

UNIVERSITI TEKNOLOGI MARA

**CORPORATE GOVERNANCE MECHANISMS
AND INTELLECTUAL CAPITAL DISCLOSURE
IN MALAYSIAN GLCs**

HARTINI BINTI AZMAN

Dissertation submitted in partial fulfillment of the requirements
for the degree of
Master of Accountancy

Faculty of Accountancy

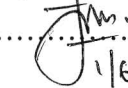
April 2011

CANDIDATE'S DECLARATION

I declare that the work in this thesis was carried out in accordance with the regulations of Universiti Teknologi MARA. It is original and is the result of my own work, unless otherwise indicated or acknowledged as referenced work. This thesis has not been submitted to any other academic institution or non academic institution for any other degree or qualification.

In the event that my thesis be found to violate the conditions mentioned above, I voluntarily waive the right of conferment of my degree and agree to be subjected to the disciplinary rules and regulations of Universiti Teknologi MARA.

Name of Candidate : HARTINI BINTI AZMAN
Candidate's ID No. : 2008575929
Programme : Master of Accountancy
Faculty : Faculty of Accountancy
Thesis Title : CORPORATE GOVERNANCE MECHANISMS AND
INTELLECTUAL CAPITAL DISCLOSURE IN
MALAYSIAN GLCs

Signature of Candidate : 
16/2011

ABSTRACT

The objective of this study is primarily to investigate the influence of corporate governance as well as controlling for corporate characteristics like company size on IC disclosure for a sample of Malaysian GLCs that is listed in Kuala Lumpur Composite Index (KLCI). In this study annual report from 78 Malaysian GLCs listed in the KLCI will be used for source of information in order to analyze the IC disclosure on 2007 till 2009. The IC disclosure as dependent variable consists of relational capital, structural capital and human capital are measured by using disclosure index score. Corporate governance mechanisms as independent variables cover of ownership structure (share concentration), board of directors (Independent non executive directors (INED) and cross directorship) and board of committee (audit committee size and meeting). Results indicate significant of all corporate governance mechanisms except INED and audit committee size together with company size in term of total asset are related with one or more of the IC disclosure types. Thus, it give details explanation wherein share concentration show significant as companies that holding more on share concentration will be less reported on IC items as dominant shareholders can be easily to access the information they needed and give them less pressure to disclose IC in annual report. Cross directorship indicate to be significant positive relationship with IC disclosure because cross directorship hold by the member of boards lead to a positive implications for disclosure practice since they are able to get a greater and better access of information more than one company as well as to abolish any secrecy information as encouraging voluntary disclosure indirectly. While, audit committee meeting shows significant positive relationship with IC disclosure as by having more meeting between audit committee may also encourage to provide more IC disclosure in annual report and company size in term of total sales also has significant positive relationship as big companies are more visible and expected to meet investors demand for information compared with small companies. It is due to the more revenue generated by big companies which shows that the company is good enough capacity of assets to bring benefit to the company (Li et al, 2008). Besides, bigger companies may have more involvement of stakeholders who is interested to know on how company manages IC.

Keywords: Corporate Governance, IC Disclosure, Content Analysis

TABLE OF CONTENT

	PAGE
Abstract	ii
Acknowledgement	iii
Table of Contents	iv
List of Tables	vii
List of Figures	viii
List of Appendices	ix
List of Abbreviations	x
 CHAPTER 1 INTRODUCTION	
1.1 Introduction	1
1.2 Research Background	2
1.3 Statement of the Problem	6
1.4 Objectives of the Study	8
1.5 Research Questions	8
1.6 Significance of the Study	8
1.7 Scope of the Study	10
1.8 Organization of the Study	11
 CHAPTER 2 LITERATURE REVIEW	
2.1 Introduction	13
2.2 Agency Theory	13
2.3 Corporate Governance Mechanisms	15
2.3.1 Ownership Structure	16
2.3.1.a Share Concentration	18
2.3.2 Board of Directors	19
2.3.2.a Independent Non Executive Director (INED)	20
2.3.2.b Cross Directorship	22
2.3.3 Board of Committee	23
2.3.3.a Audit Committee Size and Meeting	23
2.4 IC Definition	26
2.5 Disclosure of IC	29

2.6	Corporate Governance and IC Disclosure	33
2.7	Conceptual Framework	37
CHAPTER 3	DEVELOPMENT OF HYPOTHESES AND RESEARCH DESIGN	
3.1	Introduction	39
3.2	Development of hypothesis	39
3.2.1	Corporate Governance Mechanisms and IC Disclosure	39
3.2.1.a	Share Concentration with IC Disclosure	40
3.2.1.b	Independent Non Executive Directors (INED) with IC Disclosure	41
3.2.1.c	Cross directorship with IC Disclosure	43
3.2.1.d	Audit Committee Size and Meeting with IC Disclosure	43
3.2.1.e	Company Size with IC Disclosure	44
3.3	Research Design	47
3.3.1	Sample or Population	47
3.3.2	Data Collection Method	49
3.4	Independent Variables	50
3.5	Dependent Variables	52
3.6	Control Variable	55
3.7	Regression Model	55
CHAPTER 4	FINDINGS AND DISCUSSIONS	
4.1	Introduction	57
4.2	Descriptive Statistics	58
4.2.1	Overview of IC Disclosure	58
4.2.2	Disclosure of Structural Capital, Relational Capital and Human Capital	61
4.2.3	Descriptive Analysis of Dependent Variables	65
4.2.4	Descriptive Analysis of Independent Variables	66
4.2.5	Descriptive Analysis of Control Variables	68
4.3	Test of normality	69
4.4	The Correlations Results	71
4.5	Empirical Results	73
4.5.1	Multiple Regression Analysis	74