

VOLUNTARY ANNUAL REPORT DISCLOSURES BY MALAYSIAN MULTINATIONAL CORPORATIONS

Fathyah Hashim

Norman Mohd Saleh

*Faculty of Economics and Business
Universiti Kebangsaan Malaysia*

Annual reports disclosure of multinational corporations (MNCs) is subject to various domestic as well as international users requirements. Voluntary disclosures act as one of the ways that these MNCs can use to overcome the gap between information provided in annual reports and information expectation by these users. This study examines the relationship between the level of information disclosures and some of the MNCs characteristics. The level of disclosures is based on the amount of the voluntary disclosure information gathered from annual reports of listed MNCs on Bursa Malaysia across six industries. Overall, the results show that level of voluntary information disclosures is positively related to size of the company and the type of audit. Meanwhile, the level of multinationality is significantly related to the level of projected information disclosures. We also found MNCs in particular industries (e.g. construction industry) seem particularly inclined to provide certain information (e.g. summary of history results). Additional tests show that the level of multinationality and the number of countries where the products were exported jointly determine the level of voluntary disclosure in MNCs. Thus, these results indicate that the factors explaining voluntary annual report disclosures differ by the types of voluntary information presented in annual reports.

Keywords: *Voluntary disclosure, multinational corporations (MNCs)*

Data: *2003 annual reports*

Introduction

International business and global expansion are now driven by more than 60,000 multinational corporations (MNCs) with over 800,000 subsidiaries around the world (Luo, 2002). Their foreign assets amounted to USD\$2 trillion in 2000, hiring over six million people around the world (Luo, 2002). The concentrations of these businesses are mainly in electronics and electrical equipment, automobiles, petroleum, chemicals, and pharmaceuticals.

MNCs are exposed to various accounting and reporting requirements, both national and international requirements (Meek, Roberts and Gray, 1995). Voluntary disclosures act as one of the ways that these MNCs can use to overcome the international diversity in accounting principles (Choi and Levich 1990 in Meek et al., 1995). Additional information from voluntary disclosures would help users to better understand the company and its operating environment (Meek et al., 1995). In this regard, voluntary disclosure is defined as any additional piece of information (apart from what is required by any guidelines or standards) provided by a company in the financial report (Skogsvik, 1998).

Regulatory authorities in Malaysia, like any other country in the world, require companies to report their financial and non-financial condition in annual reports. However, companies are encouraged to report beyond what is required in the Bursa Malaysia listing requirement, Companies Act, and extant accounting standards. The extent of voluntary disclosure is particularly important after the adoption of a Disclosure-Based Regime in Malaysia. Under the new regime, companies are required by the regulatory framework to make full disclosure of its affairs to the investors that would enable the investors to make informed decision. The regulator has no right to intervene in the investment decision and company-investors relationship. Since not all information can be coded into disclosure requirement in the listing requirement, act and standards, firms are obligated to make voluntary disclosures of its affairs which are expected to be important for investors' decisions. This is consistent with Lang and Lundholm (1996) who suggest that more informative disclosure is associated with more analysts following and would determine the accuracy of analyst forecast. A study on voluntary disclosure is particularly more important in MNCs compared to a company operating locally because the users' information requirements are more diverse.

Therefore, the main objective of this study was to provide some evidence on the level of voluntary disclosure of accounting information for the MNCs operated in Malaysia. In addition to that, the study also attempted to identify some potential factors that might affect the level of voluntary disclosure for the selected Malaysian MNCs. It is hoped that this study would shed some light into the issue of voluntary disclosure in the Malaysian MNCs. The understanding factors affecting voluntary disclosures in the MNCs could help policy makers to make efforts in order to protect the interest of shareholders.

To our knowledge, this was the first study of the level of and factors that influence voluntary disclosure in Malaysia after the financial crisis and the launching of Malaysian Code of Corporate Governance in year 2000 (with an exception to Mohd Ghazali and Weetman, 2006). Haniffa and Cooke (2002) investigated the relationship between a number of corporate governance, culture and firm specific characteristics that determine the extent and scope of voluntary disclosure in year 1995. However, the Code has a large impact on the governance of companies in Malaysia. This Code outlines some necessary conditions for the structure and process of the board of directors, audit committee, and auditors in order to run the business according to the interest of shareholders. This study is different from Haniffa and Cooke (2002) and Mohd Ghazali and Weetman (2006) when the degree of multinationality is investigated. In addition, we also provide a joint test of the influence of the degree of multinationality and the number of geographical segments on voluntary disclosure. We argue that this measure is better than merely looking at the ratio of foreign

sales to total sales (as suggested in prior literature) because the measure includes the varieties of users' information needs as one important determinant of voluntary disclosure, particularly in multinational companies.

The institutional background is unique in Malaysia where Claessens, Djankov and Lang (2000) classified firms in Malaysia as having concentrated ownerships, significant family ownerships and interlocking business relationships. These factors are not found in other developed countries, where most voluntary disclosure research studies were conducted (Klein, 2002; Xie et al., 2003). In addition, Malaysia also follows International Accounting Standards (IAS) that only prescribed principles rather than detailed rules. Therefore, IAS gives managers more discretion to determine the level of voluntary disclosure (compared to managers in the U.S. and U.K. who have to follow more detailed rules).

The organization of the paper is as follows. In the next section, voluntary disclosure literature is discussed, followed by a section on the research methodology. The results is presented and discussed in Section IV. Finally, conclusions and suggestions for future research are presented in the final section.

Literature Review

The determinants of voluntary disclosures most often and consistently identified in the literature are size of company (Belkaoui, 2001; Chow and Wong-Boren, 1987; Cooke, 1989; Hossain, Perera and Rahman, 1995; Meek et al., 1995; Raffournier, 1995; Watson, Shrivs and Marston, 2002), audit size or quality (DeAngelo, 1981), types of industry (Cooke, 1989; Meek et al., 1995; Watson et al., 2002), leverage (Hossain et al., 1995) level of multinationality or internationality (Belkaoui, 2001; Cooke, 1989; Raffournier, 1995), profitability (Haniffa and Cooke, 2002), and ownership concentration (Chau & Gray, 2002; Haniffa & Cooke, 2002; Mohd Ghazali & Weetman, 2006). The results of these prior studies on the voluntary disclosures are summarised in Table 1 below.

Based on the theoretical and empirical evidence, this study examines the potential association between the level of voluntary information disclosures and the seven firm characteristics mentioned earlier, i.e. the size of company, audit quality, types of industry, leverage, level of multinationality or internationality, profitability, and ownership concentration.

