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## IMPORTANCE OF CORPORATE GOVERNANCE QUALITY AND VOLUNTARY DISCLOSURES OF CORPORATE GOVERNANCE INFORMATION IN LISTED MALAYSIAN FAMILY CONTROLLED BUSINESSES

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### ABSTRACT

*This paper investigates the impact of family control on the association between corporate governance quality and voluntary disclosures of corporate governance information of publicly listed Malaysian family controlled businesses. In addition, the impact of incentive factors are also examined for both family and non-family controlled businesses in relation to voluntary disclosures. The findings suggest that the positive association between corporate governance quality and voluntary disclosures is weaker in family controlled businesses. Stock-based compensation significantly impacts the association.*

**Keywords:** Family controlled business, Corporate governance quality, Voluntary disclosure, Incentive factors, Agency theory, Signalling theory.

### 1. INTRODUCTION

Corporate governance and voluntary disclosures have attracted much attention from academics and practitioners. Many studies have shown that managers exercise discretion in deciding whether to disclose voluntarily or not (Healy and Palepu, 2001; Watson *et al.*, 2002; Deumes and Knechel, 2008). Empirical evidence suggests that voluntary disclosure practices are adopted if benefits from disclosure exceed costs of non-disclosure. The cost includes agency cost and information asymmetry cost. The former requires shareholders to appoint committees of directors and auditors to monitor managers' behaviours. Meanwhile, the later incurred by managers due to depreciation of firm value as well as higher cost of raising capital (Botosan, 1997; Sengupta, 1998; Eng *et al.*, 2001; Leuz and Wysocki, 2008).

So far, research on corporate governance and voluntary disclosures has been conducted with reference to listed companies mainly. Limited studies have examined corporate governance quality and voluntary disclosures of extended corporate governance information of family-owned or controlled businesses. Thus, this study aims to investigate the impact of family control on the association between corporate governance quality and voluntary disclosures of extended corporate governance information. Extended information is defined as corporate governance information that is beyond the Malaysian Codes on Corporate Governance recommendations and stock exchange listing requirements guidelines. It also examines capital raising and incentive factors that moderate this relationship.

There are many definitions of family ownership and control in the literature (Gomez-Mejia *et al.*, 2001; McConaughy *et al.*, 2001; Anderson and Kwon, 2002; Chrisman *et al.*, 2004; Dyer, 2006; Prencipe *et al.*, 2008). This research measures family control by the proportion of family members on a board, which is one of the criteria used to define a family owned firm (Wan-Hussin, 2009). A director with a family member connection is defined as a person that has family relationship with either members of a board or larger (controlling) shareholders of a company. The presence of family-member directors on a board may suggest that the existence of a dominant group that could strongly influence the board decisions. It also suggests that the presence of a controlling shareholder who is able to nominate a candidate who is related to her/him to be on a board. Thus, the presence of a family-member director implies that a company has concentrated ownership or family owned, and controlled business (Ho and Wong, 2001; Haniffa and Cooke, 2002; Ghazali and Weetman, 2006).

A family owned business is one of the most common corporate structures in Malaysia (Thillainathan, Jun-Dec1998). This type of firm structure is also present in most of East Asian countries such as Indonesia, Hong Kong, Thailand, Singapore, Korea, Taiwan and the Philippines (Claessens *et al.*, 2000). Family-owned business (concentrated ownership) and family-member directors are unfavourable because the existence of one of these may indicate the existence of conflicts of interests between larger shareholders and smaller shareholders which will then increase the agency cost.

The theoretical background supporting this research is based on agency and signalling theories, the latter with specific reference to voluntary disclosures. Traditional agency theory argues that there are principal-agent conflicts between managers and shareholders (Jensen and Meckling, 1976). Principal-agent conflicts that exist within a family-owned business are purported to be lesser as compared to a non-family business. In a family-owned business most of the board members are related to the controlling shareholder, which means that the managers' interests are closely aligned with the shareholders. However, the conflict of interest is now between smaller shareholders and larger shareholders (principal-principal conflicts). This type of agency conflict can become more prevalent especially in countries with weak legal protection (Claessens and Fan, 2000; La Porta *et al.*, 2002) such as Malaysia because larger shareholders are more concerned about maximising their own interest rather than the interests of smaller

shareholders. Thus, the risk of having controlling shareholders within a family-owned business to expropriate smaller shareholders' interests is greater than in non-family businesses.

Signalling theory offers a different and complementary perspective on family business behaviours. It posits that managers of high quality companies are more likely to increase disclosure in order to differentiate them from poor quality companies (Dye, 1985). Additional disclosure is used by a company to signal a company's 'quality' which subsequently reduces information asymmetry problems. A close relationship between controlling shareholders and managers (family-member directors) suggests that there are low information asymmetry problems between them. In this situation there will be a lesser need for companies to increase disclosure which signals weak governance within a firm. Firms that do not disclose additional information are viewed to be of poor quality. Therefore, family controlled businesses are perceived to have weaker governance quality than non-family controlled businesses due to the presence of family-member directors on the board and lower disclosure levels.

Prior studies have identified a number of incentive factors that influence managers to disclose voluntarily. Empirical evidence shows that voluntary disclosure practices are motivated by capital market transactions and stock-based incentives. Capital market transaction incentives suggest that managers have incentives to increase disclosure prior to issuance of new shares and debt capital in the future to benefit from a lower cost of capital (Botosan, 1997; Sengupta, 1998; Botosan and Plumlee, 2002). Stock-based incentives are able to align the managers' interests with shareholders' interests thus reducing agency conflicts (Neo, 1999; Nagar *et al.*, 2003). However, in a family controlled business these incentive factors may have lesser or greater influence on managers to disclose compared to a non-family controlled business. Thus, this paper examines the impact of family control on the association between corporate governance quality and voluntary disclosures of corporate governance information, as well as the moderating effects of intentions to raise capital, stock-based compensation and CEO share ownership.

The remainder of the paper is organised as follows: Section 2 provides the institutional setting of the study. In section 3, reviews of relevant literature are presented. Section 4 describes research methodology and data collection procedures. Section 5 discusses the results, and finally Section 6 contains the conclusion.

