disclosure..."* (R3). [C8.24]

A regulator at the SC commented;

"The majority of companies disclose only what is required. Only a minority discloses additional information voluntarily. Those companies that disclose additional information do so because they want to attract more investors..." (R2). [C8.25]

The response supports the views of the two regulators discussed above that information contained in an annual report is limited to mandatory requirements. However, a company may voluntarily provide additional information in the annual reports if there are benefits associated with that disclosure such as attracting prospective investors. That may be one of the motives for voluntary disclosure for companies wanting to raise funds in the capital markets.

One regulator was of the view that even though some companies do provide voluntary information in their annual reports, the disclosure was not sufficiently detailed;

"They are generally okay but not excellent. The Chairman's Report for example, does not contain that much information. The US SEC 10-K Report presents a sample of good disclosure that shows the end result of a company..." (R4). [C8.26]

This respondent was suggesting that if Malaysian companies want to improve further on their voluntary disclosure in annual reports, perhaps the US 10-K (mandatory in the US) can be one of the models that can be referred to. The Report may give ideas on areas where voluntary disclosure in Malaysian company annual reports can be extended further.

This section has discussed perceptions of interviewees on voluntary disclosure in annual reports. The responses appear to suggest that Malaysian companies only provide information which is statutorily required. Unless the company has other motives such as attracting potential investors, the extent of voluntary disclosure in Malaysian annual reports can be expected to be quite low. The next section discusses themes of information voluntarily disclosed in annual reports.

8.5 Voluntary disclosure in annual reports-themes of information

Financial controllers were asked about the types of information they voluntarily disclosed in the annual reports. These are summarised in Table 8-4 below.

Table 8-4: Voluntary information in annual reports – themes of information ***(views from financial controllers)***

	F1	F2	F3	F4	F5	F6	F7	F8	F9	(9)
Financial information such as five – year financial highlights, details on profit and loss and balance sheet items		✓		✓		✓	✓	✓	✓	6
Development, contracts, projects and services	✓				✓	✓		✓		4
Environmental and social information		✓	✓							2
Operational statistics		✓								1

Table 8-4 above shows that the category of information voluntarily disclosed by the majority of companies interviewed is financial information. Voluntary strategic information such as development, contracts, projects and services are disclosed by four of the companies interviewed. Only two financial controllers said that they provided voluntary environmental and social information in the annual reports. These findings suggest that companies paid more attention to financial and strategic voluntary information disclosure in the annual reports than to corporate social responsibility disclosure. That is partially reflected in the statistical results in Table 5-2 (see Chapter 5) where all companies disclosed some amount of voluntary financial and strategic information, while 28 companies did not disclose any corporate social responsibility information in the annual reports. The two respondents who mentioned the disclosure of environmental and social contribution were financial controllers of a privatised company (F2) and a properties/utility company majority owned by the state government (F3). That probably implies that industry and type of shareholding play a significant part in influencing corporate environmental and social disclosure.[133]

[133] The variable type of industry is marginally significant at the 10% level in influencing voluntary corporate social responsibility information in the multiple regression analysis, 5% significant in total voluntary disclosure and 1% significant in voluntary strategic disclosure model. Government ownership is marginally significant at the 10% level in explaining voluntary financial information disclosure but not significant in other voluntary disclosure models (see Tables 6-4 and 6-6 in Chapter 6).

The higher frequency of provision of voluntary financial and strategic information disclosure in annual reports could be partly attributable to the demand by users of annual reports. Table 8-5 shows the themes of information considered important to be disclosed in the annual reports by regulators, investment analysts and bankers.[134]

Table 8-5: Important themes of information to be disclosed in annual reports - ***views from regulators and users of annual reports***

	R1	R2	R3	R4	R5	R6	I1	I2	I3	I4	B1	B2	B3	B4	(14)
Financial information	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	14
Operational information	✓		✓	✓				✓							4
Litigation									✓	✓					2
Human resource and social responsibility	✓														1
Internal control and risk management						✓									1
Voluntary or mandatory?	V	M	M	M	V/M	V	M	V	M	M	V	*	*	*	

Key: V – voluntary; M – mandatory; * did not respond

Information such as financial highlights, breakdown of revenues, breakdown in margins, volume, pricing, debtors ageing and costs were the financial items cited by respondents.

Regulators mentioned that more information and comments on business review and operations such as key business drivers and causes of changes in margins would make the annual report more informative.

One regulator said that there should be more information on company strategy and state of internal controls, because these could give some indication of a company's

[134] Auditors were not directly asked about the types of information considered important to be disclosed in the annual report. However, one auditor pointed out that what is important to be disclosed and should be focused in the annual report is the company's performance. That supports the views of fourteen interviewees in Table 8-5 who suggested financial information to be the important theme of information to be disclosed in annual reports.

future prospects. This respondent acknowledged that financial matters are important. However, he felt that there is enough emphasis on financial information with this type of information being more frequently provided in the quarterly and half-yearly reporting. The respondent added further that financial information usually reflects historical rather than future events.

Two analysts suggested more disclosure on contingencies such as those relating to litigation which is at present very little disclosed. Two respondents, (R1) and (I4) brought up the issue of one of the largest companies in Malaysia which was involved in a legal suit but did not disclose that fact to the KLSE.[135]

All four bankers interviewed were unanimous that financial information relating to profit and loss and balance sheet items are important information to be disclosed in the annual reports. From these conversations, it is obvious that regulators and users of annual reports focus more on financial and strategic information. That is not surprising because financial information gives an indication of a company's state of health and strategic information helps in assessing a company's future prospects.

The majority of interview respondents did not consider environmental and social reporting to be an important agenda in Malaysian corporate annual reports. That would provide an explanation for the low levels of corporate social responsibility disclosure in Malaysian company annual reports (see Table 5-2 in Chapter 5). Nonetheless, a regulator suggested environmental reporting to be an important area of future disclosure in annual reports;

> *"In the Malaysian context, I feel environmental reporting is an area that people can expect in the near future. It will be interesting to see how construction companies report on how they deal with environmental matters because the consequence is on people. For example, we have to clean up the river, who gets the contract for nuclear waste, and how does [TT] report on used computers because now they are dumped in China. The world is full of pollution, eventually there will be a period when people are conscious about environmental issues. If you are in an industry with strict environmental rules, the consequential effects of your*

[135] The company was publicly reprimanded for breach of the KLSE Listing Requirements. Source: Press Release http://www.klse.com.my/website/news/pr/2002/20021102b.htm 12/05/03

business conduct are highly important, and your licence may be at risk..." (R6). [C8.27]

Steps are also already underway to promote environmental reporting in Malaysia and that should motivate companies to disclose more on their environmental impacts as highlighted in the following comment;

> "*There are further efforts by some organisations to work towards encouraging especially listed companies in Malaysia to consider reporting on environmental effects. ACCA Malaysia has in fact launched an award for environmental reporting...*" (A3). [C8.28]

Regulators and users were also asked whether information they considered important to be disclosed in the annual reports should be provided voluntarily or mandated. Eleven interviewees responded to this question. As shown in Table 8-4, the response was mixed with four suggesting voluntary and six preferring a mandatory requirement. One respondent was of the view that certain information might need regulatory backing while others which could be categorised as best practices should be voluntarily provided. A respondent who suggested voluntary disclosure, said that voluntary disclosure was the more ideal choice partly because there were already too many regulatory requirements. Other reasons put forward for suggesting voluntary disclosure were that investors are more comfortable with companies that are more willing to share information and that voluntary disclosure helps to manage attitude and mould corporate behaviour. On the other hand, those who favoured mandatory disclosure argued that if information is not mandatorily imposed on companies, disclosure of information that might adversely affect certain companies might not be provided by these companies. These respondents suggested stiff penalties for non-compliance as an effective mechanism to ensure that all companies provide the required information in the annual reports.

Auditors were asked if there was any other area that should be further disclosed in the annual reports. Two auditors replied that some information may not be equally relevant to all companies as some companies may be operating in more sensitive or competitive industries. It was therefore not practical to have additional unilateral requirements which may not be applicable to certain industries. These auditors nonetheless mentioned the lack of disclosure on the future prospects of a company,

implying this could be an area to improve upon in the annual report.[136] The other two auditors were adamant that the requirements of financial reporting is already enough and that it is how people interpret and understand accounting standards that matters. In addition, the demand for information is again highlighted because if users do not read the annual reports, then the costs of additional disclosure may far outweigh the benefits of providing that information.

8.6 Factors influencing voluntary disclosure in annual reports

The preceding sections have analysed responses from interviewees on issues related to voluntary disclosure in annual reports. At that stage of the interviews, interviewees were not directly asked the question of what factors influence a company's decision on voluntary disclosure in the annual report. However, it was alluded in some of the responses analysed above that factors such as ownership structure and type of industry (see section 8.2), existence of other forms of corporate communication and demand for corporate information (see section 8.3) would have an impact on voluntary disclosure in annual reports. Reason such as attracting prospective investors (see section 8.4) was also suggested as encouraging companies to disclose additional information in the annual reports.

This section summarises and analyses the response from interviewees on the question of what and why companies would provide additional information voluntarily in the annual reports. In summarising the finding, factors influencing voluntary disclosure in annual reports are divided into two categories, 'quantifiable' and 'qualitative but potentially quantifiable'. In drawing up the table to summarise the findings, the response to all questions in the questionnaire including those discussed in the preceding sections were taken into account. This is to ensure that the frequency with which each factor or reason is shown in the table reflects the overall opinions of

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[136] The KLSE revised Listing Requirements require some information on future prospects of the company to be disclosed in the annual report (see Appendix 4-D). This requirement is to be met by companies issuing annual reports on or after 1 June 2001. No guidance is provided on items or issues that should be discussed under this requirement. The fact that future prospects were suggested by two auditors as information that should be further disclosed by companies probably implies that there is still scope for improvement in this area of disclosure in annual reports.

interviewees on factors influencing voluntary disclosure. Table 8-6 summarises the 'quantifiable' factors while 'qualitative' factors are reported in Table 8-8.

8.6.1 'Quantifiable' factors

This section discusses factors that have been categorised under the 'quantifiable' category.

8.6.1.1 Industry/ competitiveness

Table 8-6 shows that the type of industry and industry competitiveness were regarded by the highest number of respondents as factors influencing voluntary disclosure in annual reports. It is unsurprising that competitors' reactions were the main reason suggested for non-disclosure. That view is fairly consistent across all five types of respondents. An investment analyst argued that a corporate disclosure policy reflects the trade-off between maintaining a company's competitive position and making sure that the market would price the company's share better. The argument was that if the market is efficient in disseminating information, voluntary corporate disclosure could reduce information asymmetry in the market and consequently lower the company's cost of capital. The problem with this argument is whether the Malaysian capital market is really efficient in disseminating information. If market players are not totally convinced of market efficiency, then the tendency would be for companies to protect their competitive advantage and hence selective disclosure. An audit partner with a major international accounting firm who throughout the interview appeared rather sceptical about the purpose and impact of the new regulations on corporate financial reporting, clearly did not think that the Malaysian capital market is efficient when he said, "*people don't invest based on annual reports. The market is not efficient that is why we have the black market where analysts obtain privileged information through for example private discussions...*" (A4). [C8.29]

A regulator argued, "*some companies are quite reluctant to disclose additional information maybe because they feel that could result in leakage of information...*" (R3) [C8.30]. This view of protecting the company from possible adverse reaction from competitors is supported by the following responses, "*some companies are more secretive than others because the information could be a trade secret...*" (B2)

[C8.31] and, *"information disclosed should not expose too much of the company's strategic planning. That is especially important if you have many competitors..."* (F6) [C8.32]. The last response not only suggests industry type affects voluntary disclosure but industry type can also determine the type of information disclosed in company annual reports. From these responses, it is clear that **proprietary costs** consideration will discourage certain types of companies from disclosing additional information in the annual reports.