Size of Company

A number of disclosure studies find that size of company is an important factor in explaining the extent of corporate voluntary disclosures (Hossain et al., 1995). Agency theory suggests that large companies have higher agency costs (Jensen and Meckling, 1976) and thus the theory predicts a positive association between size and the level of voluntary disclosures. Larger companies are more sensitive to political costs (Watts and Zimmerman, 1986). First, we expect a positive relationship between the extent of voluntary disclosure and the size of the MNCs because large companies are expected to face additional political

Table 1: Results of Previous Studies on the Voluntary Disclosures in Annual Report

| Authors | Country | Type of VD | Significant Influence (at the 0.05 level) | Not Significant (at the 0.05 level) |
|---------------------------------|---------------------------------|--------------------------------------|--|--|
| Mohd Ghazali and Weetman (2006) | Malaysia | Voluntary disclosure | Ownership structure | Government, new governance initiatives and industry competitiveness |
| Chau & Gray (2002) | Hong Kong & Singapore | Corporate voluntary disclosure | Hong Kong - ownership structure; family ownership; Singapore - ownership structure; size | Singapore - family ownership; Both country - audit size; leverage; profitability; multinationality; industry |
| Haniffa & Cooke (2002) | Malaysia | Voluntary disclosures | Corporate governance (family members; non-executive chairman); Firm-specific characteristics (size; diversification; asset-in-place; ownership structure; profitability) | Culture (race; qualification of BOD; qualification of financial controller) Firm characteristics (leverage, auditor type, listing age, foreign activities) |
| Watson, Shrivs Marston (2002) | U.K. | Accounting ratios | Size; industry type | Profitability; return & on investment; gearing; company efficiency |
| Williams (1999) | Asia-Pacific Region | Environmental and social accounting | Culture; political and civil system; | Legal system; level of economic development; equity market |
| Hossain, Perera & Rahman (1995) | New Zealand | All voluntary disclosure | Size; leverage; foreign listing status | Assets-in-place; type of auditor |
| Meek, Roberts & Gray (1995) | U.S., U.K. & Continental Europe | Strategic, non-financial & financial | Size; country/region; international listing status; industry (influential in some cases) | Leverage (wrong sign); multinationality; profitability |
| Raffournier (1995) | Switzerland | Voluntary financial disclosure | Size, internationality | Ownership structure; leverage; profitability; auditor's size; percentage of fixed assets; industry type |
| Cooke (1989) | Sweden | Voluntary corporate disclosure | Size; listing status; Internationality; industry type | Leverage; fixed assets; no. of subsidiaries; parent co. relationship; |
| Chow & Wong Boren (1987) | Mexico | Voluntary financial disclosure | Size | Leverage; proportion of assets in place |
| Firth (1984) | Canada | Voluntary corporate disclosure | Leverage; earnings beta | Size; dividend yield |

VD = Voluntary disclosure; U.S. = United States of America; U.K. = United Kingdom; BOD = Board of Directors

costs. Such companies may use voluntary disclosure to disclose more of their operations and social responsibility efforts in order to reduce the possibility of government intrusions (Watts and Zimmerman, 1986). Large-sized companies seem likely to respond to regulatory threats by “voluntarily” increasing their level of disclosure (Craig and Diga, 1998). Larger sized companies are also predicted to be more complex, producing multi products, and involved in many geographical areas than smaller sized companies (Cooke, 1989). Larger sized companies also require more capital and use disclosure to attract more investors compared to smaller sized companies (Cooke, 1991). Thus, voluntary disclosure is expected to be higher in larger sized companies compared to smaller sized companies.

Industry

Cooke (1989) found weak evidence that the type of industry affects voluntary disclosure. The evidence suggests that companies in trading industry disclose less than companies that belongs to manufacturing and services industries or a conglomerate. Prior studies suggested that companies from a specific industry might adopt, in addition to mandatory disclosure practices for companies from all industries, some disclosure practices of their own (Naser, Al-Khatib and Karbhari, 2002). Other study that found significant association between type of industry and the level of voluntary disclosure is Watson et al. (2002). However, the relationship is not obvious. There are some other studies that found insignificant relationship between industry type and voluntary information disclosure such as Chau and Gray (2002) and Raffournier (1995). According to the mimetic institutional influence argument (DiMaggio and Powell, 1983), firms tend to gravitate toward similarity as a low cost and low risk reaction to environmental uncertainty. This mimetic behaviour is expected to occur at the industry level. Therefore, although the results are mixed, we expect that the level of voluntary information disclosures vary across industries.

Leverage

Revealing information would also reduce information asymmetry between the company and debt holders, which in turn would reduce the cost of capital (Botosan 1997; Firth 1979; Hossain et al. 1995). These costs are higher for firms with proportionally more debt in their capital structure (Jensen and Meckling 1976) since potential wealth transfers from debt holders to shareholders and managers increase with leverage. With debt holders price-protecting themselves, shareholders and managers have the incentives to offer an increased level of monitoring and voluntarily disclose more information in the published annual reports to reduce the costs of capital (Hossain et al. 1995). The disclosure would also contribute to solve monitoring problems between stockholders and creditors (Raffournier 1995). Thus, a positive relationship between leverage and the level of voluntary disclosures can be expected. This is consistent with the expectation made in Chow and Wong-Boren (1987) and Raffournier (1995). Hossain et al. (1995) found a significantly positive association between leverage and the extent of voluntary disclosure in New Zealand companies. However, Craig and Diga (1998) found that the sign of correlation coefficient is positive as expected but not statistically significant for the association between the corporate accounting disclosure in firms operating in ASEAN countries and the degree of financial leverage. Therefore, given the mixed results particularly in the case

of ASEAN countries, it is interesting to explore whether leverage do influence voluntary disclosure in Malaysia.

Audit Quality

The extent of disclosure is also related to the quality of audit (often proxies by *Big-4* or large auditing firms). Quality auditors are expected to be able to influence managers to provide more disclosures because they want to maintain their reputations (DeAngelo 1981). Therefore, we expect to see more disclosure in firms audited by *Big-4* auditing firms and vice versa. However, studies by Chau and Gray (2002), Hossain et al. (1995) and Raffournier (1995) found that the type of auditor or auditor's size is not significantly related to the level of voluntary disclosures. The type of auditor is also not significantly related with extent of voluntary disclosure in annual reports of Malaysian listed companies (Haniffa and Cooke, 2002). In this study, we wanted to test whether big-4 auditing firms which expected to be dominant in MNCs, were effective in their monitoring and promote more voluntary disclosures.

Performance

Impression management is necessary for legitimisation purposes. Future oriented information would facilitate predictions, valuations and perceptions of the company's affair. When the rate of return is high, the managers are motivated to disclose detailed information in order to support the continuance of their positions and remuneration (Singhvi and Desai, 1971). Inversely, they may disclose less information in order to conceal the reasons for losses or declining profits (Raffournier, 1995). Voluntary disclosure may also be used to signal private information, i.e. when the performance of a company is under-estimated by the market. The managers may use additional disclosure to improve capital market valuation of firm stocks (Lev, 1992). Haniffa and Cooke (2002) found that profitability, as the performance-related variable is highly significant in relation to the extent of voluntary disclosure of Malaysian listed companies. Therefore, we expect that MNCs would disclose more information when their performance is good and disclose less if the performance is bad.

Degree of Multinationality

As companies go multinational, they face new demands for information beyond those faced in the home country (Meek et al. 1995). It is likely that a company's presence in international market will increase its level of disclosure (Craig and Diga, 1998). Much of the impetus for voluntary disclosures by MNC surrounds the need to raise capital at the lowest possible cost (capital-need hypothesis). Multiple listed companies often have an interest in foreign capital markets since foreign operations are often financed by foreign capital (Choi and Mueller, 1984 in Cooke 1989). Annual reports are also useful to other users of accounting information such as customers, suppliers and the state (Raffournier, 1995). When these users examine reports of foreign companies, they are likely to refer to disclosure practices of domestic companies. At the same time, foreign companies are

induced to comply with the usual practices of countries in which they operate (Raffournier, 1995). The more international the operations of a company, the larger the inducement would be. Therefore, we expect a positive association between voluntary disclosures and the degree of multinationality.