## **2. INSTITUTIONAL SETTING**

### **2.1. Development of Corporate Governance in Malaysia**

The movement in reforming corporate governance in Malaysia started in 1998 when an independent committee was established to deliver a report and a set of corporate governance codes applicable to the Malaysian capital market environment (Finance Committee Report on Corporate Governance, 1999). The codes were published in 1999 and known as the Malaysian Codes on Corporate Governance (MCCG). The MCCG outlines principles and best practices for corporate governance, consisting of four parts: board of directors, directors' remuneration, shareholders, and audit and accountability. Compliance with the MCCG principles and best

practices at that time was not mandatory. The MCCG was then revised in 2007 to add criteria for directors' qualification, strengthening the audit committee and internal audit function.

Bursa Securities Malaysia Berhad (BSMB) has also played a part in efforts to enhance corporate governance in Malaysia by revamping its Listing Requirements. For instance, Chapter 15 of the Revamped Listing Requirements which addresses issues on corporate governance indicates one of the major requirements is that a listed company must ensure that its board of directors discloses the level of compliance and explains any deviation from the MCCG's recommendation (Bursa Malaysia Berhad, 2001) These revised Listing Requirements became effective on June 30<sup>th</sup>, 2001 and are mandatory.

In 2004, BSMB launched the Best Practices in Corporate Disclosure (BPCD) with the aim of raising standards of corporate governance amongst Malaysian companies. The BPCD is a set of guidelines aimed at assisting companies to move beyond minimal compliance into exemplary levels of disclosure with the hope of cultivating and instilling the spirit of disclosure and best practices as voluntary behaviour (Bursa Malaysia Berhad, 2004). The BPCD sets out to provide guidance and assistance to companies in complying with their disclosure obligations under the BSLR. Compliance with the BPCD guidelines is purely voluntary. However, BSMB strongly recommended companies to adopt the BPCD and integrate it into their own disclosure practices, policies and procedures. The BPCD is intended to aid in building and maintaining corporate credibility and investor confidence in Malaysia's capital markets (Bursa Malaysia Berhad, 2004).

The development of corporate governance in Malaysia is also supported by two independent organisations. These include the Malaysian Institute of Corporate Governance (MICG) and the Minority Shareholders Watchdog Group (MSWG). The MICG was established in 1998 by the Malaysian government with the aim of raising awareness and implementing the practice of good corporate governance. The MSWG was established in 2001 with the purpose of enhancing shareholder activism and protecting minority interests. It has evolved into an independent corporate governance research and monitoring organisation. The MCWG provides advice to both individual and institutional minority shareholders on voting at company general meetings. Since 2005, MSWG has published survey reports on corporate governance compliance of listed companies in Malaysia.

### **3. LITERATURE REVIEW AND HYPOTHESES**

#### **3.1. Corporate Governance Quality and Voluntary Disclosures**

Voluntary disclosure framework, as a component of signalling theory, proposes that high quality companies will disclose more information voluntarily than poor quality companies to signal the investors that they are high quality companies (Verrecchia, 1983; Dye, 1985). Companies with high corporate governance quality have incentives to inform internal and external investors about their governance quality. In support of this theory, Lokman *et al.* (2011) find that high quality companies signal their corporate governance quality by voluntarily disclosing corporate governance information in annual reports. Disclosures of high corporate

governance quality are difficult to replicate by poor quality companies. These disclosures will potentially increase firm value since knowledgeable investors will infer that companies with high corporate governance quality are less risky than companies with lower corporate governance quality.

Agency theory can also explain why managers voluntarily disclose information. Agency conflicts that can potentially occur between managers and shareholders are due to the separation of ownership and control. Managers have incentives to adopt better governance mechanisms such as voluntarily disclosure practices to reduce agency conflicts and the possibility of bonding and monitoring activities imposed by shareholders to control their behaviours. [Dey \(2008\)](#) study provides evidence that supports the argument that the extent of corporate governance mechanisms in a firm is a function of the level of agency conflicts it has. This suggests that firms with high levels of agency conflicts are likely to adopt effective corporate governance mechanisms. Hence in this case, a firm with high corporate governance quality is expected to increase voluntary disclosure in order to reduce agency conflicts. There are several studies that link corporate governance and voluntary disclosures ([Ho and Wong, 2001](#); [Eng and Mak, 2003](#); [Ajinkya et al., 2005](#); [Karamanou and Vafeas, 2005](#); [Stephens, 2009](#)). The results of these studies suggest that promoting stronger governance encourages firms to be more transparent in their reporting. All of the above studies used either one or more corporate governance mechanisms to measure companies' corporate governance quality. In contrast, [Beekes and Brown \(2006\)](#) and [Lokman et al. \(2011\)](#) use a broader set of corporate governance mechanisms to investigate links between company corporate governance quality and voluntary disclosures. Beekes and Brown study the 'informativeness' of Australian companies in relation to price sensitive announcements to the share market. They used a corporate governance index developed by the Howarth Report 2002 as the measure for corporate governance quality of 250 Australian companies. The results of their study confirmed that better-governed Australian companies do make more informative announcements.

Lokman et al. investigate the association between corporate governance quality and voluntary disclosures of extended corporate governance information of publicly listed Malaysian companies. Their results suggest that voluntary disclosure of corporate governance practices is a good indicator of a company's actual corporate governance quality. The results also indicate that voluntary disclosure practices are higher in companies that offered stock-based compensation compared to companies that do not. Thus, the empirical analysis is consistent with the belief that effective corporate governance is associated with a greater extent of voluntary disclosures. We extend this body of knowledge by examining the impact of family control on this relationship.

### **3.2. Impact of Family Control on the Association between Corporate Governance Quality and Voluntary Disclosures of Corporate Governance Information**

The presence of family-member directors on boards is argued to be able to reduce agency conflicts between managers and shareholders. This is because family-member directors have close

relationships with controlling shareholders i.e. family owners. Thus, the close relationship between them suggests lower agency conflicts within family-controlled businesses compared to non-family controlled businesses. This is because family-member directors have lesser incentives to engage in opportunistic behaviour, which can harm firm value (Fama and Jensen, 1983; Morck *et al.*, 1988). Some empirical research support the argument that family-member directors' monitoring function is able to reduce agency conflicts between managers and shareholders (McConaughy *et al.*, 1998).

However, the close relationship between family-member directors and controlling shareholders can create a more serious agency conflict. Agency conflicts may now exist between smaller shareholders and larger shareholders. Larger shareholders, who are also controlling shareholders, are more motivated to protect their own interests rather than the interest of the firm. This type of principal-principal conflict appears to be greater in a family-controlled business.