8.6.1.2 Company size

Company size was suggested by thirteen respondents as another possible factor influencing voluntary disclosure. A regulator commented, *"for some of the smaller companies, they may not be able to appreciate the potential benefits of additional disclosure..."* (R3) [C8.33], implying that smaller companies may have less need for external financing. That suggests **capital need theory** as an explanation for large companies to disclose more information. An auditor opined, *"voluntary disclosure is more relevant to Composite index companies. Smaller companies only adhere to core compliance but no additional disclosure is provided by these companies..."* (A1) [C8.34]. That gives some support to this thesis argument that disclosure level among Composite index companies should serve as the benchmark for best practice for Malaysian listed companies.

An analyst said, *"bigger companies usually have more institutional shareholders..."* (I2) [C8.35]. That suggests that additional provision of information was to satisfy the information demand of these professional investors. Larger companies may have felt that the benefits of providing additional disclosure such as retaining professional investors more than outweigh the **costs** of providing the additional **information.** (see also section 8.6.1.5 where family businesses are expected to disclose less information than larger companies because family businesses do not address many institutional investors. That suggests **information costs theory** can explain why larger companies can be expected to disclose more information).

There was also a view that large companies have better governance structure, *"big companies such as [A] and [B] tend to disclose more information because of good*

corporate governance..." (B1) [C8.36]. The response probably implies that big companies are usually widely-held with management separated from ownership. Large companies may provide additional disclosure as a bonding and monitoring tool to reduce **agency conflicts** which can be expected to arise in a widely diffused ownership.

8.6.1.3 Institutional shareholding

Companies with more institutional and foreign shareholdings were expected to disclose more information to address the demand of these professional shareholders, "*companies that are more conscious about giving information to shareholders are those with high percentage of foreign ownership or institutional ownership...*" (I2) [C8.37]. Another analyst said, "*I believe it has to do with shareholders' structure. If the shares belong to mainly corporations, then their disclosure will be more generous...*" (I4) [C8.38]. A regulator argued, "*companies with good international/institutional investors disclose more information. Otherwise their cost of capital will be expensive if not enough information is provided...*" (R4) [C8.39]. That implies **information costs theory** would provide explanation for companies with a higher proportion of institutional shareholders to disclose more information.

8.6.1.4 Foreign shareholding/ international financing

Another factor believed to be driving disclosure was a company's reliance on international financing. It was suggested that companies with excessive funding from overseas may feel more need to disclose additional information to satisfy the requirements of these overseas capital providers.

> "*I think the biggest driver here is company size and secondly is probably the dependence on international funding be it shareholding or external debt. So if I am a company even though I am big but I don't rely on external funding, I may not be disclosing that much because there is no pressure, there's no need. [A] has a lot of debts, so maybe there's a lot more pressure for them to disclose. [B] maybe not as much compared to [A]. Companies which are cash rich may not want to disclose that much because they don't need to impress anybody...*" (A4). [C8.40]

The above response appears to suggest that **capital need theory** and **information costs theory** can explain disclosure levels in companies with a higher proportion of foreign ownership.

Table 8-6: Factors *(quantifiable)* influencing voluntary disclosure in annual reports - views from interviewees

	F 1	F 2	F 3	F 4	F 5	F 6	F 7	F 8	F 9	A 1	A 2	A 3	A 4	R 1	R 2	R 3	R 4	R 5	R 6	I 1	I 2	I 3	I 4	B 1	B 2	B 3	B 4	(27)
Industry/competitiveness	✓	✓	✓	✓		✓			✓	✓	✓					✓	✓	✓	✓	✓	✓	✓			✓	✓	✓	18
Company size		✓							✓	✓	✓			✓		✓	✓	✓	✓	✓	✓			✓	✓			13
Institutional shareholding		✓	✓									✓			✓	✓	✓	✓			✓		✓	✓	✓			11
Foreign shareholding/ international financing	✓	✓	✓	✓						✓			✓			✓	✓				✓			✓				10
Family businesses/ closely held										✓			✓	✓		✓	✓			✓			✓	✓	✓			9
Government ownership			✓						✓					✓	✓	✓			✓	✓				✓				8
Profitability	✓						✓				✓	✓					✓			✓	✓							7
Independent directors																			✓									1

8.6.1.5 Family businesses

In addition to foreign shareholding, there were expectations that companies listed on foreign exchanges would disclose more information while family businesses tend to disclose less information in their annual reports as evident in the following excerpt;

> *"Companies that are more open are those on the Composite Index[137], or on a foreign index[138]. That is probably because they are addressing many more institutional shareholders or subject to analysts' demand. Those that disclose less information would be poor credit rating, family-controlled or Second Board companies. In these companies, the owners are mostly corporate players who mainly engage in related party transactions..."* (B1). [C8.41]

The above quotation suggests that internationally listed companies and larger companies are expected to disclose more information than smaller closely-held companies because information demand for family businesses is much less than for larger companies. Because of minimal information demand for family owned companies, the benefits of providing additional information may be relatively small compared to **costs** of providing that **information**. Family businesses are also expected to disclose less information because these companies usually prefer to deal with parties which are 'known' to them. That probably implies **agency conflicts** between the company and contracting parties are less or confined to a small group of parties because family businesses do not rely much on external financing.

8.6.1.6 Government ownership

A regulator, who was formerly a partner with a major international accounting firm suggested that the extent of voluntary disclosure depend on the type of company;

> *"In my view, the plcs that have made more voluntary disclosure are those majority controlled by the government. The issue of separation of management and shareholding is a debatable one if the majority shares are still being held by the family. Those plcs that grow out of family businesses in my experience only provides the minimum of disclosure..."* (R1). [C8.42]

[137] This also gives some support to the thesis argument that disclosure levels of companies included in the Composite index should serve as benchmark for best practice for Malaysian listed companies.

[138] This variable was not tested in the statistical analysis because only three companies had international listings.

That implies that government-controlled companies are expected to disclose more voluntary information because of separation between management and ownership while family businesses can be expected to disclose less information in the annual reports. Thus, **agency theory** can provide an explanation for disclosure levels in government-controlled companies.

An analyst said, "*government-owned companies can be expected to disclose more information because of greater degree of public accountability...*" (I1) [C8.43]. The response suggests that government-owned companies may disclose more information because **political costs** are high in this type of companies. That is because government-owned companies can be expected to be more in the 'public eyes' than other types of companies.

8.6.1.7 Profitability

Profitability was suggested by seven respondents to be an influential factor determining voluntary disclosure in annual reports;

> "*I feel that profitable companies are more likely to disclose additional information in the annual reports. If a company is not doing well, it is a conscious effort to reduce disclosure because shareholders usually refer to the annual report during the AGM...*" (F1). [C8.44]

That implies that because the annual report is to be tabled at the AGM, information disclosed in the annual report more likely will only reflect favourable aspects of company performance to avoid unnecessary queries from the shareholders. Thus, **signalling** good performance appears to be the motivation for profitable companies to disclose more information.

8.6.1.8 Independent directors

Only one respondent, a regulator, felt that independent directors could play a significant part in encouraging companies towards greater transparency;

> "*The composition of the Board of Directors, perhaps how strong are the independent directors. They are at risk now because there are lots of expectations on whether they are playing their roles. One of their roles is to make sure that the company communicates properly with the shareholders and the document that people look at will be the annual report because it gives you a one year review of the past and some future information. So I think the quality, and do we have enough independent directors are important...*" (R6). [C8.45]

The response implies that companies with a higher proportion of independent directors can be expected to disclose more information in the annual report. That is because independent directors are supposed to play a monitoring role, reducing **agency conflicts** between outsiders' and insiders' interests. However, the fact that only one respondent mentioned independent directors as a factor contributing to corporate voluntary decision perhaps indicates that there are questions on whether independent directors can effectively play their 'perceived' monitoring role. [139]

8.6.1.9 Comparison of interview findings and statistical results

This section has analysed and discussed interview findings regarding factors influencing voluntary disclosure in corporate annual reports which have been classified under the 'quantifiable' category. Table 8-7 compares interview findings on 'quantifiable' factors and statistical results.

Table 8-7: 'Quantifiable' factors – Interview findings and statistical results

Interview findings		**Theoretical interpretation**	**Statistical results**	
Factors	*No*		*Significant?*	*Reference*
Industry/ competitiveness	18	Proprietary costs	Yes	Tables 6-4 & 6-6
Company size	13	*Agency (10), capital need (2), information costs (2)	Yes	Tables 6-4 & 6-6
Institutional shareholding	11	Information costs	Not tested	
Foreign shareholding/ international financing	10	*Capital need (9), information costs (4)	Marginally, not tested	Table 6-6
Family businesses/ closely-held	9	*Agency(8), information costs (2)	Yes	Tables 6-4 & 6-6
Government shareholding	8	Agency (4), political costs (4)	Marginally	Table 6-6
Profitability	7	Signalling	Yes	Tables 6-4 & 6-6
Independent directors	1	Agency	No	Tables 6-4 & 6-6

Total number of interviewees was 27
No – number of interviewees suggesting each factor
**Figure in brackets may not total up to total number of interviewees suggesting that factor, because based on the interpretation of comments from interviewees, the reasons suggested may be explained by more than one theory.*

[139] See also section 7.3.1

As shown in Table 8-7, with the exception of institutional shareholding and international financing, the other 'quantifiable' factors were tested in the statistical models in Chapter 6. Industry type, company size, the proportion of family members on the board, directors' ownership and profitability were statistically significant in influencing total voluntary disclosure and some sub-categories of disclosure (see Tables 6-4 & 6-6). The direction of association between the extent of voluntary disclosure and each of these factors in the statistical models were also consistent with interviewees' opinions. The statistical result which did not show the proportion of independent directors to be a significant variable influencing voluntary disclosure in annual reports is perhaps supported by the fact that only one respondent suggested that independent directors may have an impact on corporate voluntary disclosure. International financing was not tested because of difficulty in finding a suitable proxy while institutional shareholding was not tested because of problems in data availability and accessibility.

8.6.1.10 Theoretical interpretation of 'quantifiable' factors

Based on the interpretation of reasons given by interview respondents for the possible influence of the suggested factors, relevant theoretical frameworks that can help explain the relationship between voluntary disclosure and each factor are summarised in the middle column of Table 8-7. The relative applicability of each theory is shown in Figure 8-1.

Figure 8-1 shows that agency theory and information costs theory can each explain four of the eight 'quantifiable' factors suggested by interviewees. However, in terms of frequency, the factors or reasons which can be linked to agency theory were mentioned 23 times by interview respondents (the figure in respect of information costs theory is 19). Larger companies were expected to have better governance structure (10) in contrast to smaller and family businesses, where management and ownership coincide (8). Government-controlled companies were also expected to disclose more information because of separation between management and ownership (4) while independent directors were expected to play a monitoring role, reducing agency conflicts between corporate insiders and external (minority) shareholders (1).

Information costs may explain disclosure levels in companies with a higher proportion of institutional shareholders, a higher proportion of foreign ownership, large companies and family businesses. Companies with a higher proportion of institutional shareholders (11) and foreign shareholdings (4), and larger companies (2) may disclose more information to satisfy the demand of investors while family businesses are not expected to subject to analysts' demand (2).