Ownership Concentration

Prior research during and before the 1997 financial crisis has found a significant association between ownership structure and the level of voluntary disclosure in annual reports of Malaysian companies (Haniffa & Cooke, 2002; Hossein et al., 1994) and of companies in Hong Kong and Singapore (Chau & Gray, 2002; Eng & Mak, 2003). The association is also found to be significant after the financial crisis for companies in Malaysia (Mohd Ghazali & Weetman, 2006).

Malaysian PLCs are typically characterized with high levels of ownership concentration (Lai, 2004; Mohd Ghazali & Weetman, 2006). Haniffa and Cooke (2002) show that this variable is positively related to voluntary disclosure. However, Hossain et al. (1994) found a negative association between the proportion of shares held by the 10 largest shareholders and the extent of voluntary disclosure in annual reports.

Research Methodology

This study used content analysis to determine the level of voluntary information disclosures and the factors affecting its level by the MNCs. Each section of the selected companies' annual reports were analysed and a score was given for each disclosure made. This study adopted theme analysis using a checklist as suggested by Botosan (1997). This method was proven to be relevant and reliable in assessing the level of voluntary information disclosures. An index of voluntary information disclosures was calculated to represent the level of voluntary disclosures for each of the selected MNC. Consistent with Meek et al. (1995), we classified a company with at least 10 percent of its sales is from overseas as a multinational company.

Attention was given on the aspect of voluntary information reported in annual reports for MNCs listed on Bursa Malaysia. Consistent with Botosan (1997) we assume that the disclosure provided in annual reports can serve as a good proxy for the level of voluntary disclosure of information by companies in all disclosure mediums. This is because the level of voluntary disclosure in annual report is reported as having a positive relationship to the amount of disclosure made in other media (Lang and Lundholm 1993).

The unit of analysis for this study is the multinational companies listed on the Main Board of the Bursa Malaysia as at 31 December 2003. Annual reports of firms with financial year ended 2003 were selected because it is the most recent years when the study took place. The analysis was limited to only one year (2003) because the disclosure policy used by companies is relatively unchanged through time (Botosan 1997).¹ The companies

are from consumer products, industrial product, trading and services, plantation, construction, and technology industries.

Annual reports of listed companies on Bursa Malaysia as at 31 December 2003 were analysed to identify companies, which fit the definition of an MNC. According to Meek et al. (1995), a company with at least 10 percent of sales from non-domestic sources can be classified as an MNC. The companies that satisfy this 10% foreign sales were further analysed.

We began the sampling procedure by excluding companies from the financial, banking, insurance, trust, closed-end funds and securities sectors since these companies are subject to different rules from other companies in other sectors. Companies in PN4 category during the time when the study was being carried out were also excluded.² We only included companies listed on the Main Board of Bursa Malaysia (then Kuala Lumpur Stock Exchange) since these companies are relatively large compared to the companies listed on the Second Board, thus they are more likely to have multinational operations. Finally, we excluded companies under the Mesdaq board i.e. high growth technology firms from this study because the nature of the operation may have influenced the incentives for voluntary disclosure of intellectual capital that may cloud interpretations. These procedures yielded a list of 519 companies.

Therefore, this study included companies from ten industries listed on Bursa Malaysia i.e. consumer product, industrial product, construction, trading and services, infrastructure project, hotels, properties, plantation, and technology industries. Audited financial statements were read and segmental report section was given full attention since most of the information about foreign activities can be found in the geographical segment section. From the information, we identified 132 companies that met the definition of an MNC. A list of the names of selected MNCs is summarized in Appendix A. Table 2 summarizes these companies according to industry.

Table 2: Summary of MNC Based on Industries

| No. | Industries | Multinational | No. of Companies | Percentage |
|--------------|----------------------------------|---------------|------------------|-------------|
| 1 | Consumer Products | 27 | 74 | 36.5 |
| 2 | Industrial Products | 44 | 134 | 32.8 |
| 3 | Construction | 10 | 43 | 23.3 |
| 4 | Trading and Services | 22 | 126 | 17.5 |
| 5 | Infrastructure project companies | 1 | 8 | 12.5* |
| 6 | Hotels | 0 | 5 | 0.0* |
| 7 | Properties | 11 | 74 | 14.9* |
| 8 | Plantation | 9 | 38 | 23.7 |
| 9 | Mining | 1 | 1 | 100.0* |
| 10 | Technology | 7 | 16 | 43.8 |
| Total | | 132 | 519 | 25.4 |

Based on this initial analysis, there are about 25% of the companies listed on the Main Board of Bursa Malaysia on 31 December 2003 is classified as MNCs. We selected six sectors and excluded four other sectors (those being marked '**' in Table 2 above) because the percentage of companies falls under MNCs for these industries is low (less than 15%). As for the mining industry, there was only one company listed under the industry on 31 December 2003. This company was excluded although it is a multinational company. We excluded these firms because the companies are not fairly distributed across industries. After excluding these firms, each industry was represented by 17.5% to 43.8% MNCs.

These processes yielded 119 companies to be studied. However, only 107 from 119 annual reports were complete. Table 3 below shows a summary of the sampling selection procedure used in this study.

Table 3: Summary of Sampling Selection Procedure

| Selection Process | No. of Companies |
|---|-------------------------|
| Audited financial statements gathered for reviewed (Excluding financial, insurance, trust, closed-end funds, and PN4 companies) | 519 |
| (-) Companies without geographical segment or did not report sales from abroad | (322) |
| (-) Companies with less than 10% of overseas sales to total sales ratio | (65) |
| Multinational Company | 132 |
| (-) Multinational companies from industries with less than 15% of multinational companies | (12) |
| (-) Mining company | (1) |
| Multinational companies selected for the purpose of this study | 119 |
| (-) Incomplete 2003 annual report of the selected multinational companies | (12) |
| No. of Company Selected | 107 |

The data was collected from the annual reports downloaded from the Bursa Malaysia Web page (<http://www.bskl.com.my>). All listed companies lodged an English version of annual report to Bursa Malaysia. However, a few companies also provided a supplement of Malay version annual report (27 from 107 annual reports or 25%) and only 5% (5 annual reports) in Chinese.

Dependent Variable

There are variety types of measurements for level of voluntary disclosure that had been used in previous literature. For the purpose of this study, the measurement for the level of voluntary disclosure used an index of voluntary information disclosures adopted from Botosan (1997). This study used the disclosure index as in Botosan (1997) because the measurement suggested in the study portrays more voluntary disclosure for this sample of study compared to other instruments used in other past studies. Furthermore, Botosan

(1997) proves that the measurement is reliable and valid. Annual reports are the main focus to the disclosure index because generally, the annual report is one of the most important sources of corporate information (Botosan 1997).