Prior studies have found that corporate governance quality of a family controlled business is poorer as compared to a non-family controlled business. For example, a family controlled business with a high level of family members involved in management have worse financial performance because family members have less professional qualifications, less skills and experience (Sciascia and Mazzola, 2008). In addition, family-member directors are also reported to have the tendencies to report self-interest accounting information rather than a true reflection of a firm's current financial performance (Fan and Wong, 2002). This results from the dominance of controlling shareholders' influence on the quality of accounting reports and policies in family controlled businesses.

The presence of family members on a board is considered to be the main factor that hinders voluntary disclosures especially for firms that operate in Asian countries. Ho and Wong (2001) argue that in Hong Kong, the majority of listed firms are family-owned and this is considered as a highly concentrated ownership. These types of family-owned firms are controlled and managed by family members who own a substantial amount of firms' issued share capital. As such decisions made by a board of directors that is dominated by family members, it is more likely to approve desires or needs of a family. Ho and Wong reported evidence to support their prediction that companies with a high proportion of family members on the board are less likely to disclose information voluntarily. Similar results are also found in studies that examined the level of voluntary disclosures in the Malaysian setting (Haniffa and Cooke, 2002; Ghazali and Weetman, 2006). Therefore, the first hypothesis is:

- H1: the association between corporate governance quality and voluntary disclosures of extended corporate governance information in non-family controlled businesses is stronger than in family controlled businesses.

### 3.3. Moderating Role of Issuance of New Share Capital and Debt

According to the capital market transactions hypothesis, firms that are planning to make capital offerings (issuance of new share capital and debt) have incentives to provide voluntary disclosures to reduce information asymmetry between managers and investors. This study argues that when dealing with capital market transaction incentives, which are expected to influence voluntary disclosures of corporate governance, there are two important aspects to be considered.

First, voluntary disclosures provide a signal to investors that firms are likely to have better corporate governance quality, which implies that lower information asymmetry problems exist between managers and shareholders, thus improves firm value. Lower information asymmetry will reduce the risk for investors in forecasting future payoffs from their investment. As such issuance of new share capital and debt provide extra incentives for a firm to signal the high quality of a firm's corporate governance via increased in voluntary disclosures of extended corporate governance information. [De Nicolo et al. \(2008\)](#) stated that companies with high corporate governance quality are in a better position to attract outside financing and avoid a decrease in firm value. The more weight managers place on maximizing a company's current value, the greater their incentives to disclose positive information prior to issuance of new share capital and debt funds. This suggests that companies with high corporate governance quality have a higher probability of attracting investment by equity or debt, avoiding a reduction in share value if they disclose more information.

Second, when attracting new share capital and debt, firms with high corporate governance quality are likely to have better liquidity and lower cost of capital. This is because firms with high corporate governance quality are more likely to use voluntary disclosures as a mechanism to lower information asymmetry problems between investors and management, which subsequently lowers the cost of capital ([Healy and Palepu, 2001](#)). Thus, firms that intend to issue new share capital and apply for debt in the future will have more incentives to improve their voluntary disclosure practices in order to reduce the cost of raising external financing. Prior studies have found consistent evidences that, in general, voluntary disclosure facilitates a company's access to lower cost of external capital financing ([Botosan, 1997](#); [Botosan and Plumlee, 2002](#)). [Lang and Lundholm \(1993\)](#) found that disclosure scores are higher for companies that were issuing new securities. [Seppanen \(2000\)](#) suggests that managers do make disclosures to facilitate capital raising at a lower capital cost. [Collett and Hrasky \(2005\)](#) also reported consistent results that suggest companies which are planning to issue new share capital in the future have an incentive to make voluntary disclosures. Research on quality of disclosure and cost of debt also shows that companies with high disclosure quality ratings from financial analysts enjoy a lower effective interest cost of raising debt ([Sengupta, 1998](#)).

The cost of external financing can be reduced by using better voluntary disclosure practices that signal firm quality and the resultant effect of lower information asymmetry problems. From this perspective, firms that are planning to raise external financing have incentives to increase voluntary disclosure of corporate governance practices in order to signal firm quality. This signal



can then reduce information asymmetry, increase firm value and lower the cost of external financing. For non-family firms it is expected that issuance of new share capital and debt moderates the association between corporate governance quality and voluntary disclosures. However, in the case of family firms with controlling shareholders, issuance of new share capital and debt have lesser impacts because issuance of new share capital and debt will reduce their dominance in a company. Accordingly, the study came out with the hypothesis below:

- H2 (a): the relationship between corporate governance quality and voluntary disclosures of corporate governance information is moderated by the intention to raise new share capital in the following year is stronger in non-family controlled businesses.
- H2 (b): the relationship between corporate governance quality and voluntary disclosures of corporate governance information is moderated by the intention to raise debt funds in the following year is stronger in non-family controlled businesses.

### 3.4. Moderating Role of Stock-Based Incentives

Agency theory suggests that agency problems occur because of conflicting interests between managers and shareholders. This conflicting interest discourages managers to disclose their private information because such disclosures can reduce their private benefits. One possible approach to overcome this agency conflict is to link managers' compensation directly to their disclosure activities. Stock-based incentives are suggested by agency theory to be able to reduce agency conflicts and improve managers' decision abilities from a shareholders' perspective (Fama and Jensen, 1983; Jensen and Murphy, 1990). This form of compensation can serve as an alignment incentive as well as a monitoring device to ensure managers' interests are better aligned with shareholders' interests.

This research considers two forms of stock-based incentives: stock-based compensation and CEO shareholdings. Stock-based compensation is viewed as an outcome-based incentive that is likely to influence managers to act in the best interests of shareholders as opposed to a cash incentive (goals-based). Smith and Watts (1992) argue that the use of stock-based compensation lowers monitoring costs of shareholders by providing managers with incentives to maximise shareholders' value. This suggests that stock-based compensation increases the level of alignment between managers' and shareholders' interests which then lowers agency costs. Prior studies have examined a link between stock-based compensation and voluntary disclosures. Neo (1999) found that managers will take advantage of voluntary disclosures to ward off the appearance of impropriety when dealing with insider transactions. Furthermore, it was also found that CEOs may make opportunistic voluntary disclosure decisions that maximise their stock option compensation that in turn will also maximise shareholders' wealth (Aboody and Kasznik, 2000). Therefore, managers' disclosure activities are related to their stock-based compensation which acts as a motivator as well as a monitoring mechanism that can reduce agency costs.



