UNIVERSITI TEKNOLOGI MARA

CORPORATE GOVERNANCE STRUCTURES, INSTITUTIONAL PRESSURES AND VOLUNTARY DISCLOSURE IN MALAYSIA

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ABSTRACT

Detailed disclosure about managers' activities in relation to company's performance and future growth prospects to investors and other stakeholders have been subjected to calls for transparency as part of the corporate governance movement. Managers face substantial pressures to increase corporate disclosure as a matter of good corporate governance practice or otherwise risk potential loss of legitimacy regarding their activities from the perspectives of investors and other stakeholders. In such situation, can managers voluntary disclosure strategy reveals credible information as monitoring mechanism to investors. Hence, this study examines the competing effects of corporate governance structures and institutional pressures on management voluntary disclosure decisions, in terms of both the extent and credibility of the information disclosed.

Corporate governance structures are represented by corporate ownership and board structures while institutional pressures are associated with mimetic isomorphism. Investigations of these factors on management voluntary disclosure decisions are based on the annual reports of 155 companies listed on the Bursa Malaysia as at December 31, 2002. The year 2002 is selected as it is the initial year following a significant corporate governance reform in 2001 and provides opportunities to capture the variables of interests in this study.

Overall, results of this study provide new evidence that under the influence of dominant owners, management voluntary disclosure decisions are driven by mimetic pressures when their company is structured to meet expectations of good corporate governance. Family-controlled companies appear to have the strongest effect on voluntary disclosure while outside block ownership limits the ability of managers to reduce voluntary disclosure. However, other elements of ownership structure have no effect on management voluntary disclosure decisions.

The findings associated with the effects of board composition and board interlocks on management voluntary disclosures point to the strong influence of mimetic pressure. Instead of exerting pressure on management to increase voluntary disclosure to outside investors, the results infer that independent non-executive directors support management voluntary disclosure decisions for legitimation purposes. Finally, the results provide evidence that management voluntary disclosures, apart from government owned companies, are not viewed as credible by outside investors.

These findings contribute to a better understanding of the relationships between various governance structures and institutional pressures on management disclosure decisions in particular agency settings. The findings also have practical implications to corporate governance regulators in improving corporate governance, other policy makers in strengthening capital market environment and to investment community who rely on corporate disclosures in making their decisions.

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CHAPTER 1

INTRODUCTION TO THE STUDY

1.1 Preamble

Voluntary disclosure by managers regarding their companies' performance and growth prospects has been subjected to calls for greater transparency as part of the corporate governance movement. A primary reason for the widespread interest in such a disclosure is that it can improve proper evaluation of managers' activities by investors and other stakeholders (Bushman & Smith, 2001; Taylor, Darus, and Liu, 2007). However, disclosure of such information is a sensitive management decision which can also publicly expose managerial weaknesses in operation and investment decisions. Where exposure of managerial weaknesses is concerned, prior literature provides evidence that managers limit disclosure of their activities in order to evade close monitoring by outside investors (Eng & Mak, 2003; J. P. H. Fan & Wong, 2002; Gabrielsen, Gramlich, and Plenborg, 2002; Ho & Wong, 2001). However, from a corporate governance perspective, making such information transparent is very important to the interests of the investors and possibly other stakeholders (Bushman & Smith, 2001).

The emphasis on corporate transparency as a matter of good corporate governance by regulatory bodies and policy makers will shift investors and other stakeholders' expectations toward expecting more adequate disclosure of managers' activities. This leads to substantial institutional pressure on management voluntary disclosure decisions. Managers' voluntary disclosure strategies become a complex balance between two competing incentives. First, managers have incentives to make more voluntary disclosure of their activities as a tool of corporate governance that will allow proper