This disclosure index was weighted based on the amount of voluntary disclosure made by companies in the annual reports. The items for the index were selected following Botosan (1997) as quoted in Singleton and Gloverman (2002). Singleton and Gloverman (2002) provide a more comprehensive list of disclosure items compared to Botosan (1997). There are five categories for voluntary information disclosure that had been identified by analysts and investors to be the most important information for decision-making:

1. Background information;
2. Summary of historical results;
3. Key non-financial statistics;
4. Projected information;
5. Management discussion and analysis

Background Information

Information in this category includes objectives and strategy of the business, the industry environment, the main products produced and the markets served which is useful to investors. This information is considered as important to the users to interpret other detailed information about the company. We gave one point for each background information item disclosed and an additional one point per item if the information provided includes quantitative data which was not obtainable from the financial statements. The total score for this first category was 26 points.

Summary of Historical Results

Historical summaries provide useful information (or very important) to the users (Botosan, 1997). Usually, companies present five or ten years of annual data of basic information necessary to compute profitability ratios such as return-on-assets, net profit margin, asset turnover and return-on-equity. If a company voluntarily presented a summary of ten years or more data, it received twice the points compared to a company with five years data.³ Appendix B shows that this category of information had a maximum of 5 items. We gave a maximum of 1 point if a company disclosed ten years or more data for item (i) to (iv), and additional 0.5 points for each item if the company also disclosed five years data. Therefore, the maximum points for item (i) to (iv) was 6 points. We gave a maximum of 1 point for item (v) if a company disclosed a summary of sales and net income for most recent eight quarters. In total, the maximum points for this category were 7 points.

Key Non-Financial Statistics

Non-financial information that is not recoverable from the financial statements and related disclosures provides users with important information. Annual reports should include company performance statistics and ratios. This non-financial statistics category includes items such as market share, units sold, order backlog and average compensation/employee.

Two points were awarded for each non-financial statistic disclosed. The total maximum score for this third category was 40 points.

Projected Information

Information on the opportunities and risks and management's future plans is important to professional investors and analysts. Other than that, information about the forecast of sales, profits and capital expenditures, and disclosure of future opportunities, risks and plans are among the items that are included in the index. Two points were given for each directional prediction and three points for a point estimate. The total maximum score for this fourth category was 27 points.

Management Discussion and Analysis

Information about the year-to-year changes that is not recoverable from the basic financial statements is usually included in this section. One point was given to each item discussed and which provided a detailed explanation not recoverable from financial statements or footnotes. We assigned one additional point per item if the explanation included quantitative data which could not be obtained from financial statements or footnotes. The total score for this final category was 26 points.

Therefore, the maximum score that a company may earn was 126 points. Table 4 below shows the points that a company would be awarded if it disclosed all of the items in each of the category discussed above.

Table 4: Summary of the Voluntary Disclosure Scores for Each Category

| No. | Category | Points |
|-----------------------------|------------------------------------|---------------|
| 1 | Background information | 26 |
| 2 | Summary of historical results | 7 |
| 3 | Key non-financial statistics | 40 |
| 4 | Projected information | 27 |
| 5 | Management discussion and analysis | 26 |
| Total Maximum Scores | | 126 |

Appendix B shows the summary of the major elements of the voluntary disclosure information. Below is the formula to calculate the voluntary information disclosures index (VD Score):

$$\text{VD Score} = \frac{\sum \text{score earned by a company}}{\sum \text{maximum score (126 points)}}$$

Independent Variables

One of the main objectives of this paper was also to examine the possible relationship between the level of voluntary information disclosures and some of the identified MNCs

characteristics. There are six independent variables in this study. The size of a company, leverage, level of multinationality, type of industry, type of audit firms and profitability were all expected to be positively associated with voluntary information disclosures of the MNCs.

The size of the company was measured using the log of total sales at the end of the current year. Since the relevance of the selected items of disclosure can vary across industries (Meek et al., 1995), the level of voluntary disclosures might also vary across industries. In other words, industry membership may influence the voluntary disclosures. This variable was measured using the dichotomous value of 0 and 1. Leverage variable was measured using the ratio of long-term debt to total equity (Craig and Diga, 1998).

The choice of external auditors is a mechanism, which helps to alleviate conflicts between principals and agents (Watts and Zimmerman, 1986). It had been argued that large and well-known auditing firms might incite companies to disclose more information (Firth, 1979). The dichotomous of 0 and 1 value was used to measure this variable, where '1' if the company that was being audited by big audit firms such as KPMG, PWCooopers, and Ernst & Young and "0" otherwise.

Profitable companies have the incentives to distinguish themselves from less profitable companies in order to raise capital on the best available terms (Meek et al., 1995). One way to do this is through voluntary information disclosures. Thus, more profitable companies can be expected to disclose more voluntary information disclosures. This variable was measured using the ratio of profit to total revenue of the current year.

An increase in the degree of internationalization of operations results in a larger proportion of foreign stakeholders in the corporation (Meek et al., 1995). The variety of demands can therefore results in an increased level of voluntary information disclosures. The degree of multinationality was measured using the ratio of foreign sales to total sales of the current year (Meek et al., 1995).

We also included ownership concentration in the regression because Haniffa and Cooke (2002) show that this variable is positively related to voluntary disclosure. However, an earlier study produces a negative association (Hossain et al., 1994). Based on the argument that majority largest shareholders in Malaysian listed companies are controlling shareholders and managers (insiders), they may have the power and incentives to involve in some expropriation activities (Mohd Ghazali & Weetman, 2006). Consistent with Mohd Ghazali and Weetman (2006), we expect a negative association between ownership concentration and voluntary disclosure.

Data Analysis

Descriptive and regression analyses were performed on the data gathered. The equation for the regression analysis is as follows:

$$VD\ Score = \beta_0 + \beta_1 SIZE + \beta_2 LEV + \beta_3 MNC + \beta_4 IND1 + \beta_5 IND2 + \beta_6 IND3 + \beta_7 IND4 + \beta_8 IND5 + \beta_9 AUDIT + \beta_{10} PROFIT + \beta_{11} CONCENT + \epsilon$$

Where,

| | | |
|-----------------|---|--|
| <i>VD Score</i> | = | Voluntary disclosure information index |
| <i>SIZE</i> | = | Logarithm of total assets (end of current year – 2003) |
| <i>LEV</i> | = | Logarithm of the ratio of long term debt to total equity |
| <i>MNC</i> | = | Ratio of foreign sales to total sales |
| <i>IND1</i> | = | 1 if the company is from consumer products industry; and 0 otherwise |
| <i>IND2</i> | = | 1 if the company is from industrial products industry; and 0 otherwise |
| <i>IND3</i> | = | 1 if the company is from trading and services industry; and 0 otherwise |
| <i>IND4</i> | = | 1 if the company is from plantations industry; and 0 otherwise |
| <i>IND5</i> | = | 1 if the company is from construction industry; and 0 otherwise |
| <i>AUDIT</i> | = | 0 if the company that is audited by small audit firms; and 1 if the company that is audited by big audit firms (KPMG, PWCopers, Ernst & Young) |
| <i>PROFIT</i> | = | Ratio of profit to sales revenue |
| <i>CONCENT</i> | = | The level of ownership concentration i.e. ownership of top 5 shareholders. |
| ε | = | Error term |

Results

Descriptive Analysis

Based on the descriptive analysis carried on the voluntary disclosure information index, it was found that the overall lowest level was 0.04, whereas the highest was 0.34, and on average, the level of voluntary disclosure of the MNCs was 0.1076. This level was low i.e. disclosure level is only at 10-11% from total voluntary disclosures items identified as important. In some cases, some most important information was not disclosed. Although this information is not mandatorily required, past studies show that this type of information is useful for the investors and analysts.