Companies in more competitive industries were expected to disclose less information because of proprietary costs reason (18). Capital need theory may also explain why larger companies (2) and companies relying on international financing (9) disclose more information in their annual reports. Signalling good performance provides an explanation for profitable companies to disclose more information in the annual reports (7). Lastly, government-owned companies were also expected to disclose more information because political costs are higher in this type of companies (4).

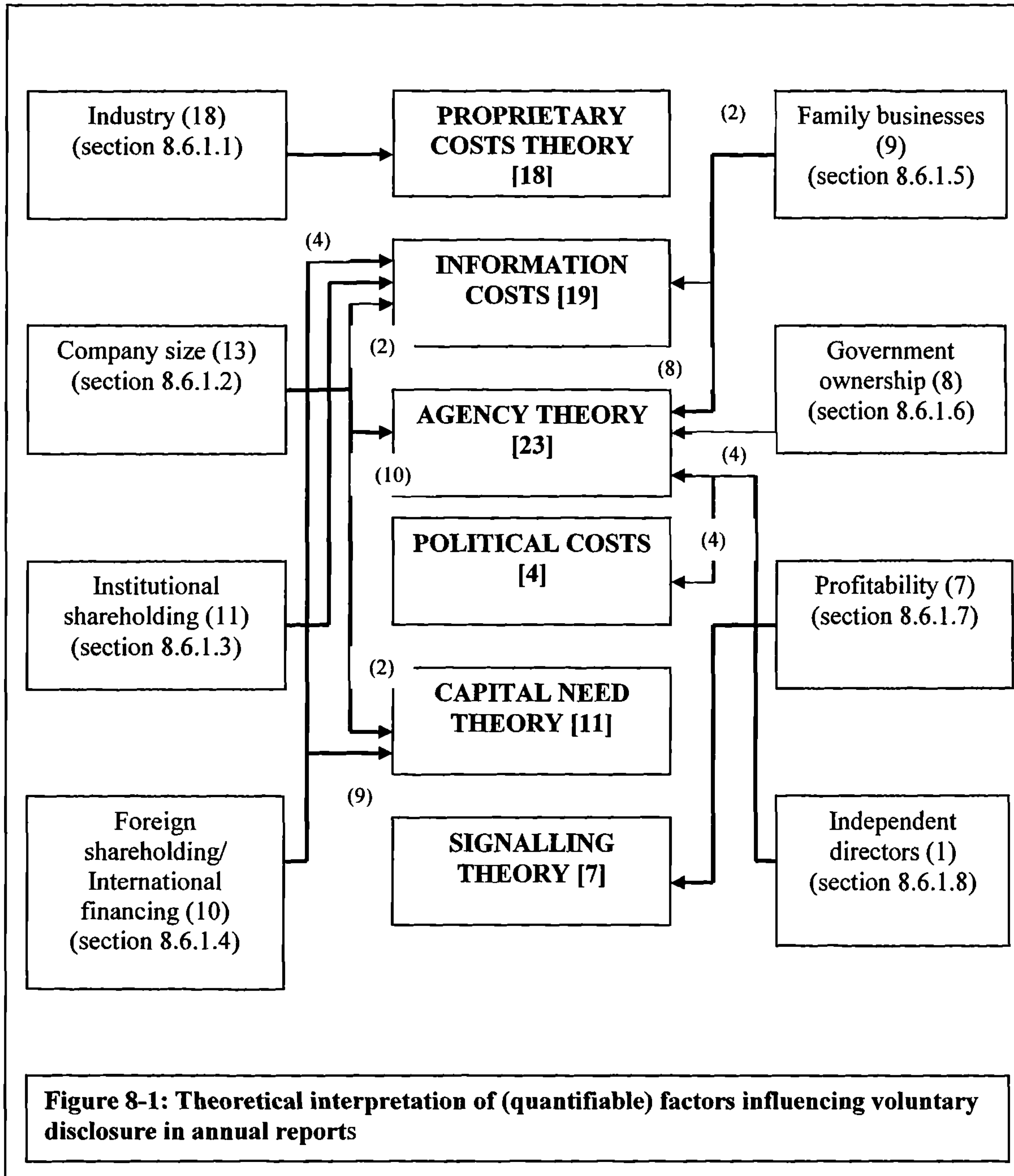


Figure 8-1: Theoretical interpretation of (quantifiable) factors influencing voluntary disclosure in annual reports

8.6.2 'Qualitative but potentially quantifiable' factors

This section discusses factors suggested by interviewees which have been categorised under the 'qualitative but potentially quantifiable' category.

8.6.2.1 Quality of management

As shown in Table 8-8 below, the 'qualitative but potentially quantifiable' factor most frequently cited by interviewees as determining company voluntary disclose practice in annual reports was the quality of management. The importance of the quality of management in influencing corporate disclosure has been documented in prior research. Cerf (1961, p. 24) reported that the item most often mentioned by the 134 analysts who responded to the questionnaires on the characteristics of companies which provide the most useful information was the characteristics of management (mentioned 74 times), which was also consistent with his findings on the interviews that majority of respondents regarded the philosophy of management as an important factor determining corporate disclosure.

With regards to linking the quality of management to theories, arguably the factor can be likened to a company size. That is because the management runs the company. Hence the activities, operations and performance of a company can be said to be a reflection of the quality of management. For example, a company may not want to disclose additional information because the management knows how damaging the disclosure of a piece of information can be to the company **(proprietary costs theory).** A management that appreciates the benefits of additional disclosure would want to disclose voluntary information to attract additional capital at the cheapest possible price **(capital need theory)**. A team of management who are aware of their responsibility and accountability may decide to disclose additional information to show that they apply good corporate governance **(agency theory)**.

A financial controller argued that disclosure is very much the decision of the board, especially the Managing Director;

> *"It's largely driven by the Board of Directors. It boils down to the directors, their level of sophistication, or confidence that some directors have in the business, their willingness to disclose greater details about*

> *their business. To me corporate disclosure is very much the decision of the Managing Director..."* (F9). [C8.46]

Another response from a financial controller was, *"disclosure of information that enhances shareholders' value is also a reflection of how well the company is being managed..."* (F2) [C8.47]. That implies that companies which are professionally run are expected to disclose more information. That again relates to the quality of management. A council member of the MIA who is also a partner at a medium sized audit firm said the following;

> *"If you volunteer, that shows that the management has put into place certain infrastructure, quality of management as well, and the management is quite forward looking in the sense that you are concerned about all these areas; that can be the interpretation. If you don't report at all, you may be a company that does not care. In the end, it goes back to the readers and users of financial statements. If they appreciate the information provided, companies will have to deliver, otherwise the annual report is just a practice that we have been doing for the past so many years..."* (R6). [C8.48]

The above response suggests voluntary disclosure in annual reports not only depends on the quality of management but the demand **(information costs theory)** from users as well and that these factors are inter-related with one another. It also implies that additional disclosure may **signal** that the management is confident about the future performance of the company.

The level of sophistication and confidence of directors are difficult if not impossible to quantify. If a rating or ranking system can be devised for directors' sophistication or confidence level, the influence of management quality on voluntary disclosure can be tested in a statistical model in future disclosure studies.

8.6.2.2 Analysts' trust

Fifteen respondents suggested gaining analyst trust and promoting company shares as one of the motives for voluntary disclosure in annual reports. This indirectly implies that financial and operational information are the most widely disclosed item in the annual reports because analysts are interested in these types of information when they do company evaluation (see Table 8-5). That would provide an

explanation for the relatively high levels of financial and strategic information disclosure observed in this thesis (see Table 5-2 in Chapter 5).

A financial controller said that additional disclosure may be provided, *"if it is to the benefit to the company, and gives more confidence to our shareholders and analysts..."* (F7) [C8.49]. Another financial controller who shared the same view claimed;

> *"If the information helps to strengthen the case for our company, we will probably disclose. If it is something very rosy and helps to increase our share value, of course we will disclose..."* (F4). [C8.50]

An audit partner with a major international accounting firm who is also a council member of one of the regulatory bodies in Malaysia stressed that;

> *"When it is voluntary, companies will volunteer to tell people, and show people things that benefit the company. So if the disclosure of that information doesn't help me one bit such as making my company more attractive, I will not disclose..."*(A3). [C8.51]

Other response includes, *"companies may disclose additional information voluntarily if that could get more investors to buy their shares..."* (I4) [C8.52]. The above responses clearly show that the provision of additional information in annual reports is aimed at attracting more investors to the company. That would suggest that **capital need theory** provides an explanation for companies to disclose more information.

Table 8-8: Factors *(qualitative but potentially quantifiable)* influencing voluntary disclosure in annual reports - views from interviewees

Respondents	F 1	F 2	F 3	F 4	F 5	F 6	F 7	F 8	F 9	A 1	A 2	A 3	A 4	R 1	R 2	R 3	R 4	R 5	R 6	I 1	I 2	I 3	I 4	B 1	B 2	B 3	B 4	Total (27)
Quality of management	✓	✓	✓		✓		✓		✓	✓				✓	✓	✓		✓	✓	✓			✓		✓	✓		16
Analyst trust & promoting company shares	✓	✓	✓	✓			✓	✓				✓			✓		✓	✓	✓	✓	✓		✓	✓				15
Good news vs. bad news	✓			✓		✓	✓		✓	✓			✓								✓	✓	✓	✓		✓		12
Existence of other forms of corporate communication		✓	✓	✓		✓	✓		✓			✓	✓	✓						✓	✓			✓				12
Governance structure & directors accountability		✓	✓						✓	✓				✓	✓			✓	✓	✓		✓		✓				11
Market forces e.g. expectations, recommendation from industry						✓	✓	✓				✓	✓	✓	✓			✓	✓			✓		✓				11
PR exercise & image building		✓				✓		✓	✓	✓	✓		✓							✓								8
Supplement mandatory requirements	✓				✓	✓		✓			✓		✓						✓						✓			8
Convention e.g. industry practice						✓							✓					✓	✓				✓				✓	6
International comparison		✓					✓										✓	✓	✓									5
Shareholder demand												✓	✓			✓	✓		✓									5
Public accountability		✓	✓							✓										✓								4
Proper records & database										✓								✓	✓						✓			4
Relevant for certain type of companies										✓	✓						✓						✓					4
Planning for corporate exercise							✓								✓													2
Beneficial ownership													✓															1

8.6.2.3 Good news or bad news

Another factor influencing corporate decisions on voluntary disclosure in annual reports suggested by twelve interviewees was whether the information is good news or bad news. An audit partner with a major international accounting firm said the following;

> *"Don't forget that voluntary disclosure at the end of the day can be used by companies. For example, if a certain trend doesn't look good for a company, then that company may not want to show that particular trend. That's a fact of life. We all have to accept that when you disclose certain things and because it is voluntary, you are not going to disclose all bad things. To the extent that you can disclose good things, why not, it's a public relations (PR) exercise too..."* (A4). [C8.53]

A financial controller explained, *"in terms of voluntary information, we tend to show good information..."* (F6) [C8.54], suggesting that a company would more willingly disclose additional information if the company had done well during the previous financial year. A banker with one of the largest bank in Malaysia said, *"some companies are more transparent than others. Companies would obviously want to amplify their strengths or perceived strengths rather than their weaknesses..."* (B3) [C8.55]. A financial controller who seemed cautious of his answers said, *"if the information is detrimental to the company, we will not disclose..."* (F4) [C8.56] and *"companies may not disclose if it creates a negative impact on them..."* (I3) [C8.57] implying that companies with bad news would not disclose information more than statutorily required. Alternatively, detrimental may not refer to bad news but the impact on the company due to competitors' reaction to the disclosure of that information. Another financial controller (F9) argued that some companies perhaps have something to hide, which again implies either bad news or sensitive information. The responses appear to suggest that the tendency is to disclose good news to **signal** a company's good performance.