On the other hand, CEO shareholdings can also help to alleviate agency conflicts because managers' interests are closely aligned with shareholders' interests. This is because managers who own a large portion of shares in a company will bear the same consequences as shareholders if they make poor business judgments that can destroy company value (Jensen and Meckling, 1976). Nagar *et al.* (2003) examined the association between managers' disclosure practices and CEOs shareholdings based on stock price. They found that the value of shares owned by CEOs affects firms' disclosure practices. This result suggests that CEO shareholdings can mitigate agency conflicts between managers and shareholders. In contrast, most studies in Asian countries, for example in Singapore (Eng and Mak, 2003), Hong Kong (Chau and Gray, 2002) and Malaysia (Ghazali and Weetman, 2006), have found that CEO's shareholdings are associated with less voluntary disclosures. They argue that when CEOs hold higher proportions of company issued share capital, traditional conflicts of interest between managers and shareholders become conflicts between larger shareholders and smaller shareholders. CEOs who are also the largest controlling shareholders will make decisions that benefit them rather than for the firms' best interest. This agency conflict becomes more apparent especially in Asian countries where weak legal institutions and high concentrations of ownership structures are common (Claessens *et al.*, 2000).

Stock-based incentives can also provide signals about a firm's quality. Companies that use stock-based incentives to compensate their CEOs will be viewed to have high quality governance structures. These high quality firms are expected to employ effective compensation packages that can motivate as well as monitor managers' behaviours. For this reason, a company with high corporate governance quality is likely to increase disclosure of corporate governance information voluntarily when managers are compensated with stock-based incentives. Managers of non-family firms are more motivated to disclose more information if compensated with stock-based incentives because agency conflicts are much greater in non-family firms. However, managers of family-owned firms are less likely to be motivated even if they are compensated with stock-based incentives because their interests are already closely aligned with controlling shareholders. Thus, the next hypotheses are that:

H3 (a): the relationship between corporate governance quality and voluntary disclosures of corporate governance information is positively moderated by stock-based compensation incentives is stronger in non-family controlled businesses.

H3 (b): the relationship between corporate governance quality and voluntary disclosures of corporate governance information is positively moderated by CEO share ownership is stronger in non-family controlled businesses.

## 4. SAMPLE, MEASURES AND MODEL

### 4.1. The Sample

The population from which the initial sample was drawn consists of 987 Malaysian companies listed on the Bursa Securities Malaysia (BSM) with financial years ending in 2007.

There are 350 top listed companies for which corporate governance quality data were published in the Minority Shareholder Watchdog Group (MSWG) 2007 corporate governance survey report. Companies, whose shares were suspended, deleted, acquired or became privatised as well as those in the finance sector were excluded from the population prior to selecting the sample. Consequently, 275 of the top 350 companies made up the final sample.

The majority (49.1%) of the sampled companies were from Trading/Services industrial sector. Property sector accounted for 15.3%, followed by Consumer product (11.6%) and Plantation (10.9%). Construction, Infrastructure, Technology, Hotel and Closed-end fund sector represented 6.5%, 2.9%, 2.5%, 0.7% and 0.4% respectively of the sample. The 275 companies are a representative sample based on industry sector mix in the Malaysian economy.

#### **4.2. Data Collection and Sources**

The research uses secondary data in the form of company annual reports. There are three main reasons for using annual reports for data collection. First, there is no corporate governance quality data available for a large population before 2007. Second, the study uses 2007 annual reports because the data collected in the MSWG corporate governance survey report 2008 was based on 2007 annual reports. Third, 2007 was chosen because it was the most recent year for which full financial data was available for the sampled companies, thus avoiding effects of the global financial crisis, which commenced at the end of 2008.

The BSMB website's link to companies' websites, as well as the OSIRIS database were used as sources for companies' annual reports data on businesses with family-member directors and family controlled businesses, moderating variables data (issuance of new equity and debt and stock-based incentives), and control variable data. Both corporate governance quality and voluntary disclosure data were obtained from the MSWG. Governance data refers to reported position at the end of 2007 financial year in annual reports.

All data in relation to issuance of new share capital and debt raising refer to the end of financial years in 2008 and 2009 as reported in companies' annual reports. This approach is chosen because it identifies voluntary disclosure practices that are in place at the beginning of the relevant financial year and which are responsible for financing activities in the following year. Previous studies have provided evidence that shows companies increase disclosures in their annual reports prior to financing activities (Lang and Lundholm, 2000; Bujaki and McConomy, 2002; Collett and Hrasky, 2005). Finally, data on stock-based incentives are extracted from 2007 company annual reports. Notes and other information provide additional useful data.

#### **4.3. Corporate Governance Quality (CGQ) Index**

The corporate governance quality (CGQ) index is measured by summing component of the total scores obtained by a company in the Basic Compliance Score (BCS) component of the MSWG's Corporate Governance scorecard. The BCS comprises of a company's compliance with 40 key variables based on the Malaysian Code on Corporate Governance and the Bursa Securities

Listing Requirement (MSWG and UNMC, 2007). Disclosures in compliance with these requirements are mandatory. This index is unweighted. Therefore, the summed scores of BCS component represent a company's corporate governance quality.

This research project uses a broader measure of corporate governance quality similar to Beekes and Brown (2006) study, except that the Howarth Report is used by Beekes and Brown as the basis to measure corporate governance quality of Australian listed companies. There are three main reasons for using this construct as a proxy for corporate governance quality. First, recent studies have shown this index is an appropriate measure as no single corporate governance variable is sufficient (Beekes and Brown, 2006; Brown and Caylor, 2006; Larcker *et al.*, 2007). Second, an individual or combination of some corporate governance variables (directors, auditors and audit committee) approach can create measurement errors (Larcker *et al.*, 2007). Furthermore, these variables are likely to be interrelated and ignoring such correlations can lead to spurious inferences (Agrawal and Knoeber, 1996; Bowen *et al.*, 2005). Third, the corporate governance construct that is represented by the BCS components is customised to local businesses' corporate environments and addresses governance issues that are relevant to the Malaysian context.

#### 4.4. Voluntary Disclosure of Corporate Governance (VDCGI) Index

The VDCGI index is measured as the score obtained by a company for the International Best Practices (IBP) component of the Corporate Governance Scorecard used by the MSWG. The IBP comprises of 35 measures of selected international best practices, drawn from other influential principles, guidelines or codes of corporate disclosure and governance. These include those of the Organisation for Economic Co-operation and Development Principles, the International Monetary Fund Principles and the California Public Employees' Retirement System Guidelines on corporate governance (MSWG and UNMC, 2007).