The breakdown of results however, shows that the background information and summary of historical results were among the most popular voluntary disclosure information made by the MNCs. It is found that these two categories had the average scores higher than the other three categories. This might be due to the fact that this information is normally presented as the introduction to the annual report. Most companies are found to disclose their historical results summary by providing at least five years financial information (1999-2003), and some disclose more than five years information. For example, Berjaya Group Berhad presented 16 years results; Cosway Corporation Berhad 15 years; and Malaysian Airline System Berhad 10 years. However, 8 percent of the 107 companies, did not disclose any past results summary at all.

On the other hand, the least popular category of voluntary information disclosed is the projected information, key non-financial statistics, and management discussion and analysis. Table 5 shows a summary of the descriptive results for the voluntary disclosures information.

Table 5: Results of Descriptive Analysis for Voluntary Disclosure Index

| No. | Category | Min | Max | Range | Mean | Standard deviation |
|------------------------|------------------------------------|-------------|-------------|-------------|-------------|--------------------|
| 1 | Background information | 0.08 | 0.62 | 0.54 | 0.25 | 0.12 |
| 2 | Summary of historical results | 0.00 | 0.57 | 0.57 | 0.24 | 0.11 |
| 3 | Key non-financial statistics | 0.00 | 0.30 | 0.30 | 0.00 | 0.01 |
| 4 | Projected information | 0.00 | 0.22 | 0.22 | 0.00 | 0.00 |
| 5 | Management discussion and analysis | 0.08 | 0.31 | 0.23 | 0.13 | 0.01 |
| Total (Overall) | | 0.04 | 0.34 | 0.30 | 0.11 | 0.00 |

Independent Variables

The independent variables that are in the form of ratio and nominal value, the results of descriptive analysis are summarized in Table 6. From the descriptive analysis, it is found that the mean for the size of company (log of total sales) is 19.29 and the standard deviation is approximately 1.45.

Table 6: Results of Descriptive Analysis for the Independent Variables

| No. | Category | Minimum | Maximum | Range | Mean | Standard deviation |
|-----|---------------------------|---------|---------|-------|-------|--------------------|
| 1 | Size of company | 15.57 | 22.88 | 7.31 | 19.49 | 1.44 |
| 2 | Leverage | -16.12 | 7.06 | 23.17 | 2.44 | 3.56 |
| 3 | Level of multinationality | 0.11 | 1.00 | 0.89 | 0.45 | 0.26 |
| 4 | Profitability | -2.50 | 1.68 | 4.18 | 0.06 | 0.43 |
| 5. | Ownership concentration | 0.04 | 0.83 | 0.79 | 0.48 | 0.19 |

Meanwhile, the average logarithm of the ratio of long-term debt to total equity (leverage) was 2.43. As for the level of multinational (foreign sales to total sales ratio), the lowest level was 11.4 percent, and 3 out of the 107 companies had a ratio of 100% foreign sales in the year 2003 (i.e. Southern Steel Berhad; Tong Herr Resources Berhad; and Uchi Technologies Berhad).

Meanwhile, for the profitability ratio (i.e. profit to total assets ratio), a small average value of 0.7% was recorded due to the losses made by many of the selected companies for the financial year ended 2003. Most of the companies reported the event of war in Iraq and SARS outbreak in Asia region were the main factors that affect the profitability of the companies. However, when we compared the profitability of these companies in year 2003 to reported figures in year 2004 and 2005, the difference in the profitability ratio was not statistically significant (t-statistics = 0.461). We conclude that although there is a concern whether the chosen period (year 2003) would reflect the normal condition of the MNCs, the stated events were proven not to be the main reason for their poor performance. The performance of MNCs remained unchanged materially in year 2004 and 2005.

Results of Correlation Analysis

Based on the correlation analysis, it is found that the relationship between level of voluntary disclosure information and several determinant factors exists. Factors such as size of company and size of audit firms are found to be positively and significantly related with the level of voluntary disclosure. Meanwhile, other factors are not significantly related. Table 7 summarizes the results of the correlation analysis.

Table 7: Correlation Analysis between Voluntary Disclosure Factors and Index

| No. | Variables | Expected Signs | Correlation |
|-----|-------------------------|----------------|-------------|
| 1 | Size of company | + | 0.287** |
| 2 | Leverage | + | -0.112 |
| 3 | Level of multinational | + | 0.154 |
| 4 | Type of industry | ? | |
| | IND1 | | - 0.145 |
| | IND2 | | 0.003 |
| | IND3 | | -0.069 |
| | IND4 | | 0.106 |
| | IND5 | | 0.046 |
| 5 | Size of audit firm | + | 0.211* |
| 6 | Profitability | + | 0.012 |
| 7 | Ownership concentration | - | 0.089 |

IND1 = consumer products; IND2 = industrial products; IND3 = trading and services; IND4 = plantations industry; IND5 = construction

Results of Regression Analysis

Table 8 reports the regression results for the voluntary information disclosure index and for each of the five-information category. Overall, the results are statistically significant for the voluntary disclosure index model (voluntary disclosure index as dependent variable) and in the voluntary summary of history information model (voluntary summary of history information as dependent variable).

The amount of explained variation in disclosure ranges from about 4.1% in the case of key non-financial information to 17.1% for summary of historical results. The adjusted R^2 for voluntary information disclosures overall is approximately 10.7%. This might suggest that there are other factors that may explain the variation in voluntary disclosure which need to be further analysed. However, this study only investigated whether there was any association between the factors discussed in the literature review section and voluntary disclosure of MNCs in Malaysia, rather than the determinants of voluntary disclosure of those companies. Therefore, such low adjusted R^2 was not a concern.

Overall, it can be seen that the voluntary disclosure index model (column 6) is significant with F-value of 2.267 and $p = 0.020$. Company size and quality audit (the type of audit firm) are two most important variables in explaining the level of voluntary disclosure in our sample. Consistent with previous empirical studies, larger MNCs voluntarily disclosed