There is no specific guideline on what could be regarded as good news or bad news. Nevertheless, if profitability is taken as an example of good news, prior research on the relationship between this variable and voluntary disclosure found mixed results. While Singhvi (1968), Ng and Koh (1994) and Haniffa and Cooke (2002) found

significant positive association between profitability and the extent of voluntary disclosure, Wallace and Naser (1995) and Chen and Jaggi (2000) reported significant negative association between profitability and comprehensiveness of disclosure in annual reports. This thesis found profitability to be positively associated with total, financial and strategic voluntary information disclosure and the result significant at the 1% level (see Chapter 6, Tables 6-4 and 6-6).[140]

8.6.2.4 Other forms of corporate communication

The existence of other forms of corporate communication was cited by twelve respondents as a possible factor determining corporate voluntary disclosure in annual reports. Examples of other forms of communication used by financial controllers interviewed in this study are summarised in Table 8-2. An auditor commented;

> *"the real investors never go to the annual report anyway. That is because we have the analysts to give them all the write up they need. Certain companies actually do provide institutional shareholders with separate forums to discuss their plans and all that..."* (A4). [C8.58]

An analyst clarified, *"some of the information that we analysts really need are not there in the annual report, such as volume achieved. This information we will be able to get from company visits..."* (I2) [C8.59]. The responses suggest that because corporate information can be obtained through alternative (and more efficient) channels, companies may find the costs of providing the additional information in the annual reports more than outweighed by the benefits of providing it. Thus **information costs theory** may explain disclosure levels in company annual reports. The responses also highlight that information disclosed in an annual report should not be taken as a conclusive measure of the extent of corporate voluntary disclosure.

8.6.2.5 Directors' accountability

Eleven interviewees regarded the level of governance structure and directors' accountability as a factor influencing voluntary disclosure. *"If the Chairman and other board members believe in good corporate governance, then they will be motivated to be more transparent in all board decisions and company activities..."* (R2) [C8.60]. An investment analyst argued, *"it is really the philosophy of*

[140] However, see also section 7.2.3 where two respondents did not really agree that less profitable companies would disclose less information in the annual reports.

management. I think to me it reflects a lot on the management, how you place your sense of responsibility and so-called accountability to the shareholders..." (I1) [C8.61]. That view is supported by a financial controller who said, "*disclosure also shows accountability of management and the board of directors to all stakeholders...*" (F2) [C8.62]. It appears from these responses that **accountability** on the part of management is an important factor determining corporate voluntary disclosure decision. This is taken further in section 9.4.4.

8.6.2.6 Industry recommendation

Expectations and recommendations from industry were also proposed as another factor influencing voluntary disclosure. An investment analyst attributed a company's reluctance to disclose additional voluntary information to lack of guidelines;

> "*If there is a guideline or checklist then it will be easier for companies to follow. Sometimes you need somebody else to see it from another angle, maybe these other people can see better whether information you disclosed in the annual report is sufficient...*" (I3). [C8.63]

That view is shared by a regulator who argued, "*when you say voluntary disclosure, everyone has his own interpretation, there is no codification and no one has done a list of expectations...*" (R1) [C8.64]. It was also pointed out during some of the interviews that companies perhaps would be persuaded to disclose if there were recommendations from the industry. That in a way suggests initiatives from the various bodies, be it professional or regulatory may assist in persuading companies towards more information disclosure in annual reports. [141] A financial controller suggested that one of the reasons why a company would voluntarily disclose additional information was, "*to be seen as transparent and promote corporate governance...*" (F8) [C8.65]. This implies that some companies might have felt pressured to disclose because of market expectations[142] and if a company did not live up to that expectations, that company could be penalised by the market. The above responses can be interpreted as implying that the **costs of** providing additional

[141] In October 2002, The KLSE set up a Taskforce on Corporate Disclosure Best Practices to provide further guidance for public listed companies to develop relevant policies and procedures to promote best practices in corporate disclosure (see section 3.5.4.2).

[142] Expectations here refer to developments in Malaysia where corporate transparency and accountability are being promoted and strongly encouraged (see sections 3.4.2, 3.5.4.1, 3.5.4.2 and 3.5.4.3).

information are high. However, if there are expectations or recommendations, companies may feel that there are justifications for providing additional information such as the costs of not providing additional information may be more than the costs of providing the information.

8.6.2.7 PR exercise

Eight interviewees felt that voluntary disclosure in annual reports was part of a PR exercise to boost a company's image. [143] Examples of the responses given by interviewees were, *"to give a good impression to the public..."* (F2) [C8.66]; *"to promote company image..."* (A4) [C8.67]; *"to build people's confidence in the company..."* (F6) [C8.68] and *"to reflect good image..."* (I1) [C8.69]. These responses indicate that voluntary disclosure in annual reports can be used by companies as a marketing tool or for advertising purposes. That perhaps suggests that additional disclosure can be used to **signal** the reputation of a company.

8.6.2.8 Supplement mandatory regulation

There were also suggestions by eight respondents that companies disclose additional information to supplement mandatory disclosure. As one auditor said, *"certain mandatory disclosure may need further explanation. In this respect, voluntary disclosure of information is provided to balance or support mandatory requirements..."* (A2) [C8.70]. Another auditor argued;

> *"sometimes companies are also caught by virtue of the nature of transaction to disclose more. If you have certain transactions which are governed by the existing standards, naturally you will disclose a lot more. For example if you have a transaction that fulfils the requirement relating to foreign currency, then you are caught by the standard, so by definition you have to disclose something about foreign currency..."* (A4). [C8.71]

A financial controller explained that additional information is sometimes provided in the annual reports, *"for easy reference between the statutory notes to the accounts and the detailed supporting figures..."* (F5). [C8.72]

[143] That is consistent with Abu-Nassar and Rutherford (1995) who found that preparers perceived share price stability and improved company image as the main benefits of voluntary disclosure in annual reports of Jordanian listed companies.

The above responses imply that additional disclosure may be provided to clarify parts of regulatory requirements which may not fully reflect the impact of a transaction or activities. Companies may feel that by providing additional information, the probability of the particular transaction being misinterpreted by readers of accounts would be less. Thus the benefits of providing that additional **information** may far outweigh the **costs** of providing it.

8.6.2.9 Convention

Six interviewees suggested that some items were voluntarily disclosed because it was a practice that had been followed by many companies, *"there is also common information that is voluntarily disclosed by most companies, for example, 5 years financial highlights. Although not mandatory, this information is provided so that the company annual report is comparable to others..."* (F6) [C8.73]. Comparison purposes may be one of the reasons, but it could also well be that if a company did not disclose a 'commonly' disclosed item, the fear was that the market might interpret it as the company had something to hide. This suggests that the **costs** of not providing **information** commonly disclosed may be relatively higher than the costs of providing that information.

8.6.2.10 International comparability

International comparison was the next commonly cited reason for voluntary disclosure. A financial controller of a company operating in the airport management industry claimed that because their competitors were the airport operators outside Malaysia, they tried to make sure that their annual reports were at least comparable to those of their overseas rivals to help potential investors make informed decision.

> *"Our investor base is not just Malaysians, but foreigners as well. So foreigners if they want to buy stocks in the airport sector, they have got the choice of at least ten listed airports in the world. Naturally the first thing they will look for is the annual report because the annual report gives the financial and operational performance of the company. If our disclosure is at least comparable to some of these companies, that will put us in a better light..."* (F2). [C8.74]

The above comment suggests that companies seeking for international source of finance disclose information to a level comparable to their overseas counterparts to

ensure that they are equal in terms of information provision. That suggests the relevance of **capital need theory** in influencing information disclosure.

8.6.2.11 Shareholder demand

The demand for corporate information is another reason suggested as affecting voluntary disclosure. Major users such as bankers and analysts can usually get the required information from sources other than company annual reports. Hence there may be less incentive for companies to disclose additional information in the annual reports if information can be communicated through other means. Additionally, other user-groups such as small shareholders are not expected to make much use of the annual reports;

> *"Minority and small investors, they generally do not really look at or spend time on the annual reports anyway, not just the annual reports but other public documents such as prospectus and so on. I'm not sure if additional information provided will enhance or benefit them, since information currently available is not made use by them anyway. For the institutional investors, those who are keen to get more information, definitely whatever disclosure will be of benefit to them..."* (R3). [C8.75]

This view is shared by an auditor who said;

> *"Honestly I don't know how many people read the annual report in detail. Especially the small shareholders, they don't even know anything about the annual report. I judge that by their presence and behaviour at the AGMs. They don't care, they look at one item, dividend and they ask questions around it. Why dividend is so low or why there is no dividend..."* (A3). [C8.76]

The above suggests that if the demand for more corporate information does not arise, a company may not see the need to provide additional information in the annual reports. That is because the provision of information involves costs. If there is no benefit of providing that information, information production costs may discourage companies from providing additional information. That implies that **information costs theory** provides an explanation for corporate voluntary disclosure.

8.6.2.12 Public accountability

From Table 8-8 above, it is evident that public accountability was not at the top of everyone's list in the factors influencing voluntary disclosure in annual reports. This perhaps further reinforces the low level of corporate social responsibility disclosure

found in the statistical results on the extent of voluntary information disclosure (see Table 5-2 in Chapter 5). The list of reasons given by respondents also shows that the majority believed that the focus was more on information that could have a significant impact on share price and boost a company's image. Perhaps if social disclosure can be linked to a company's cash flow and hence financial performance, more attention would be paid to this type of information. It could also be that because there is no demand for this information, it is given lesser weight by most companies (see also Table 8-4 where only one respondent (R1) suggested human resource and social responsibility to be an important theme to be disclosed in annual reports). However, it is also possible that because some companies have their own corporate brochures or in-house newsletters, some of this social information may have been inserted in those publications.[144]

An analyst argued, " *some companies may feel they have the responsibility to report more because of public interest...* " (I1) [C8.77]. (see also C7.39 in Chapter 7 where the respondent suggests public accountability depends on the level of public interest in the company, and C7.52 where the respondent suggests government controlled companies may disclose more because of greater degree of public accountability in those companies). Additionally, public accountability may also depend on the size of the company. Larger and widely-diffused companies are more likely to be in the 'public eyes'. That suggests **political costs theory** may explain information disclosure in annual reports.

8.6.2.13 Proper records and database

Other reasons and factors listed in Table 8-8 include proper records and database. It was suggested that some companies may find it easier in terms of cost and effort to provide voluntary information if that information is already kept in the company database and hence readily available. "*Some companies already have the information in their database...*" (R4) [C8.78] and "*some companies are more informative than others because they have proper records...*" (B2) [C8.79]. The responses suggest

[144] A regulator, (R1) also mentioned at the end of the interview that he had just read an in-house newsletter from one of the Composite index companies and said he was quite surprised by the large amount of social activities disclosed in the newsletter.

that **information production costs** are relevant in influencing additional information disclosure.

8.6.2.14 Relevance

The issue of certain items which may not be relevant for certain types of companies was also put forward as a factor influencing voluntary disclosure. [145] An analyst argued, *"some companies may disclose information that is pertinent to that business..."* (I4) [C8.80]. An auditor claimed, *"there may be some areas which are specific to a certain type of companies, disclosure therefore depends on the environment the company is operating in..."* (A2) [C8.81]. These responses imply that because different companies operate in different environment, issues which may only be relevant for companies in the same environment are not expected to be disclosed by other companies. If a piece of information is not relevant for a particular company, the **costs** of providing that **information** may not justify the provision of that information.

