A VOLUNTARY RISK INFORMATION DISCLOSURE:
A STUDY OF MALAYSIAN PUBLIC LISTED COMPANIES

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2. Letter of Offer (Research Grant)

Tarikh : 01 Disember 2015

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KELULUSAN GERAN PENYELIDIKAN LESTARI 2015

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Ketua Projek : Dr. Rina Fadhillah Ismail
Ahli Projek : Puan Emmarelida Maswesi Ahmad
Puan Nor Syafinaz Shafflee

Dengan segala hormatnya perkara di atas adalah dirujuk.

2. Sukacita dimaklumkan, pihak Universiti telah meluluskan permohonan kertas cadangan penyelidikan puan untuk dibiayai di bawah Geran Penyelidikan LESTARI.


Sekian, harap maktum.
5. Report

5.1 Proposed Executive Summary

A sufficient reporting and disclosure of potential risks is paramount for business survival in a growing capital market condition and intense market competition (Abraham & Cox, 2007; Linsley & Shrives, 2006). Disclosure of risks information is seen as to promote corporate transparency for the well-functioning of capital markets, with aims to achieve and maintain accurate share valuation and to provide a confident and well-informed market for investors. Current risk reporting practices are perceived by investors as not to have beneficial impact as such disclosed risks information are considered as too brief, not sufficiently forward looking and not wholly adequate for decision making purposes (Abraham & Cox, 2007; Beretta & Bozzolan, 2004; Cabedo & Tirado, 2004; Deumes, 2008). The absence of standard or guideline leaves risk disclosure to managers’ full judgment, therefore, improved risk disclosure and reporting practices will lessen the discrepancy between investors’ expectation and managers’ discretion. Failure in detecting and identifying upcoming significance events due to the financial global crisis has led to corporate collapse everywhere. Thus, this study aims to provide some insights on voluntary risk reporting practices among Malaysian ACE-listed companies by examining the factors contributing to its practice. A framework is proposed based on the identified factors influencing such disclosure. This would assist shareholders and potential investors in making informed decisions. This study will use mixed method of qualitative and quantitative approach: a content analysis of relevant documents, survey and interviews with relevant parties. The framework proposed provides new findings on useful information for potential ACE Market’s new entrants in meeting the expectation of relevant authorities as well as providing a benchmark for investors and fund-raisers’ assessment with an aim to strengthen the transparency level by listed companies.
5.3 Introduction

The ongoing discussion on the effective risk management practices to facilitate corporate decisions has raised a concern on the usefulness of the reports that focusing on risk and uncertainty in alleviating potential harmful to the companies (Ho & Taylor, 2013). In fact, comprehensive reporting should comprise of both mandatory and voluntary information. This is vital to reduce the information asymmetry between managers and shareholders as well as to evaluate the firm performance by the investors. The need for voluntary information particularly on risks and uncertainties surrounded or impacted the business environment has rising as indicated by Schadewitz and Niskala (2010) that viewed the voluntary disclosure as a tool to differentiate superior and significant information in explaining mandatory information.

Eventually, lacking of comprehensive voluntary risk information in annual reports may lead to misinterpretation of current corporate performance condition that will affect the future business operations (Abraham & Cox, 2007; Cabedo & Tirado, 2004). This could place a pressure to the managers to provide sufficient information beyond the mandatory requirements of the capital market in order to facilitate shareholders’ investment decisions (Mokhtar & Mellett, 2013). To be exact, managers are encouraged to present a precise, accurate and relevant financial and non-financial information to the investors and regulators. This information is vital in assessing company’s performance, risks and uncertainties surrounding or impacting the business environment. During recovery period of the financial crisis, lacking of sufficient risk information may lead to the misinterpretation of current corporate condition that eventually may affect future business operations (Dobler, Lajili, & Zeghal, 2011; Jonas Oliveira, Rodrigues, & Craig, 2011).

Prior studies in developing and emerging economies have drawn attention to the propensity of ownership concentration in creating effective governance system (Mohd Ghazali, 2012; Nosheen & Chonglertham, 2013; Probohudono, Tower, & Rusmin, 2013; Samaha, Dahawy, Hussainey, & Stapleton, 2012). However, effective monitoring of managerial behaviour can be an observation mechanism for significant decisions made by the manager as the managers are likely to take more risks in uncertain environments, especially in East Asian countries. For instance, the information disclosed in the annual reports would send a signal that they are willing to inform others that they are acting in an appropriate manner as outlined by the shareholders (Khlifi & Bouri, 2010).

Prior studies have documented the engagement of other governance mechanisms by the board of directors for the benefits of all shareholders such as adequate portion of board independence (Elzahar & Hussainey, 2012; Ibrahim & Samad, 2011; Oliveira, Rodrigues, & Craig, 2011), to ensure the board members are equipped with relevant competencies (Shiah-Hou & Cheng, 2012) and establish the effective oversight board (Frigo & Anderson, 2011; Young, 2010). To investigate how governance mechanisms would influence the reporting of risk, this study extends upon related literature by addressing the specific attributes of corporate governance in the context of voluntary risk reporting among Malaysian companies. Likewise in other East Asian countries, most of the Malaysian companies are structured by concentrated ownership which obviously influence the way they disclosure significant information.

Unlike others, this study seeks to further examine the impact of board attributes in highly concentrated ownership settings on the willingness of managers to disclose risk information. Second, a broader measurement of information disclosed in excess of quantity measures is aimed to be focused on.