Table 8: Regression Results*

| | Background Information | Summary of History Results | Key non-Financial | Projected Information | Management Discussion & Analysis | Overall Voluntary Disclosure |
|-------------------------------|------------------------|----------------------------|--------------------|-----------------------|----------------------------------|------------------------------|
| R ² | 0.163 | 0.236 | 0.143 | 0.181 | 0.161 | 0.207 |
| Adjusted R ² | 0.066 | 0.148 | 0.044 | 0.086 | 0.064 | 0.116 |
| F Statistic | 1.685 | 2.668 | 1.442 | 1.907 | 1.658 | 2.260 |
| Significance | 0.088* | 0.005*** | 0.167 | 0.048** | 0.095* | 0.017** |
| Intercept | -0.110 (-0.700) | -0.263* (-1.854) | -0.110 (-1.617) | -0.063 (-1.068) | -0.071 (-0.998) | -0.100 (-1.647) |
| Independent Variables: | | | | | | |
| Size | 0.019** (2.377) | 0.027*** (3.715) | 0.006 (1.589) | 0.004 (1.176) | 0.009** (2.596) | 0.010*** (3.177) |
| Leverage | 0.005* (1.681) | -0.001 (0.359) | 0.001 (0.556) | -0.002* (1.692) | 0.002 (1.531) | 0.001 (1.065) |
| Multinational | -3.0E-04 (0.664) | 3.8E-04 (0.935) | 2.4-04 (1.216) | 3.7E-04** (2.176) | 1.5E-04 (0.734) | 1.4E-04 (0.823) |
| Industry | | | | | | |
| IND1 | -0.099* (-1.970) | -0.064 (-1.414) | -0.007 (-0.298) | -0.035* (-1.879) | -0.010 (-0.433) | -0.036* (1.830) |
| IND2 | -0.060 (-1.262) | -0.056 (-1.300) | -0.003 (-0.132) | -0.012 (0.653) | 0.001 (0.040) | -0.019 (-1.013) |
| IND3 | -0.127** (-2.056) | -0.016 (-0.292) | -0.003 (-0.126) | -0.011 (-0.481) | 0.014 (0.488) | -0.028 (-1.161) |
| IND4 | -0.070 (-1.358) | -0.027 (-0.583) | -0.005 (-0.220) | -0.009 (-0.469) | 0.010 (0.424) | -0.017 (-0.872) |
| IND5 | -0.085 (-1.298) | -0.115* (-1.945) | 0.039 (1.370) | -0.006 (-0.241) | 0.009 (0.315) | -0.011 (-0.432) |
| Audit Firm | 0.043* (1.818) | 0.010 (0.478) | 0.019* (1.850) | 0.012 (1.377) | 0.018* (1.711) | 0.022** (2.381) |
| Profitability | -0.018 (-0.611) | -0.024 (-0.871) | 0.001 (0.044) | -0.003 (-0.274) | 0.010 (0.707) | 0.004 (-0.310) |
| Ownership Concentration | 0.067 (1.121) | 0.012 (0.217) | 0.028 (1.100) | 0.029 (1.283) | -0.010 (-0.356) | 0.028 (1.195) |

*IND1 = consumer products; IND2 = industrial products; IND3 = trading and services; IND4 = plantations; IND5 = construction. Other variables are as previously defined. Figures in parentheses are t-statistics
***, **, * Significant at 1%, 5% and 10% confidence level, respectively (2-tailed).

significantly more annual report information than smaller MNCs (Meek et al., 1995). However, when voluntary disclosure index is splitted into five categories, the size phenomenon only holds for three out of the five categories of information, i.e. background information, summary of historical results and management discussion and analysis. This result is consistent with other disclosures studies such as Meek et al. (1995), Raffournier (1995), and Hossain et al. (1995) when they found that the factors explaining voluntary annual report disclosures differed by information types.

Most previous voluntary disclosure studies, did not find any significant relationship between type of audit or audit quality with the level of voluntary disclosure (e.g. Chau and Gray, 2002; Haniffa and Cooke, 2002; Hossain et al., 1995; Raffournier, 1995). However, this study found that the type of audit firm was significantly related with the voluntary disclosure index model. The result suggests that the level of voluntary disclosure was more in companies audited by the big audit firms. However, the type of audit firm was not significant in explaining each category of voluntary disclosure.

Meanwhile, the leverage, industry, profitability and the degree of multinationality do not appear to be significant in explaining voluntary annual report disclosures for our samples of companies. However, some of the variables are significant within a certain type of information disclosures (i.e. multinationality and industry type). On an overall basis, the level of multinationality was significantly related to the disclosure of projected information. Meek et al. (1995) also found that the level of multinationality was weakly related to the disclosure of non-financial and financial information subgroups. In this study, the more multinational an MNC is, the more projected information it disclosed (but unrelated to company size and type of auditor).

There were industry type patterns in two of the five information categories. Overall, the industry type was not significantly related to the level of voluntary disclosures. However, it was statistically significant in some categories of voluntary information disclosure. For instance, within background information, two of the six industries (i.e. consumer products; and trading and services) were negatively related to the level of voluntary disclosure of such information. Meanwhile, the construction industry was negatively related to the level of voluntary disclosure of the summary of history results. The negative relationship suggests that these MNCs in the particular industries seem particularly inclined to provide such information. This result is consistent with Meek et al. (1995) where the industry type was found to be influential to the level of voluntary disclosures in some case (companies in the oil, chemicals and mining industry seem particularly inclined to provide non-financial information).

While leverage appears to be an important explanatory variable in other studies (e.g. Hossain et al., 1995), this study found no significant association between leverage and the level of voluntary disclosures. The insignificance of leverage was also found in Chau and Gray (2002), Chow and Wong Boren (1987), Cooke (1989) and Raffournier(1995). Finally, we find no evidence that voluntary disclosure behaviour was different between various levels of MNCs profitability. This insignificant result is consistent with Chau and Gray (2002), Watson et al. (2002), Meek et al. (1995), and Raffournier (1995).

Additional Analyses

We conducted several additional analyses. First, we conducted regressions to see whether influential observations might affect the distribution of the data which in turn could affect the result. In this regression, all continuous variables were transformed into ranks (Cooke, 1998). The results are qualitatively similar to those reported in Table 8. Winsorizing the observations to the point equivalent to top and bottom 5% of the ranked data also did not

change the result significantly. Second, we changed the measurement of several independent variables from revenues or sales to total assets to see whether the result is stable if we use alternative measure of size. In this regression we defined *LEV* as debt to total assets, *MNC* ratio of foreign sales to total assets and *PROFIT* as the ratio of profit to total assets. The results did not change our conclusion. However, using the new measurement reduced the adjusted R^2 in all regressions significantly.

We also provide an additional test on the measure of multinationality. In our opinion, if a company had a high ratio of foreign sales and sold their product to many foreign countries (the number of geographical segments), it had to be given a high score on the degree of multinationality, and vice versa. The number of foreign countries where the products are sold was important since more varieties of users were interested to know about the company, and thus the demand for more disclosure was higher than if the company was involved in one foreign country. Therefore, we used a variable which was a product of the ratio of foreign sales and the number of foreign countries where the products were sold, to test this concern. The results are presented in Table 9. We found that while the significance levels of variables were qualitatively similar to those presented in Table 8, the new measure of multinationality (*MNCGEO*) was significantly positively related to voluntary disclosure index at less than 5% level. It was positively related to disclosure of projected information, key non-financial information and summary of history results.