8.6.2.15 Planning for a corporate exercise

A financial controller and a regulator were of the opinion that companies may be motivated to disclose voluntary information if they were planning for a corporate exercise such as a rights issue. That is consistent with **capital need theory** which hypothesises companies to increase disclosure around the period of equity offerings to reduce information asymmetry in the market hence lowering the company's cost of capital.

8.6.2.16 Beneficial ownership

Finally, there was a suggestion by an auditor that certain companies may not want to disclose information other than that statutorily required to protect the real owners of the business. That may be interpreted as companies trying to manage their **political costs**. The political costs may arise through public scrutiny brought about by extensive disclosure of a company's activities. Certain individuals may prefer a 'low-profile' especially if they own a large portion of the country's wealth.

[145] This factor was taken into account when scoring companies' disclosures, in deciding whether a non-disclosure should be given a zero score or not applicable (see section 4.7.1.2).

8.6.2.17 Summary

This section has analysed and discussed responses to interview questions to identify other factors influencing voluntary disclosure in annual reports which had not been captured in the statistical models in Chapter 6. Figure 8-2 shows the 16 'qualitative but potentially quantifiable' factors suggested by interviewees to influence corporate voluntary disclosure practice in annual reports. The 16 factors are matched against relevant theoretical framework. The link between each factor and theories as shown in Figure 8-2 reflects the strongest theory that explains each factor based on analysis of interview responses.

8.6.2.18 Future research

With regards to testing the 'qualitative but potentially quantifiable' factors in a statistical model, future research may consider the following recommendations. Firstly, these factors can be incorporated in a statistical model in future studies on voluntary disclosure if a rating or ranking system can be devised to quantify each of them. Devising a ranking system also provides an avenue for future research on accounting disclosure. For example, future research can consider designing a questionnaire to survey market participants on the quality of management. The questionnaire may employ a Likert scale model to rate a company's quality of management. Secondly, some of the factors listed in Table 8-8 above do not appear to be totally independent from one another. For example, it could be argued that industry expectations are related to the convention of following the practice of other companies. Similarly disclosure of good news can also be considered as part of promoting a company image. Further work using factor analysis can be another avenue for future research on accounting disclosure. Factor analysis refers to a variety of statistical techniques whose common objective is to represent a set of variables in terms of a smaller number of hypothetical variables (Kim and Mueller, 1994: p. 3). Using factor analysis can help identify variables that load on to the same factor consequently reducing the number of variables to be tested in the voluntary disclosure model. The resultant factors generated by factor analysis may represent the relevant theories explaining voluntary disclosure in annual reports.

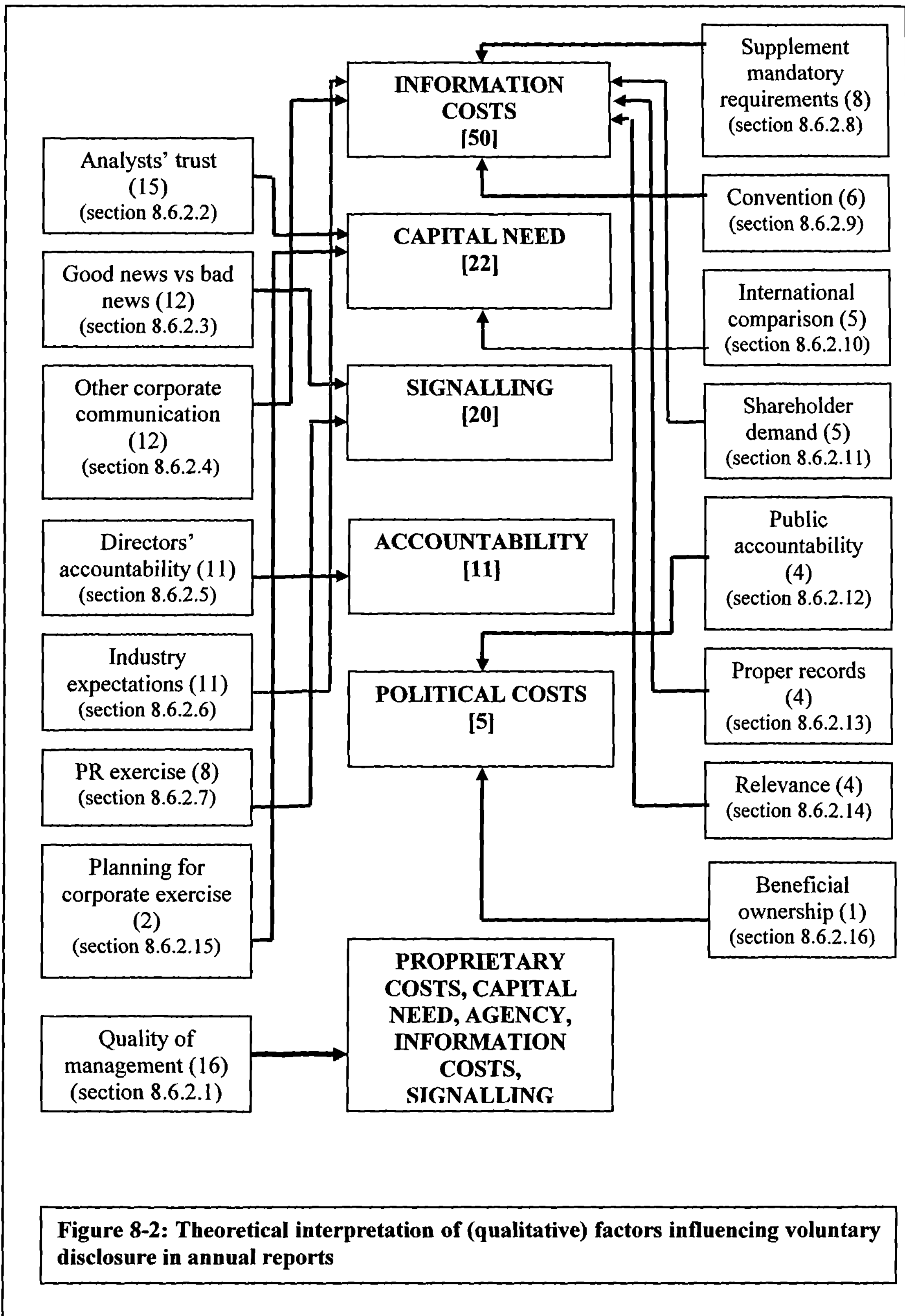


Figure 8-2: Theoretical interpretation of (qualitative) factors influencing voluntary disclosure in annual reports

8.7 Summary and conclusions

This chapter has reported the findings from interviews held with 27 market participants on issues related to voluntary disclosure in annual reports. Based on the transcripts prepared, respondents' views and opinions were analysed and interpreted to further shed light on factors influencing voluntary disclosure in corporate annual reports. The analysis identified a number of factors that were divided into 'quantifiable' and 'qualitative but potentially quantifiable'.

In the 'quantifiable' category, industry type and competitiveness, and company size were perceived as the main factors influencing voluntary disclosure in annual reports. Industry type was suggested by 18 respondents while 13 interviewees suggested company size as possible factors influencing voluntary disclosure (see Table 8-6). Companies in more competitive industries were expected to disclose minimum information for fear of releasing information that can be regarded as 'trade secret' (see section 8.6.1.1). That suggests the applicability of proprietary costs theory in explaining voluntary disclosure in Malaysian companies. Proprietary costs vary across industries and incentives for voluntary disclosure are expected to be less for companies in more competitive industries (Verrecchia, 1983). Larger companies were expected to disclose additional information. That is because larger companies could be addressing a larger proportion of institutional investors, subject to more analysts' demand, rely more on external funding or have clear separation between ownership and management. This implies that information costs, capital need and agency theories are possible theoretical frameworks to explain voluntary disclosure in Malaysian company annual reports (see section 8.6.1.2). The interview findings regarding company size and industry type also provide support to the statistical results reported in Chapter 6 (see Table 8-7) where company size as proxied by the number of employees was found to be statistically significant at the 1% level and industry type statistically significant at the 5% level in influencing total voluntary disclosure (see Table 6-4 in Chapter 6).

The theoretical interpretation of 'quantifiable' factors suggested by interviewees is summarised in Figure 8-1. It can be seen from Figure 8-1 that agency theory and information costs theory may each explain four of the suggested variables. However, in terms of frequency, the variables or reasons that can be linked to agency theory were mentioned by the highest number of interview respondents (23). The analysis in respect of 'quantifiable' factors suggested by interviewees appears to suggest that agency issues are the most important factor influencing voluntary disclosure in Malaysian company annual reports.

Table 8-8 lists 16 'qualitative but potentially quantifiable' factors suggested by interviewees as possible determinants of voluntary disclosure in Malaysian corporate annual reports. These factors may account for some of the unexplained variation reported in the multiple regression models in Chapter 6. Section 8.6.2.18 makes some recommendations on how these factors may be incorporated in a future statistical model. As discussed in section 8.6.2.1, with regards to linking the quality of management to theories, arguably the factor can be likened to a company size. Thus in terms of theoretical framework, arguably the quality of management can be explained by the majority, if not all of the disclosure theories shown in Figure 8-2. Of the remaining 15 factors listed in Figure 8-2, seven can be explained by information costs theory. In terms of frequency, information costs appear to be the theory that can explain the highest number of variables and the most frequent number of comments mentioned by interviewees. This is followed by capital need theory, signalling theory, accountability and political costs theory. Thus the analysis in respect of factors categorised under 'qualitative but potentially quantifiable' factors seems to imply that the most important deciding factor for corporate voluntary disclosure policy in Malaysian company annual reports is the costs and benefits of providing additional voluntary information.

The interviews have provided insights into factors influencing voluntary disclosure in annual reports. Some of the factors suggested by interviewees, especially those qualitative factors may not have been identified other than through personal interviews. Of particular interest is the suggestion of interviewees on the use of

private discussions and meetings in Malaysia. A number of interviewees pointed out that certain corporate information is communicated through private channels (see C8.12, C8.29, C8.58, C8.59 and also C7.33 in Chapter 7). That suggests that information may be reaching the market through routes other than a public document such as the annual report. The existence of private communication channels may also partially explain the low levels of voluntary disclosure observed in company annual reports investigated in this thesis (see section 5.2.1 and Table 5-1 in Chapter 5 where 75 companies (86.2%) scored below 50%). Additionally investigating the costs and benefits and importance of private corporate communication in a developing country is a potential future research area.

The next chapter concludes the thesis, summarising the main results and suggesting areas for further research.

CHAPTER 9: CONCLUSIONS, LIMITATIONS AND SUGGESTIONS FOR FURTHER RESEARCH

9.1 Introduction

This chapter summarises the main results and conclusions of the thesis. Section 9.2 outlines the research objectives, questions and methods used to answer the research questions. The statistical findings and results of hypotheses testing are reported in section 9.3. A model linking the statistical findings to interview analysis and the relevant theoretical frameworks is presented in section 9.4. Section 9.5 highlights the contributions of the study. Implications of the research findings are summarised in section 9.6. Section 9.7 discusses the limitations of the study. Section 9.8 concludes the thesis, suggesting avenues for further research.