The IBP component of the corporate governance scorecard, includes voluntary disclosure information in relation to four main factors: board of directors; directors' remuneration; additional shareholder information; and accountability and audit. These four factors are measured by 35 key voluntary disclosure variables summed to create an index. Companies are free to choose to conform to these international best practice recommendations relating to reporting on corporate governance information in their annual reports. As such disclosures of compliance to this IBP component is considered to be voluntarily.

#### 4.5. Family Controlled Business (FCB)

For this study a family controlled business (FCB) is measured by the proportion of family-member directors on a board (Ho and Wong, 2001; Haniffa and Cooke, 2002; Ghazali and Weetman, 2006). A study in Hong Kong used the 10 percent shareholding cut-off point for classifying firms as family controlled (Chen and Jaggi, 2000). In this study, the measure adopted follows a recent Malaysia study (Wan-Hussin, 2009), where family controlled business is proxy

by the proportion of family-member directors on a board. The percentage used in this study is 15% or more.

The ownership composition in Malaysia was found to be substantially family corporate holding, whereby ownership is achieved through holding and/or nominee companies (Zhuang *et al.*, 2000). This character of ownership composition created another difficulty in identifying true owners of shares. According to the study done by Zhuang *et al.* (2000), the largest shareholder group among the top five shareholders in Malaysia is a nominee company. It was found that most shareholders in Malaysia opted for nominees as a means of not revealing identities of true holders. As such measuring FCB by the proportion of family-members directors on the board is an appropriate proxy for this study.

In addition, the Bursa Securities Listing Requirements of Malaysia requires information related to family relationships with any director or major shareholder of a company to be disclosed in annual reports (Bursa Malaysia Berhad, 2001). Section 122A of the Malaysian Companies Act, 1965 provides a clear definition of a person that is considered to be connected with a director. For the purpose of the Act, a person shall be deemed to be related with a director if he/she is a spouse, parent, brother, sister, child (including adopted child or step child), and a spouse of such brother, sister or child.

#### 4.6. Issuance of New Shares (S-ISS) Capital and Debt (D-ISS)

Collett and Hrasky (2005), and Bujaki and McConomy (2002) consider an increase of a certain percentage of an existing equity level from the preceding year in their measurement of an issuance of new share capital. A similar scale to the one used by Collet and Hrasky to measure the issuance of new debt was adapted for this study. New share capital (S-ISS) and debt (D-ISS) increase from the previous year's level is set to a value of '1' if a company's issued shares capital and debt by five percent or above on the preceding year; otherwise a '0' value is given.

#### 4.7. Stock-Based Compensation (SC-OPTIONS) and CEO Shareholdings (SH-OWN)

To measure SC-OPTIONS, the study uses Nagar *et al.* (2003) scale to determine the level of compensation. This is calculated by taking the sum of total value of stock option grants plus the value of restricted stock grants divided by the total value of direct compensation, as a measure of stock price-based compensation. Nagar, Nanda and Wysocki argue that by using stock price, managers can observe directly investors' reactions toward disclosures made through change of stock price. If an investor perceives the information disclosed to be irrelevant, the stock price will not change and if the information is relevant, the price will change accordingly, i.e. positive if the disclosure is considered as good news and vice versa.

Deumes and Knechel (2008) use top managers' equity ownership to measure the association between management ownership and voluntary reporting of internal control. They measure managerial ownership by summing the percentage of shares held by members of the board. On the other hand Nagar *et al.* (2003) use the average value of CEO shareholdings in a firm over the

sample period to measure the stock price-based incentives. In this paper, a similar approach is employed to measure CEO shareholdings (the market value of shares held by CEO/MD) except that the market value of CEO shareholdings is not averaged by year (for sample period) but divided by the total market value of issued share capital. This technique is more suitable for measuring CEOs' shareholdings because the study is based on one year's data.

#### 4.8. Regression Model

The type of regression analysis used to test all hypotheses is a simultaneous multiple regression technique which is also referred to as forced entry regression or standardised multiple regression. In this technique, all variables are forced to enter an equation at the same time. The simultaneous multiple regression technique is appropriate because the main purpose of this research is to determine the extent of influence of predictor variables on voluntary disclosure of corporate governance information. The following multiple regression model is used for hypothesis testing:

$$\begin{aligned} \text{VDCGI} = & \beta_0 + \beta_1 \text{CGQ} + \beta_2 \text{S-ISS} + \beta_3 \text{CGQ} * \text{S-ISS} + \beta_4 \text{D-ISS} + \\ & \beta_5 \text{CGQ} * \text{D-ISS} + \beta_6 \text{SC-OPTIONS} + \beta_7 \text{CGQ} * \text{SC-OPTIONS} + \beta_8 \text{SH-OWN} + \\ & \beta_9 \text{CGQ} * \text{SH-OWN} + \beta_{10} \text{FCB} + \beta_{11} \text{FCB} * \text{CGQ} + \beta_{12} \text{SIZE} + \beta_{13} \text{LEV} + \\ & \beta_{14} \text{BOARD-M} + \beta_{15} \text{ROE} + \beta_{16} \text{TRA} + \beta_{17} \text{LIS} + \epsilon_i \end{aligned}$$

In addition, a number of control variables are also included in the model to test hypotheses. These control variables are company size (SIZE) log of total assets, type of industry (TRA) (dummy trading/services = 1, otherwise = 0), cross listing (LIS), leverage (LEV), proportion of Malay directors (BOARD-M), and returns on equity (ROE). These control variables have been commonly tested in prior studies of voluntary disclosures (Hossain *et al.*, 1995; Meek *et al.*, 1995; Ho and Wong, 2001; Haniffa and Cooke, 2002; Collett and Hrasky, 2005; Ghazali and Weetman, 2006; Deumes and Knechel, 2008). This model also includes interaction terms between corporate governance quality and each moderator.

## 5. RESULTS AND DISCUSSION

### 5.1. Descriptive Statistics

Data in relation to overall voluntary disclosures of corporate governance information (VDECGI) shows that the highest score achieved by a firm is 25 out of 35 points and the lowest score is 1, with mean and median values of 9.18 and 9.00 respectively and standard deviation of 4.08. These results suggest that there is a wide range of VDECGI scores and most companies scored at the lower end. The highest CGQ score achieved by a company is 39 out of 40 with the lowest score of 18 points. The mean CGQ score is 29.67. Overall, companies' CGQ scores are relatively high. Companies scored more than three times as high for CGQ as for VDECGI aspects of disclosure suggests that these companies are more likely to comply with the mandatory

requirements of corporate governance disclosure than to voluntarily disclose corporate governance information (Table 1).