Table 9: Additional Analyses^a

| | Background Information | Summary of History Results | Key non-Financial | Projected Information | Management Discussion & Analysis | Overall Voluntary Disclosure |
|-------------------------------|------------------------|----------------------------|---------------------|-----------------------|----------------------------------|------------------------------|
| R^2 | 0.161 | 0.260 | 0.196 | 0.181 | 0.163 | 0.238 |
| Adjusted R^2 | 0.064 | 0.174 | 0.103 | 0.087 | 0.066 | 0.150 |
| F Statistic | 1.656 | 3.027 | 2.106 | 1.913 | 1.681 | 2.703 |
| Significance | 0.096* | 0.002*** | 0.027** | 0.047** | 0.089** | 0.005** |
| Intercept | -0.101 (-0.637) | -0.242* (-1.728) | -0.096 (-1.451) | -0.055 (-0.938) | -0.067 (-0.942) | -0.090 (-1.507) |
| Independent Variables: | | | | | | |
| Size | 0.017** (2.081) | 0.025*** (3.399) | 0.004 (1.135) | 0.003 (1.054) | 0.009** (2.496) | 0.009*** (2.805) |
| Leverage | 0.006* (1.786) | -0.001 (-0.438) | 0.001 (0.490) | -0.002* (1.925) | 0.002 (1.474) | 0.001 (1.042) |
| MNCGEO | 0.003 (0.415) | 0.015* (1.980) | 0.010*** (2.800) | 0.007*** (2.189) | 0.003 (0.866) | 0.007** (2.137) |
| Industry IND1 | -0.087* (-1.687) | -0.048 (1.051) | -0.005 (-0.222) | -0.032* (-1.666) | -0.008 (-0.331) | -0.028 (-1.4.9) |

Cont'd

Cont'd Table 9: Additional Analyses^a

| | | | | | | |
|----------------------------|---------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| IND2 | -0.048 (-1.995) | -0.041 (-0.957) | -0.007 (-0.367) | -0.009 (-0.492) | 0.003 (0.124) | -0.011 (-0.611) |
| IND3 | -0.107* (-1.708) | -0.004 (0.080) | -0.011 (-0.423) | -0.009 (-0.378) | 0.016 (0.556) | -0.017 (-0.715) |
| IND4 | -0.062 (-1.194) | -0.019 (-0.417) | -0.001 (-0.033) | -0.008 (-0.435) | 0.011 (0.455) | -0.013 (-0.674) |
| IND5 | -0.071 (-1.063) | -0.097 (-1.638) | 0.051* (1.850) | -0.002 (-0.090) | 0.012 (0.392) | -0.002 (-0.067) |
| Audit Firm | 0.043* (1.812) | 0.007 (0.319) | 0.017* (1.676) | 0.010 (1.148) | 0.017 (1.625) | 0.020** (2.254) |
| Profitability | -0.018 (-0.587) | -0.024 (-0.878) | 0.001 (0.057) | -0.003 (-0.295) | 0.010 (0.703) | 0.003 (-0.304) |
| Ownership Concentration | 0.068 (1.136) | 0.024 (0.445) | 0.036 (1.447) | 0.035 (1.560) | -0.007 (-0.247) | -0.033 (1.452) |

***, **, * Significant at 1%, 5% and 10% confidence level, respectively (2-tailed).

Conclusion

Overall, it was found that the level of voluntary disclosure was at a relatively low for the MNCs in Malaysia although it was expected that these MNCs would disclose more voluntary disclosure in overcoming the diversity demand of information. The results show that level of voluntary information disclosures was positively related to size of the company and the type of audit. Meanwhile, the level of multinationality was significantly related to the level of projected information disclosures. We also found MNCs in particular industries (e.g. construction industry) seemed particularly inclined to provide certain information (e.g. summary of history results). Additional tests show that the level of multinationality and the number of countries where the products were exported jointly determine the level of voluntary disclosure in MNCs.

There are several limitations to this study. For instance, most of the companies listed on Bursa Malaysia which were found to satisfy the 10% foreign sales to total sales ratio (a criteria for MNC as set by Meek et al., 1995), have Malaysia as its home country, which was not expected. It was initially thought that the MNCs would have its parents companies overseas, and Malaysia as the host country. Only a few companies (about 3 companies only) stated that their home country was abroad. Due to this limitation, a study to examine the possible influential factors of voluntary disclosure such as culture, political and civil system, legal system and level of economic development of home countries cannot be preceded. It is important that future studies be able to look into these factors, because the differences in culture, political and civil system, legal system and level of economic development between home and host country may have some relationship which might explain the behaviour of the reporting and disclosing the accounting information.

The amount of explained variation in disclosure ranges from about 4.1% in the case of key non-financial information to a maximum of 17% for summary of historical results. The adjusted R² for overall voluntary information disclosures is approximately 11%. Results

of additional test utilizing an alternative measure of multinationality show the adjusted R² ranges from 6.4% to 17.4%. This low explanatory power suggests that there are obviously additional factors influencing the voluntary disclosures. Other potential explanatory variables to examine include the possible uniqueness of the MNCs as compared to other domestically operated companies. These possible unique characteristics of MNCs (yet to be identified) could be modelled for its impact on voluntary disclosures of the MNCs.

Another limitation is that like most previous disclosure studies, this study had focused on one form of disclosure medium, i.e. the annual reports. Although the disclosures provided in the annual reports is assumed to serve as a good proxy for the level of voluntary disclosure of information by companies in all disclosure mediums, future research could extent this to include other channels of disclosure, such as interim reports, preliminary announcement to stock exchange, press release, etc. Other than that, this study has examined the level of voluntary disclosures cross-sectionally using 2003 data and thus more robust results can be obtained from longitudinal studies.

Notes

- 1 We did not use observations prior to year 2003 because during those years most companies were badly hit by Asian financial crisis which started in 1997 and still struggling to survive. At the time the research was conducted (year 2005), year 2003 was the most recent year with all available data.
- 2 PN4 is Practice Note 4. Only distressed companies are listed under the PN4 category. Companies under this category may have different incentives for disclosure. Managers of these companies may have the incentives to justify their position, or to lobby for government aid by disclosing more information.
- 3 We also gave twice the score if the company discloses a summary of historical results for the maximum number of years possible, for firms established for less than 10 years

References

- Belkaoui, A. R. (2001). Level of Multinationality, Growth Opportunities, and Size as Determinants of Analyst Ratings of Corporate Disclosures. *American Business Review* 19 (2): pp. 115-120.
- Botosan, C. A. (1997). Disclosure Level and the Cost of Equity Capital. *The Accounting Review* 72(3): pp. 323-339.
- Bujaki, M. and McConomy, B. J. (2002). Corporate Governance: Factors Influencing Voluntary Disclosure by Publicly Traded Canadian Firms. *Canadian Accounting Perspectives* 1 (2): pp. 105-139.