9.2 Summary of research objectives, questions and methods

This study has sought to examine the voluntary disclosure practice in annual reports of companies included in the KLSE Composite Index following the establishment of new regulatory framework for financial reporting and implementation of new regulations on corporate governance in Malaysia. The research questions, objectives and methods are summarised below.

9.2.1 Research objectives

The objectives of the study are as follows;

Objective 1: *To evaluate the extent of voluntary disclosure in corporate annual reports in relation to new corporate governance regulations implemented in 2001*

Objective 2: *To determine if there have been any changes in factors influencing voluntary disclosure in annual reports following the actions of the Malaysian government in response to the 1997 financial crisis*

Objective 3: *To assess the relative applicability of disclosure theories originating from developed countries in explaining managerial motives for corporate disclosure in a developing country*

Objective 4: *To use interview-based research to complement results from statistical analysis*

9.2.2 Research questions

The thesis aims to answer the following research questions;

SRQ1: What is the extent of voluntary disclosure in annual reports of companies included in the KLSE Composite index?

SRQ2: Which variables are statistically significant in explaining disclosure variability among these companies?

SRQ3: How may the variations in the level of annual reports voluntary disclosure of these companies be explained in terms of the Malaysian culture and economic environment and the relevant theoretical frameworks?

SRQ4: How does interview research with users and preparers of annual reports help the interpretation of statistical findings and help assess the relative applicability of theoretical models?

SRQ5: What are the perceptions of users and preparers of annual reports on issues related to voluntary disclosure in annual reports and how do interview findings lead to theoretical understanding?

9.2.3 Research methods

This study combines quantitative multiple regression analysis and qualitative interview-based technique to answer the five research questions. The following summarises the methods used to answer each research question.

SRQ1 has been answered by analysing company annual reports using a researcher-constructed voluntary disclosure index. A number of steps were followed to ensure that the list reflected voluntary items which were relevant and important to be disclosed in Malaysian listed company annual reports (see section 4.7.1.1). The

method of scoring was based on an unweighted approach and a dichotomous procedure applied whereby 1 is awarded for disclosure and 0 for non-disclosure of an applicable item. The extent of voluntary disclosure in annual reports was derived by computing the ratio of actual scores awarded to the maximum possible score attainable for items appropriate to that company (see section 4.7.1.2).

SRQ2 has been answered by running multiple regression models for total and sub-categories of voluntary information disclosure. A number of procedures were followed to assess whether the data met the assumption of normality (see section 4.9.1). Because tests on data indicated significant deviation from normality, all variables (dependent and independent) were transformed into normal scores (see section 4.9.2.2). Multicollinearity among independent variables was checked using Pearson correlation and variance inflation factor (see sections 4.9.4.1 and 6.4.1). The regression models run were based on normal scores. To accommodate for the highly correlated variables separate regression routines each incorporating one of the highly correlated variables were run. The model reported for each category was based on the combination that gave the highest adjusted R squared. Variables reported as significantly influencing voluntary information disclosure were decided based on statistical significance at either 1% or 5%. Variables showing statistical significance at 10% level were reported as marginally influencing voluntary disclosure in annual reports.

SRQ3 has been answered by relating the empirical findings to theoretical frameworks and prior research on voluntary disclosure discussed in Chapter 2. Reference was also made to relevant features of the Malaysian environment presented in Chapter 3.

SRQ4 and SRQ5 have been answered by conducting personal interviews with 27 market participants. The interview questionnaires had an open-ended format so as to allow interviewees to express their opinions freely (see section 4.7.2.2). All interviews were transcribed based on notes taken during and immediately after the interviews and listening to interview tapes. Content analysis was used to analyse the

interview transcripts (see section 4.7.2.3). Interview findings were interpreted to assess the relative applicability of disclosure theories in explaining voluntary disclosure in Malaysian company annual reports (see Figure 7-1 in Chapter 7, Figures 8-1 and 8-2 in Chapter 8).

9.3 Statistical results and hypotheses testing

The examination of company annual reports revealed that even among the most actively traded stocks on the KLSE, there was considerable variability in the amount of information voluntarily disclosed in annual reports with total voluntary disclosure indices ranging from 6.3% to 74.0% (see section 5.2.1). In the sub-categories of information disclosure, the widest gap in disclosure indices was in respect of corporate social responsibility information with the lowest score at 5.9% and the maximum score at 82.4%. In addition, 28 companies did not disclose any corporate social responsibility information (see section 5.2.2). These findings show that corporate social responsibility disclosure in annual reports was given less attention by Malaysian companies as compared to financial and strategic information.

In terms of factors influencing voluntary disclosure in annual reports, multiple regression analysis found that five variables, namely number of employees, director ownership, profitability, type of industry and the proportion of family members on the board, were significantly associated with the extent of total voluntary disclosure in annual reports at either the 1% or 5% level. The results also show the significance of director ownership in influencing all types of information disclosure. Government ownership and foreign ownership were marginally significant at the 10% level in influencing voluntary financial information disclosure. In contrast, ownership by the ten largest shareholders, the proportion of Malay directors[146] on the board and gearing did not show significant association with the extent of voluntary disclosure. Of particular interest are the results regarding the variables representing new governance initiatives. None of the three variables, namely the proportion of

[146] Nonetheless, the proportion of Malay directors on the board is positively associated and statistically significant in influencing voluntary strategic information disclosure at the 5% level in the stepwise regression model (see Appendix 6-E).

independent non-executive directors, independent chairman and financial year-end was statistically significant in influencing voluntary disclosure in Malaysian corporate annual reports. These findings indicate that efforts of the regulators in enhancing corporate accountability and transparency did not immediately achieve the desired results. Table 9-1 summarises the results of multiple regression analysis for total voluntary disclosure and by type of information.

Table 9-1: Factors influencing voluntary disclosure in Malaysian company annual reports (based on standard multiple regression)

Variables	**Type of information**			
	Total information	*Financial information*	*Strategic information*	*Corporate social responsibility*
OwnTen	×	×	×	×
DirOwn	✓***	✓***	✓**	✓**
GovtOwn	×	✓*	×	×
ForOwn	×	✓*	×	×
FamD	✓**	✓**	×	×
IndNED	×	×	×	×
ChairInd	×	×	×	×
FYE	×	×	×	×
MalayD	×	×	×	×
Employ	✓***	✓***	✓***	×
Prof	✓***	✓**	✓***	×
Gear	×	×	×	×
Indus	✓**	×	✓***	✓*

✓*** statistically significant at the 1% level
✓** statistically significant at the 5% level
✓* statistically significant at the 10% level
× not statistically significant

The statistical results in respect of total voluntary disclosure above were used as the basis for rejecting the null hypotheses developed in section 4.8. Table 9-2 summarises the results of hypotheses testing.

Table 9-2: Summary of results of hypotheses testing for total voluntary disclosure

Variable	Expected sign	Observed sign	Statistically significant
OwnTen	Positive/negative	Positive	No
DirOwn	Negative	Negative	**Yes*** **
GovtOwn	Positive/negative	Negative	No
ForOwn	Positive	Negative	No
FamD	Negative	Negative	**Yes** **
IndNED	Positive/negative	Negative	No
ChairInd	Positive/negative	Positive	No
FYE	Positive/negative	Negative	No
MalayD	Positive	Positive	No
Employ	Positive	Positive	**Yes*** **
Prof	Positive/negative	Positive	**Yes*** **
Gear	Positive/negative	Positive	No
Indus	Positive/negative	Negative	**Yes** **

*** statistically significant at the 1% level
** statistically significant at the 5% level

Consistent with expectations, larger companies (measured by number of employees) disclosed significantly more information while companies with a higher proportion of director ownership and a higher proportion of family members on the board disclosed significantly less information in their annual reports. No expectations were formed regarding the direction of association between the extent of voluntary disclosure in annual reports and variables representing profitability and industry type because of mixed findings in prior research. The significant positive association between the extent of voluntary disclosure and profitability implies that in the Malaysian context, more profitable companies disclosed significantly more voluntary information in the annual reports. The significant negative association between the extent of voluntary disclosure in annual reports and type of industry indicates that manufacturing companies in Malaysia disclosed significantly less voluntary information than non-manufacturing.

In terms of the explanatory power of the model, the standard multiple regression on total voluntary disclosure showed that the 11 variables included in the model were able to explain 38.2% of the variation in voluntary disclosure level in annual reports investigated in this study (see Table 6-4 in Chapter 6). Of the three sub-categories of information, financial disclosure is most explained while corporate social responsibility information is the category least explained by the variables specified in

the model (see Table 6-6 in Chapter 6). The results also indicate that a large part of the variation in the voluntary disclosure of information in annual reports of Malaysian companies (ranging from about 70% of financial information to 80% of corporate social responsibility information) have not been captured by the statistical model. The unexplained variation may partly refer to factors which are not easily quantifiable and tested in the statistical models. This highlights the need to identify other factors influencing voluntary disclosure in annual reports. One way of unravelling these other factors is by seeking opinions from those who are involved either directly or indirectly, in the corporate disclosure process. Interviews with 27 market participants were held to shed light on other factors influencing corporate disclosure policy and to enhance the interpretation of statistical results. The next section presents a model integrating statistical results and interview findings with the relevant theoretical framework.

9.4 A model integrating results with the relevant theoretical framework

Figure 9-1 shows relevant theories originating from developed countries that can help explain voluntary disclosure in Malaysian company annual reports. Section A lists statistically significant variables that were included in the interview questions.[147] Section B shows the 'quantifiable' factors and Section C the 'qualitative but potentially quantifiable' factors as suggested by interviewees. It is possible that each variable or factor can be explained by more than one theory. For example, public accountability may be explained by both legitimacy and political costs theories. The link between each variable and theories as shown in Figure 9-1 reflects the strongest theory that explains each variable based on analysis in chapters 7 and 8.

[147] See sections 7.1, 7.2 and 7.3 on the choice of variables included in the interview questionnaires.