The proportion of stock-based compensation offered to CEOs as part of their total compensation package ranges from 0.00 to 0.97 with mean of 0.19. This indicates that majority of companies in the sample do not offer this form of compensation. CEOs on the whole owned an average of 0.17 of the total issued share capital, with the highest proportion of shares owned by a CEO being 0.75. The proportion of family members on boards ranges from 0.00 to 0.83. The average proportion of Malay directors on boards is 0.43 of which the minimum and maximum proportion is 0.00 and 1.00 respectively. The distribution of the total assets to book value was normalised using a log transformation. The leverage level for the sampled companies is relatively high with a mean of 0.43. The lowest gearing level is 0.00 and the highest is 1.95. The return on equity ratio is used to measure profitability of a company. The statistics for ROE indicate that a small number of companies exhibit negative ROE. Mean and median for ROE are 0.18 and 0.16 respectively (Table 1).

Descriptive statistics on family controlled firms (FCB) and non-family controlled firms (NFCB) show some differences in VDECGI and CGQ scores between groups. A family controlled business on average has a lower score in both VDECGI (8) and CGQ (29) compared to non-family controlled businesses (VDECGI 10, CGQ 31). A family business on average has a slightly higher level of CEO shareholding (FCB 0.26, NFCB 0.10) and higher leverage (0.44, 0.43) compared to non-family businesses. However, non-family controlled businesses are slightly larger in size, have a higher proportion of Malay directors on boards (0.31, 0.52), and are more profitable (0.16, 0.19). Similarly issuance of new share capital (19, 25) and raising debt (15, 28) are higher in non-family controlled businesses. The numbers of family controlled and non-family controlled businesses where their shares are cross listed on other stock exchange are three and seven respectively. The sub-sample of companies that belong to the trading/services sector is 16 from family controlled businesses and 56 from non-family controlled businesses (Table 1).

## 5.2. Correlation Analysis

Pearson correlations between independent variables are shown in Table 2. The voluntary disclosure of corporate governance information positively correlates with corporate governance quality, issuance new share capital and debt raising, stock-based compensation, share issue, size of firm, leverage, proportion of Malay directors on board, return on equity, cross listing and trading/services sector. However, CEO shareholdings and family controlled business are negatively correlated with voluntary disclosure of corporate governance information. None of the correlation coefficients among independent variables is greater than 0.8. This suggests that multicollinearity is not a cause for concern. Similarly when the model is run using multiple regression analysis, none of the variance inflation factors (VIF) is more than 2, which confirms that there is no multicollinearity problem in the model.

### 5.3. Testing Interaction Effects

Since incentive factors (capital market transactions and stock-based incentives) are postulated to moderate the relationship between corporate governance quality and voluntary disclosure, it is necessary to test interaction terms related to each of the incentive factors in order to rule out the possibility that unobserved interactions of corporate governance quality and incentive factors drive the primary results of this study. Overall, the results of testing interaction term effects indicate that CGQ\*S-ISS, CGQ\*D-ISS and CGQ\*SHOWN are not statistically significant. These interaction terms have no effect on VDECGI, thus are excluded from the final model. CGQ\*SC-OPTIONS ( $\beta_8 = 0.0197, p < 0.001$ ) and FCB\*CGQ ( $\beta_{12} = -0.121, p < 0.001$ ) on the other hand have statistically significant effects on VDECGI, thus are retained (Lokman *et al.*, 2011).

### 5.4. Regression Analysis Results on Association between CGQ and Voluntary Disclosures

The regression result for the total sample shows  $F$  value of 22.002 for the final model, which is significant at  $p < 0.001$  with an adjusted  $R^2$  of 51.8% (Table 4). Both of these values suggest that this revised model reasonably explains the variation in voluntary disclosure of corporate governance information.

The regression coefficient for CGQ ( $\beta_1 = 0.355$ ) is positive and statistically significant ( $p < 0.001$ ), suggesting that higher corporate governance quality is associated with better disclosure of corporate governance information in annual reports. As indicated by its coefficient value, it is noteworthy that CGQ is an important explanatory variable in the regression model. This result is consistent with the findings of Lokman *et al.* (2011).

### 5.5. Impact of Family Control Business on Association between CGQ and Voluntary Disclosures

In order to examine more closely the effect of family control on the association between CGQ and voluntary disclosures, the sample was divided into two groups, family and non-family controlled businesses. Separate regression tests were conducted on the two groups to identify any differences. The study examined whether family control affects the association between CGQ and voluntary disclosures. The interaction term between family controlled business and CGQ, i.e. FCB\*CGQ is included in the model to test its effect given the significant results above. The coefficient for FCB\*CGQ is negative and statistically significant ( $\beta_{11} = -0.098, p < 0.05$ ), which suggests that the association between CGQ and voluntary disclosure is weaker for family controlled than non-family controlled businesses.

The CGQ coefficient for family controlled businesses is positive and statistically significant, ( $\beta_1 = 0.281, p < 0.01$ ). For non-family businesses it is also positive and highly significant, ( $\beta_1 = 0.394, p < 0.001$ ). Both models are statistically significant and the adjusted  $R^2$  is 30.8% for family businesses and 53.3% for non-family businesses. Hence, confirms the results that the positive association between CGQ and voluntary disclosure is stronger for non-family controlled businesses. These results support Hypothesis 1 that the impact of CGQ on voluntary disclosure in



family controlled businesses is slightly weaker. This suggests that CGQ may be important to ensure proper monitoring of management activities and voluntary disclosure information, which make a company more transparent. However, it is not well utilised in family controlled businesses.

### 5.6. Impact of Incentive Factors on Association between CGQ and Voluntary Disclosures

Then the study examined the impact of incentive factors on the association between CGQ and VDECGI. SC-OPTIONS have a positive and statistically significant effect on VDECGI ( $\beta_6 = 0.175, p < 0.001$ ). In addition, the interaction term CGQ\*SC-OPTIONS significantly influence the association between corporate governance quality and voluntary disclosures of corporate governance practices ( $\beta_7 = 0.176, p < 0.001$ ). These results are consistent with those of Lokman *et al.* (2011). Thus, if Hypothesis 3(a) was applied for the whole sample where it stated that stock-based compensation moderates the association between a company's corporate governance quality and voluntary disclosure of corporate governance information, it would be supported. On the other hand, issuance of new shares and debt capital, and CEO shareholdings for the whole sample are not statistically significant in explaining voluntary disclosures. Therefore, Hypotheses H2(a), H2(b) and H3(b) are not supported for the sample as a whole.