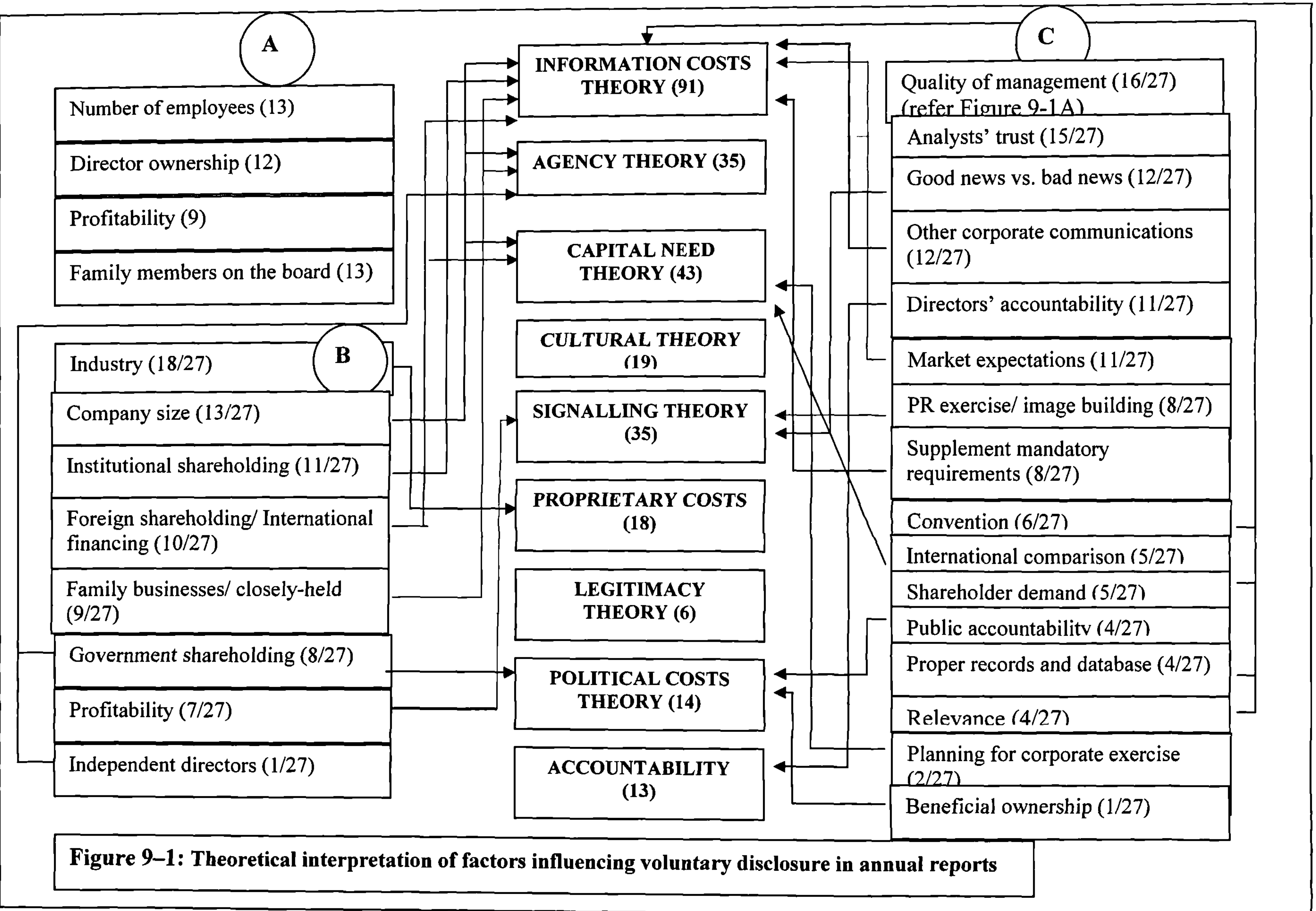
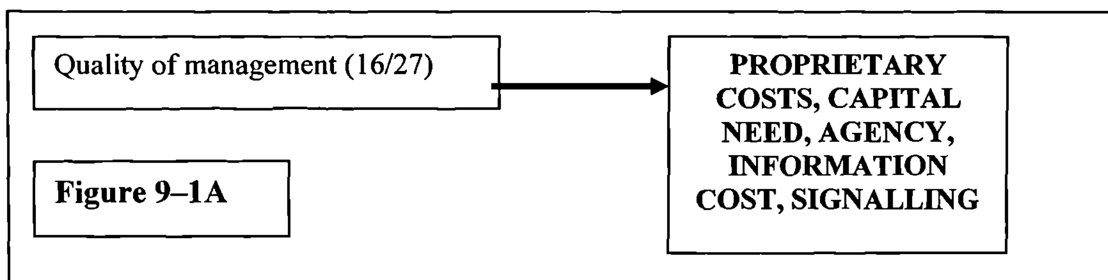


Figure 9–1: Theoretical interpretation of factors influencing voluntary disclosure in annual reports



Key to Figure 9-1:
Section A: Interviews - validating statistical results (see Figure 7-1 for the theoretical interpretation of statistically significant variables)
Section B: Interviews - 'quantifiable' factors
Section C: Interviews - 'qualitative but potentially quantifiable' factors

Figures in brackets refer to number of interviewees giving that response. Note that not all interviewees responded to interview questions on statistical results.

Section A		Section B		Section C	
Factors	*Reference*	*Factors*	*Reference*	*Factors*	*Reference*
Number of employees	7.2.1.1	Industry	8.6.1.1	Quality of management	8.6.2.1
Director ownership	7.2.2.1	Company size	8.6.1.2	Analysts' trust	8.6.2.2
Profitability	7.2.3.1	Institutional shareholding	8.6.1.3	Good news or bad news	8.6.2.3
Family members on the board	7.2.4.1	Foreign shareholding/financing	8.6.1.4	Other corporate communication	8.6.2.4
		Family businesses	8.6.1.5	Directors' accountability	8.6.2.5
		Government ownership	8.6.1.6	Industry expectations	8.6.2.6
		Profitability	8.6.1.7	PR exercise	8.6.2.7
		Independent directors	8.6.1.8	Supplement mandatory requirements	8.6.2.8
				Convention	8.6.2.9
				International comparison	8.6.2.10
				Shareholder demand	8.6.2.11
				Public accountability	8.6.2.12
				Proper records	8.6.2.13
				Relevance	8.6.2.14
				Planning for a corporate exercise	8.6.2.15
				Beneficial ownership	8.6.2.16

9.4.1 Section A

Based on the reasons suggested by interviewees for the significance of each variable, it appears that information costs theory is most relevant in explaining the association between voluntary disclosure in annual reports and each of the variables listed in Box A. (See Figure 7-1 in Chapter 7 for the reasons suggested by interviewees for the significance of each variable and the theoretical explanation for each reason).[148] Reasons that can be linked to information costs theory were also mentioned the highest number of times (22) by interview respondents. Interviewees suggested that large companies usually have more institutional shareholders with more analysts following and that additional disclosure is to satisfy the information demand of these user-groups. In contrast, owner-managed and family businesses were expected to have fewer number or proportion of external and institutional shareholders, and are usually small in size that may not attract the interests of fund managers. Profitable companies were expected to be large in size and additional disclosure could have been provided to satisfy the information needs of a large number of shareholders.

9.4.2 Section B

In the 'quantifiable' factors category, agency theory and information costs theory can each provide explanation for four of the suggested variables. However, in terms of frequency, the variables or reasons that can be linked to agency theory were mentioned by the highest number of interview respondents (23) (see Figure 8-1 in Chapter 8). Larger companies were expected to have better governance structures in contrast to smaller and family businesses, where management and ownership coincide. Government-controlled companies were also expected to disclose more information because of separation between management and ownership while independent directors were expected to play a monitoring role, reducing agency conflicts between corporate insiders and external (minority) shareholders. The analysis in respect of quantifiable factors appears to suggest that agency issues are the most important factor influencing voluntary disclosure in Malaysian company annual reports. It needs

[148] The link between the reasons suggested by interviewees and theoretical interpretation is not shown in Figure 9-1 because of space reasons.

to be highlighted that even though proprietary costs seem to be only relevant in explaining the industry factor, this variable was suggested by the highest number of respondents. Protecting trade secrets was put forward by interviewees as the reason for the low level of voluntary disclosure in certain companies.

9.4.3 Section C

With regards to factors categorised under 'qualitative but potentially quantifiable', Box C in Figure 9-1 shows that among the 16 factors, quality of management is the most frequently suggested by interviewees. As discussed in section 8.6.2.1, with regards to linking the quality of management to theories, arguably the factor can be likened to a company size. Thus, in terms of theoretical framework, arguably quality of management can be explained by the majority, if not all the disclosure theories shown in Figure 9-1.

Of the remaining 15 factors listed in Box C, seven can be explained by information costs theory. Interviewees suggested that corporate voluntary information might not necessarily be provided only in the annual reports because of existence of other corporate communication channels. It was highlighted during the interviews that some of the alternative corporate communication channels such as private meetings are more efficient. Communicating through private channels may also avoid unnecessary disclosure of information to competitors that can prove costly. There were also suggestions that industry expectations or recommendations might also motivate companies to disclose additional information. Companies may be pressured to provide additional information voluntarily for fear of non-disclosure being interpreted as something to hide. Similarly, companies not following the disclosure practice of other companies in the same industry or environment might find itself at a disadvantage because users may find those company annual reports not comparable to others, thereby making investment decisions more difficult. A number of interviewees were of the opinion that additional disclosure may prove beneficial to the company if it can help clarify certain mandatory information contained in the annual reports. The relevance of certain information to some companies was also put forward as another factor influencing voluntary disclosure. That probably implies

that companies in different environments, such as those in less sensitive industries may not face the same level of pressure as those in chemical or oil and gas industries, to provide more information on environmental-related activities. Some interviewees pointed out that individual and minority shareholders do not normally demand for additional information and analysts and bankers could usually get the required information from private channels. Thus, companies may find the benefits of providing voluntary information in the annual reports outweighed by the costs of providing that information. Finally the costs of preparing the information were also suggested as another contributing factor to voluntary disclosure in annual reports. Interviewees argued that some companies may already have the additional information in their records and database. For these companies, the marginal costs of providing this information are probably minimal because the information is readily available.

9.4.4 Overall conclusions on applicability of disclosure theories

In terms of frequency, information costs theory is the most relevant in explaining variation in voluntary disclosure levels in Malaysian company annual reports. The variables or reasons which can be linked to information costs theory were mentioned 91 times by interview respondents (22 times in validating statistical results (see Figure 7-1 in Chapter 7), 19 times in the 'quantifiable' category (see Figure 8-1 in Chapter 8) and 50 times in the 'qualitative but potentially quantifiable' category (see Figure 8-2 in Chapter 8). Figure 9-1 also shows the applicability of other theories in explaining factors influencing voluntary disclosure in annual reports and their relative strength as measured by the number of times the relevant factors were mentioned by interview respondents.

The division of factors into 'quantifiable' and 'qualitative but potentially quantifiable' shows that in the 'qualitative' category, information costs theory is relevant in explaining seven of the suggested factors. Factors which can be explained by information costs theory are also the most frequently mentioned by interviewees. In the 'quantifiable' category, agency theory appears to be the most relevant in explaining variations in voluntary disclosure level based on frequency. However, in

terms of ability to explain factors, agency and information costs can each explain four of the suggested 'quantifiable' factors. It may be concluded that information costs theory help explain most of the 'qualitative' factors while agency theory is more relevant in explaining 'quantifiable' factors.

Figure 9-1 shows 'accountability' as one of the theoretical framework to explain voluntary disclosure in annual reports. Accountability was not discussed in Chapter 2 in the review of theoretical frameworks. Based on the responses from interviewees, it may be said that 'accountability' in the context of this study does not represent a new theory but could be a part of established theoretical frameworks such as signalling and legitimacy. For example, the suggestion that less profitable companies would disclose more information could be interpreted as signalling bad news to avoid adverse selection (see section 7.4.1.3). The view that disclosure shows accountability of management to stakeholders (see section 8.6.2.5) may be interpreted as management wanting to legitimise their position.

9.5 Contribution to knowledge

The contributions of this thesis are summarised as follow;

9.5.1 Relevance and applicability of disclosure theories

The analysis has shown that disclosure theories originating from developed countries are able to explain variations in the extent of voluntary information disclosure in company annual reports of a developing country. Figure 7-1 shows relevant theoretical frameworks that may explain the significance of tested variables in influencing voluntary disclosure in annual reports. The reasons suggested by interviewees for the significance of each variable are matched against relevant theoretical frameworks. Figure 8-1 shows 'quantifiable' factors while Figure 8-2 shows 'qualitative but potentially quantifiable' factors suggested by interviewees as possibly influencing corporate voluntary disclosure decision. Each factor is matched against relevant theoretical framework. Figure 9-1 presents the overall model of theoretical interpretation of factors influencing voluntary disclosure in annual reports.