The results of regression analysis on the impact of these incentive factors on the association between CGQ and VDECGI for both families controlled and non-family controlled business are reported in Table 3. Issuance of new shares capital is positive and marginally significantly ( $\beta_2 = 0.181, p = < 0.1$ ) associated with voluntary disclosure for family businesses. On the other hand, stock-based compensation is positively ( $\beta_6 = 0.161, p < 0.05$ ) associated with voluntary disclosure in non-family controlled businesses. Overall, these results do not support H2(a) (issuance of new shares) but it supports H3(a) (stock-based compensation). Thus, there is no support for other hypotheses as for the whole sample. In summary, findings of this study suggest that a company will act strategically on their decision whether to disclose voluntarily or not.

### 5.7. Influence of Other Control Variables

Company size as measured by the log of total assets is a common firm-specific variable associated with voluntary disclosures (Ho and Wong, 2001; Bujaki and McConomy, 2002; Haniffa and Cooke, 2002; Labelle, 2002; Barako *et al.*, 2006; Mallin and Ow-Yong, 2009). As predicted, company size is positively and highly significantly associated with voluntary disclosures of extended corporate governance information for both family and non-family firms. A bigger company would have better resources to employ and put in place sound governance compared to a smaller company. Similar to prior studies (Haniffa and Cooke, 2002; Ghazali and Weetman, 2006), return on equity is also found to be significantly and positively associated with voluntary disclosures. Hence, good governance companies with positive profits, which are represented by positive ROEs, can provide more corporate governance information voluntarily because stronger profits enable companies to invest more in governance practices. Although family and non-family

companies have similar average sizes (FCB 13.81, NFCB 14.13), ROE is much more significant for non-family firms (Table 3).

It is expected that companies with higher leverage levels would have more disclosures of corporate governance information in their annual reports. However, results show leverage is insignificant and has a negative coefficient for the total sample and family businesses but positive for non-family businesses. This unexpected result is similar to the study of the level of voluntary disclosures by Hong Kong listed companies (Ho and Wong, 2001). In contrast, a study of listed companies in Kenya and Canada found a positive and significant association with voluntary disclosures (Bujaki and McConomy, 2002; Barako *et al.*, 2006). These inconsistent results may be explained by different market environments in which companies operate and types of voluntary disclosures made.

The cultural factor (race) which is measured by the proportion of Malay directors on boards is marginally significant at 0.1 level for non-family companies and positively related with corporate governance disclosures. However, the coefficient value is very small with only 0.056 for family firms. This positive coefficient means voluntary disclosures of corporate governance practices by companies that have higher proportions of Malay directors on boards are relatively better than those without Malay directors. This result is in line with expectations and consistent with a prior study in Malaysia that found one of the cultural factors (race) to be positively related with the extent of voluntary disclosures (Haniffa and Cooke, 2002). Wan-Hussin (2009) study also found that a Malay CEO is associated with superior segmental disclosures prior to the introduction of the segment reporting standard in Malaysia.

The trading/services sector has an insignificant association with voluntary disclosures for total sample and both FCB and NFCB, but negative for family companies. This result is consistent with the result from Haniffa and Cooke (2002) study. A similar result is obtained for the dummy variable that represents a company which is cross listed on more than one stock exchange, the coefficient produced is insignificant although prior studies have consistently found that a cross listed company has a higher level of voluntary disclosures (Meek *et al.*, 1995; Collett and Hrasky, 2005). This inconsistency may be explained by evidence that a very small number of sampled companies (4%) had their shares listed on more than one stock exchange.

## 6. CONCLUSIONS

The results of this research indicate that strong corporate governance can help to minimize agency conflicts between larger and smaller shareholders within family controlled companies. Both families controlled and non-family controlled businesses with high governance quality are more likely to disclose beyond mandatory information about corporate governance practices voluntarily. Therefore, improving corporate governance does help Malaysian family controlled companies to improve voluntary disclosure of corporate governance information in annual reports. The results also indicate that voluntary disclosure practices are higher in companies that offer stock-based compensation compared to companies that do not. Family firms are more likely

to increase disclosure of corporate governance information prior to raising external capital. On the other hand non-family firms are more likely to increase disclosures if their CEOs are rewarded with stock-based compensation.

The results provide empirical evidence to support Dye (1985) voluntary disclosure framework as it relates to corporate governance quality of family firms and particularly in a developing country such as Malaysia. Good quality Malaysian companies (in terms of corporate governance) are more likely to voluntarily disclose more or additional information to differentiate themselves from poor quality companies.

There are three main limitations of this study. Firstly, the findings are based on Malaysian companies which may limit the generalisability of results to other jurisdictions and cultures such as to developed or other developing countries. Secondly, this research relies on companies annual reports for data necessary to test the hypotheses. Relevant information, which is reported in websites or other forms of media, may possibly have been excluded. Thirdly, the main focus of this study is specifically on voluntary disclosures of corporate governance information. As such the results may not be generalisable to other types of disclosures. Future studies in this area should address these specific issues.

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**Table-1.** Descriptive Statistics

	Label	Mean	Median	Standard Deviation	Minimum	Maximum
<b>Panel A: Total sample firms (n=275)</b>						
Voluntary disclosure score	VDCGI	9.18	9.00	4.08	1.00	25.00
Corporate governance score	CGQ	29.67	30.00	3.72	18.00	39.00
Proportion of Stock-based Compensation	SCOPTIONS	0.19	0.00	0.34	0.00	0.97
Proportion of CEO shares owned	SH-OWN	0.17	0.01	0.21	0.00	0.75
Proportion of family members on board	FCB	0.18	0.00	0.22	0.00	0.83
Proportion of Malay directors on board	BOARD-M	0.43	0.38	0.28	0.00	1.00
Natural log total assets	LSIZE	13.99	13.80	1.19	11.53	18.03
Leverage	LEV	0.43	0.42	0.23	0.00	1.95
Return on equity	ROE	0.18	0.16	0.23	-0.78	2.90
<b>Panel B: Family firms (n=122)</b>						
Voluntary disclosure score	VDCGI	7.61	8.00	3.24	1.00	17.00
Corporate governance score	CGQ	28.63	29.00	3.51	18.00	36.00
Proportion of Stock-based Compensation	SCOPTIONS	0.18	0.00	0.30	0.00	0.88
Proportion of CEO shares owned	SH-OWN	0.26	0.28	0.22	0.00	0.75
Proportion of family members on board	FCB	0.40	0.38	0.14	0.15	0.83
Proportion of Malay directors on board	BOARD-M	0.31	0.29	0.21	0.00	1.00
Natural log total assets	LSIZE	13.81	13.72	1.02	11.53	17.34
Leverage	LEV	0.44	0.43	0.24	0.03	1.95
Return on equity	ROE	0.16	0.15	0.18	-0.78	1.30
<b>Panel C: Non-Family firms (n=153)</b>						
Voluntary disclosure score	VDCGI	10.45	10.00	4.25	2.00	25.00
Corporate governance score	CGQ	30.51	31.00	3.68	21.00	39.00
Proportion of Stock-based Compensation	SCOPTIONS	0.12	0.00	0.26	0.00	0.95
Proportion of CEO shares owned	SH-OWN	0.10	0.00	0.19	0.00	0.74
Proportion of Malay directors on board	BOARD-M	0.52	0.50	0.30	0.00	1.00