9.5.2 Regulatory changes have no significant impact on voluntary disclosure in annual reports

This study has found that contrary to expectations, none of the three variables representing new governance initiatives, the proportion of independent directors, an independent chairman and financial year-end was statistically significant in explaining voluntary disclosure in annual reports. As explained in section 6.6.2, the non-significance of these variables may partly be attributable to the relatively new regulatory regime for financial reporting (see section 3.5.3.1 on the establishment of the MASB, section 3.5.5 on the set up of the Financial Reporting Surveillance and Compliance Department within the SC). Additionally, the MCCG was only introduced in 1999 (see section 3.4.2) and the disclosure of the Statement of Corporate Governance in annual reports mandatory for financial years after 30 June 2001. The requirement for independent directors to be at least one-third came into effect on 31 July 2001 (see section 3.5.4.1).

The findings highlight that traditional features of Malaysian business environment, director ownership and the proportion of family members on the board remained dominant in determining voluntary disclosure in annual reports despite the changes that have taken place in Malaysia with respect to regulatory framework for financial reporting and new regulations on corporate governance implemented after the 1997 financial crisis. The findings confirm the significance of director ownership and the proportion of family members on the board, specific features of business environment in South East Asia, in influencing voluntary information disclosure in annual reports of developing countries.

9.5.3 Interview-based research complement statistical results

Apart from confirming the statistical results, interviews have enhanced the interpretation of statistical findings. Interviewees suggested that the lack of demand for information in respect of family-controlled companies might be a factor contributing to the low levels of voluntary disclosure in annual reports of these companies as these companies are usually smaller in size and fund managers may not

be interested in this type of company. Interviews have also contributed to validating disclosure indices for specific companies. Additionally, interview evidence has helped in further unravelling factors influencing voluntary disclosure, particularly those not easily quantified and not captured in the statistical model such as the quality of management and analyst trust. The range of 'qualitative but potentially quantifiable' factors suggested by interviewees also provides avenues for further research in corporate voluntary disclosure (this is taken further in section 9.8).

9.5.4 Methodological extension to research on accounting disclosure

This thesis is one of the few studies that employ qualitative technique to examine voluntary disclosure in annual reports. Given the paucity of research that uses qualitative data to identify factors influencing voluntary disclosure in annual reports, the combination of qualitative interview technique, quantitative multiple regression analysis, and link to theories presents a methodological extension to research in accounting disclosure practice.

9.6 Implications of findings

This study has examined factors influencing the extent of voluntary disclosure in annual reports of companies listed on the KLSE and has found that, despite the changes in the regulatory framework for financial reporting and corporate governance in the wake of the 1997 financial crisis in South-East Asia there has been no significant change in the factors associated with voluntary disclosure in Malaysia. Traditional traits of director ownership and family control of the board of directors have remained dominant in influencing disclosure. Size and profitability show the expected positive association with voluntary disclosure, showing that signaling to the market does modify the influences of ownership and control. Industry sensitivity provides an explanation for the negative relationship between the extent of voluntary disclosure in annual reports and type of industry.

None of the new provisions to enhance corporate governance is statistically significant in explaining voluntary disclosure in annual reports. This finding suggests

that new regulations on corporate governance implemented after the 1997 Asian financial crisis did not immediately succeed in encouraging companies towards greater transparency in annual reports. It is possible that because the new regulations on corporate governance came into effect in 2001, examination of company annual reports for financial year 2001 might not have revealed the full impact of these regulations on voluntary disclosure in annual reports. Thus, it may be more appropriate to say that at the point of regulatory change in 2001, variables representing new governance initiatives were not significant in pointing companies towards more voluntary information disclosure in annual reports.

9.6.1 Policy implications

Although the relatively new regulatory regime for financial reporting in Malaysia may partly explain the results regarding variables representing new governance initiatives, the lack of significance for these variables still raises the question of whether companies adopting best practices recommended in the MCCG are committed to a spirit of transparency in reporting their activities. Traditional influences appear to outweigh the spirit of initiatives taken by the government, after the financial crisis, to stabilise and strengthen the Malaysian capital market.

The findings lead to a question as to whether there should be more regulation encouraging disclosure, given that the majority of companies in Malaysia are family-owned and this type of company has been found to disclose less information. If they are to penetrate international capital markets, Malaysian companies may have to be more transparent in disclosing information voluntarily.

9.6.2 Theoretical implications

This thesis has shown that disclosure theories originating from developed countries can be used to explain voluntary disclosure practice in a developing country. For example, the theory of agency conflicts which arise due to divergence of interests between contracting parties is usually applied in the context of widely held corporations. However, in the Malaysian corporate environment, widely held corporations are relatively few compared to family businesses. This does not imply

there are no agency pressures in Malaysian companies. Agency conflicts in family businesses are between inside ownership concentration and outsiders' interests. However, in the absence of large outside shareholders who can be expected to put pressure on a company to disclose additional information, a company having a higher 'inside' ownership concentration may be associated with a lower extent of voluntary disclosure. Hence, agency theory provides a framework for explaining voluntary disclosure in Malaysian closely held companies.

The analysis has also shown that certain variables may be explained by more than one theory (see Figure 7-1). For example, family businesses can be expected to be relatively small in size and thus might not attract the interests of fund managers. This implies that information demand for this type of companies could be less. Thus, family businesses may find that the costs of providing additional information more than outweigh the benefits of providing that information. That suggests that in addition to agency theory, information costs theory can also explain the significance of family businesses in influencing voluntary disclosure in annual reports.

9.7 Limitations

The extent of voluntary disclosure was measured by a researcher-constructed checklist. While every possible effort has been made to ensure that the list was the best indicator of voluntary disclosure practice in annual reports of Malaysian listed companies, it may not have captured all voluntary information. Expert opinions were sought from an investment analyst in Malaysia and a senior manager at the KLSE to support the importance and completeness of the checklist.

This study has examined only one source of corporate voluntary information provision, the company annual reports. There are other channels through which a company can communicate information to the public, such as press release, corporate websites and analyst briefings. The interviews have also highlighted this issue. Hence the voluntary disclosure scores in this thesis cannot be taken as an overall measure of the extent of company voluntary reporting. However, prior studies

indicate that the company annual report is the most important and credible source of corporate information (see section 4.6). Availability and accessibility considerations also contribute to the decision in this study to analyse voluntary disclosure in company annual reports.

Inferences drawn from this study pertain to annual reports of companies listed on the KLSE Composite Index. These were the largest and most actively traded stocks on the KLSE which can be expected to have more incentive to disclose additional information to satisfy the demand of shareholders and potential investors. Hence, the results should not be generalised to small and less actively traded stocks. Smaller companies are generally closely-held and have a lower number of analyst following. Although the results may not be representative of the whole population, these are the companies that attract the attention of most (professional) investors. Thus, it may be said that the results are relevant and important to the majority of participants in the Malaysian market.

The chosen model reported an adjusted R squared of 38.2%. This means that the eleven variables included in the model were able to explain 38.2% of the variation in voluntary disclosure in annual reports of companies investigated. About 60% of the explanation of corporate annual report voluntary disclosure policy has not been captured by the statistical model. The unexplained variation may refer to factors not easily quantifiable and tested in a statistical model. This implies the need to further unravel factors influencing voluntary disclosure in annual reports and the need to improve research design to develop a model with a higher explanatory power. That was partly addressed by conducting personal interviews with 27 market participants. The interviews have shed light on other possible (qualitative) factors influencing corporate voluntary disclosure. Some of these factors are potentially quantifiable, thus providing opportunities for future research (see section 9.8 below). The interviewees were not randomly selected, however their influential position and vast experience in the Malaysian business environment were considered more important to ensure more credible and relevant response.

The interview questionnaire had two parts and as explained in section 4.7.2.2, due to time constraint, not all interviewees responded to the second part of the questionnaires. It might have been possible to supplement personal interviews with postal questionnaire survey. However, because the second part of the questionnaires sought opinions on tested variables, it was felt a one to one meeting was necessary since the statistical results require some explanation which is easier and arguably better done through a discussion rather than on a paper questionnaire.

9.8 Suggestions for further research

In terms of research method, future research could consider the use of postal questionnaire survey in addition to quantitative statistical analysis and personal interviews. A postal questionnaire containing general questions relating to voluntary disclosure in annual reports could be designed to elicit opinions from market participants. The interview-questionnaire could focus on more specific questions, such as those relating to statistical findings. The postal questionnaires could be distributed before the statistical analysis so as to enable testing of some of the suggested variables. If the responses to the postal questionnaires and personal interviews were sufficiently large, it might be possible to carry out statistical analysis on these two sets of data. An advantage of a multi-method research strategy is that it enables triangulation of results.

With regard to obtaining a statistical model with a higher explanatory power, the interviews in this thesis have suggested a number of 'qualitative but potentially quantifiable' factors. However, the inclusion of these variables may only be possible if these variables can be expressed in quantitative terms and/or information on these variables is easily accessible or readily available. It may be possible to quantify the quality of management which is the most frequently suggested variable, using a Likert scale questionnaire. The questionnaires can be distributed to market participants and the mean scores of responses for each company can be the value of the quality of management to be included as one of the independent variables in the regression analysis.

The existence of other forms of corporate communication was also suggested by interviewees as another factor influencing voluntary disclosure in annual reports. Future research can consider including this factor as a categorical variable with a dichotomous response, 1 for the existence and 0 for non-existence of alternative channels of communication. Alternatively, the other forms of corporate communication can themselves form part of the research object. For example, interviews have suggested that some companies use corporate websites and in-house newsletters to disseminate corporate information. It is possible to examine corporate web-sites for voluntary disclosure. It is more difficult but not impossible to get hold of a company internal document such as the newsletters. If these alternative channels are easily accessible, their examination in addition to the annual reports will provide a broader basis to evaluate the extent of voluntary reporting by Malaysian companies. It may also provide a platform for investigating why companies prefer certain form of corporate communication.

In relation to channels of corporate communication, another avenue for further research is the investigation of the importance of private voluntary disclosure in the Malaysian market. A number of interviewees suggested that private meetings are more efficient means of obtaining corporate information. That implies that companies disclose additional information voluntarily only to selected interested parties, perhaps to avoid unnecessary costs of public information disclosure. Interviewing market participants on this aspect may provide insights into the costs and benefits of private voluntary disclosure and reveal why companies prefer private voluntary disclosure to public voluntary disclosure.

The statistical findings in respect of government ownership and the proportion of Malay directors on the board show inconclusive results in terms of significance and direction of association. Interviewees expected companies with a higher proportion of government ownership and a higher proportion of Malay directors on the board to disclose more voluntary information in the annual reports. However, the statistical results only show government ownership to be marginally significant but negatively associated with the extent of voluntary financial information disclosure. The

proportion of Malay directors was only significant and positively associated with voluntary strategic information in the stepwise regression model.[149] The inconclusive results on these two variables meant that further work is needed to understand the relationship between government ownership, the proportion of Malay directors on the board and the extent of voluntary information disclosure in annual reports. The analysis in sections 6.5.3 and 6.7.1 suggested that perhaps there are other factors such as political ties which should also be considered when determining factors influencing voluntary disclosure in Malaysian company annual reports.

This thesis has found that new governance initiatives were not significant in influencing voluntary disclosure in annual reports and has argued that this could be partly attributable to the examination of annual reports immediately after the implementation of regulatory change. Thus, a future investigation of annual reports using accounts perhaps at least three years after the regulatory change is necessary to assess if these new governance initiatives have the intended effect on corporate transparency in the form voluntary disclosure in annual reports.

[149] The lack of significance of the proportion of Malay directors on the board is, however, consistent with Johnson and Mitton (2003) who found that, despite the government's public support for Bumiputra businesses, ethnicity was not a significant factor in determining the survival of Malaysian companies during the 1997 financial crisis.

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