board

Natural log total assets	LSIZE	14.13	13.93	1.30	11.75	18.03
Leverage	LEV	0.43	0.41	0.21	0.00	0.91
Return on equity	ROE	0.19	0.16	0.26	-0.29	2.90

**Table- 2.** Correlations analysis

No	Variable	Pearson Correlations												
		1	2	3	4	5	6	7	8	9	10	11	12	
1	VDCGI													
2	CGQ	0.494**												
3	S-ISS	0.215**	0.087											
4	D-ISS	0.244**	0.077	0.222**										
5	SC-OPTIONS	0.266**	0.054	0.493**	0.212**									
6	SH-OWN	-0.293**	-0.199**	0.058	-0.138*	0.052								
7	LSIZE	0.403**	0.136*	0.090	0.335**	0.134*	-0.224**							
8	LEV	0.173*	0.084	0.186**	0.310**	0.097	-0.041	0.393**						
9	FCB	-0.349**	-0.259**	-0.024	-0.045	0.115	0.358**	-0.137*	0.002					
10	BOARD-M	0.306**	0.205**	-0.014	0.083	0.005	-0.267**	0.239**	0.152*	-0.422**				
11	ROE	0.250**	0.066	0.036	0.158**	0.025	-0.083	0.044	0.145*	-0.019	-0.067			
12	LIS	0.154*	0.038	-0.085	0.184**	0.051	-0.065	0.318**	0.065	-0.063	0.092	-0.018		
13	TRA	0.234**	0.098	-0.012	0.176**	0.022	-0.113	0.175**	0.121*	-0.272**	0.349**	0.018	0.105	

Note:

\* Correlation is significant at the 0.05 level (one-tailed)

\*\* Correlation is significant at the 0.01 level (one-tailed)

VDCGI is the total score of IBP component that represent voluntary disclosure scores; CGQ is the total score of BCS component that represent corporate governance quality of a company; S-ISS is a dummy that takes a value of 1 if a company issues new shares capital above 5% and zero otherwise; D-ISS is a dummy that takes a value of 1 if a company issues new debt capital above 5% and zero otherwise; SC-OPTIONS is the proportion of stock-based compensation over total compensation; SH-OWN is the proportion of total CEO's shareholdings; LSIZE is company size as measured by the natural log of its total assets; LEV is a percentage of total debts to total assets; FCB is the percentage of family members on a board; BOARD-M is the percentage of Malay directors on a board; ROE is profit before tax divided by total shareholders' equity; LIS equals is a dummy that takes a value of 1 if a company's shares is cross listed on more than one stock exchanges and zero otherwise; and TRA is a dummy that takes a value of 1 if a company is in the trading/services sector and zero otherwise .

Table-3. Regression Results – Final Model

	Predicted sign	Total sample	Family Controlled Business	Non-Family Controlled Business
Intercept		-15.103	-8.151	-17.640
CGQ	+	0.355 (7.980)***	0.281 (3.568)**	0.394 (6.532)***
S-ISS	+	0.048 (0.932)	0.181 (1.900)†	-0.024 (-0.350)
D-ISS	+	0.032 (0.669)	0.001 (0.009)	0.068 (1.084)
SH-OWN	-	-0.072 (-1.537)	-0.059 (-0.725)	-0.072 (-1.175)
SC-OPTIONS	+	0.175 (3.503)***	0.151 (1.538)	0.161 (2.128)*
FCB	-	-0.162 (-3.144)**	-0.182 (-2.064)*	
LSIZE	+	0.248 (4.864)***	0.225 (2.528)*	0.257 (3.661)***
LEV	+	-0.046 (-0.950)	-0.107 (-1.238)	0.023 (0.327)
BOARD-M	+	0.082 (1.631)	-0.007 (-0.081)	0.104 (1.689)†
ROE	+	0.208 (4.782)***	0.218 (2.693)**	0.217 (3.682)***
TRA	+	0.039 (0.847)	-0.119 (-1.374)	0.091 (1.513)
LIS	+	0.030 (0.672)	-0.074 (-0.874)	0.051 (0.834)
FCB*CGQ	-	-0.098 (-2.189)*	-0.110 (-1.308)	
CGQ*SC- OPTIONS	+	0.176 (3.972)***	0.150 (1.729)†	0.168 (2.539)*
N		275	123	152
Adjusted R <sup>2</sup>		0.518	0.308	0.533
F statistic		22.002***	4.887***	15.384***

**Notes:**

The table shows standardised coefficient and t statistics (in parentheses) for the respective independent variable in the model.

†Significant at 0.1; \*Significant at 0.05; \*\*Significant at 0.01; \*\*\*Significant at 0.001

VDCGI is the total score of IBP component that represent voluntary disclosure scores; CGQ is the total score of BCS component that represent corporate governance quality of a company; S-ISS is a dummy that takes a value of 1 if a company issues new shares capital above 5% and zero otherwise; D-ISS is a dummy that takes a value of 1 if a company issues new debt capital above 5% and zero otherwise; SC-OPTIONS is the proportion of stock-based compensation over total compensation; SH-OWN is the proportion of total CEO's shareholdings; LSIZE is company size as measured by the natural log of its total assets; LEV is a percentage of total debts to total assets; FCB is the percentage of family members on a board; BOARD-M is the percentage of Malay directors on a board; ROE is profit before tax divided by total shareholders' equity; LIS equals a dummy that takes a value of 1 if a company's shares is cross listed on more than one stock exchanges and zero otherwise; and TRA is a dummy that takes a value of 1 if a company is in the trading/services sector and zero otherwise.

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