- Chau, G.K. and Gray, S.J. (2002). Ownership Structure and Corporate Voluntary Disclosure in Hong Kong and Singapore. *The International Journal of Accounting* 37: pp. 247-265.
- Chow, C.W. and Wong-Boren, A. (1987). Voluntary Financial Disclosure by Mexican Corporations. *The Accounting Review* LXII(3): pp. 533-541.
- Claessens, S., S. Djankov and L. Lang (2000). The separation of ownership and control in East Asian corporations. *Journal of Financial Economics*, 58: pp. 81-112.
- Cooke, T.E. (1989). Disclosure in the Corporate Annual Reports of Swedish Companies. *Accounting and Business Research* 19 (74): pp. 113-124.
- Cooke, T.E. (1991). An Assessment of Voluntary Disclosure in the Annual Reports of Japanese Corporations. *The International Journal of Accounting* 26: pp. 174-189.
- Craig, R. and Diga, J. (1998). Corporate Accounting Disclosure in ASEAN. *Journal of International Financial Management and Accounting* 9(3): pp. 246-274.
- DeAngelo, L.E. (1981). Auditor Size and Audit Quality. *Journal of Accounting and Economics* 3 (2): pp. 183-199.
- DiMaggio, P. and Powell, W. (1983). The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields. *American Sociological Review*, 48(2): pp. 147-160.
- Firth, M. (1979). The Impact of Size, Stock Market Listing and Auditors on Voluntary Disclosure in Corporate Annual Reports. *Accounting and Business Research Autumn*: pp. 273-280.
- Haniffa, R.M. and Cooke, T.M. (2002). Culture, Corporate Governance and Disclosure in Malaysian Corporations. *Abacus* 38 (3): pp. 317-349.
- Hossain, M., Tan, L.M. and Adams, M. (1994). Voluntary Disclosure in an Emerging Capital Market: Some Empirical Evidence from Companies Listed on the Kuala Lumpur Stock Exchange. *The International Journal of Accounting* 29: pp. 334-351.
- Hossain, M., Perera, M.H.B. and Rahman, A.R. (1995). Voluntary Disclosure in the Annual Reports of New Zealand Companies. *Journal of International Financial Management and Accounting* 6(1): pp. 69-87.
- Jensen, M.C. and Meckling, W.H. (1976). Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure. *Journal of Financial Economics* 3: pp. 305-360.

- Klein, A. (2002). Audit Committee, Board of Director Characteristics and Earnings Management, *Journal of Accounting and Economics* 33: pp. 375-400.
- Lai, D.Y.H. (2004). Corporate Governance in Malaysia: The Underlying Chinese Business Culture. SSRN
- Lang, M. and Lundholm, R. (1996). Corporate Disclosure Policy and Analyst Behaviour. *The Accounting Review* 71(4): pp. 467-492.
- Lang, M. and Lundholm, R. (1993). Cross-Sectional Determinants of Analyst Ratings of Corporate Disclosures. *Journal of Accounting Research* 31 (2): pp. 246-271.
- Lev, B. (1992). Information Disclosure Strategy. *California Management Review* (Summer): pp. 9-32.
- Luo, Y. (2002). *Multinational Enterprise in Emerging Markets*. Copenhagen Business School Press.
- Meek, G. K., Roberts C. B. and Gray, S. J. (1995). Factors Influencing Voluntary Annual Report Disclosures by U.S., U.K. and Continental European Multinational Corporations. *Journal of International Business Studies* 26 (3): pp. 555-572.
- Mohd Ghazali, N.A. and Weetman, P. (2006). Perpetuating Traditional Influences: Voluntary Disclosure in Malaysia Following the Economic Crisis. *Journal of International Accounting, Auditing and Taxation* 15: pp. 226-248.
- Naser, K., Al-Khatib, K. and Karbhari, Y. (2002). Empirical Evidence on the Depth of Corporate Information Disclosure in Developing Countries: The Case of Jordan. *International Journal of Commerce and Management* 12 (3/4): pp. 122-155.
- Raffournier, B. (1995). The Determinants of Voluntary Financial Disclosure by Swiss Listed Companies. *The European Accounting Review* 4(2): pp. 261-280.
- Singhvi, S.S. and Desai, H.B. (1971). An Empirical Analysis of the Quality of Corporate Financial Disclosure. *The Accounting Review* XLVI(1): pp. 129-138.
- Singleton, W.R. and Globerman, S. (2002). The Changing Nature of Financial Disclosure in Japan. *The International Journal of Accounting* 37: pp. 95-111.
- Skogsvik, K. (1998). Conservative Accounting Principles, Equity Valuation and the Importance of Voluntary Disclosure. *British Accounting Review* 30: pp. 361-381.
- Watson, A., Shrive, P. and Marston, C. (2002). Voluntary Disclosure of Accounting Ratios in the UK. *British Accounting Review* 34: pp. 289-313.

Watts, R.L. and Zimmerman, J.L. (1986). *Positive Accounting Theory*. Englewood Cliffs: Prentice Hall.

Xie, B., Davidson III, W.N. and DaDalt, P. J. (2003). Earnings Management and Corporate Governance: the Role of the Board and the Audit Committee, *Journal of Corporate Finance* 9: pp. 295-316.

APPENDIX A**The List of Selected MNCs**

| No. | Name of Company | Listing Date | Industry Type | Multinational Level (%) |
|-----|-----------------------------------|--------------|---------------|-------------------------|
| 1 | AIC Corporation Bhd | 14/12/1994 | TECH | 82.7 |
| 2 | AKN Technology Bhd | 2/9/1998 | TECH | 77.4 |
| 3 | Aluminium Company of Malaysia Bhd | 20/12/1969 | IP | 39.1 |
| 4 | Amalgamated Containers Bhd | 28/10/1993 | IP | 21.4 |
| 5 | Amsteel Corporation Bhd | 13/1/1983 | IP | 50.8 |
| 6 | Ancom Bhd | 29/3/1990 | IP | 48.9 |
| 7 | Antah Holdings Bhd | 28/11/1983 | TS | 47.2 |
| 8 | APL Industries Bhd | 8/9/1992 | IP | 18.9 |
| 9 | Apollo Food Holdings Bhd | 25/9/1996 | CP | 50.7 |
| 10 | Asia File Corporation Bhd | 4/3/1996 | CP | 58.8 |
| 11 | Baneng Holdings Bhd | 25/3/2002 | CP | 23.3 |
| 12 | Batu Kawan Bhd | 12/10/1971 | PL | 15.0 |
| 13 | Berjaya Group Bhd | 13/2/1969 | TS | 49.1 |
| 14 | Bintai Kinden Corporation Bhd | 23/1/1998 | TS | 20.5 |
| 15 | Brem Holdings Bhd | 23/6/1993 | CN | 29.2 |
| 16 | Chin Well Holdings Bhd | 10/3/1970 | IP | 47.6 |
| 17 | Coastal Contracts Bhd | 13/8/2003 | IP | 14.4 |
| 18 | Cosway Corporation Bhd | 24/10/1990 | CP | 32.2 |
| 19 | Dai Hwa Holdings (M) Bhd | 6/10/1995 | CP | 50.0 |
| 20 | DNP Holdings Bhd | 17/1/1979 | CP | 69.5 |
| 21 | Eng Teknologi Holdings Bhd | 8/7/1993 | TECH | 77.1 |
| 22 | Fraser & Neave Holdings Bhd | 3/8/1970 | CP | 13.6 |
| 23 | Generaf Corporation Bhd | 14/1/1971 | CN | 15.9 |
| 24 | Gold IS Bhd | 17/6/1993 | CP | 33.8 |
| 25 | Golden Pharos Bhd | 13/9/1993 | CP | 49.9 |
| 26 | Grand United Holdings Bhd | 17/12/1968 | IP | 38.8 |
| 27 | Ho Wah Genting Bhd | 28/12/1994 | IP | 70.4 |
| 28 | Hytex Integrated Bhd | 8/11/2002 | CP | 16.6 |
| 29 | IJM Corporation Bhd | 29/9/1986 | CN | 16.8 |
| 30 | Ingress Corporation Bhd | 9/3/2001 | IP | 18.1 |
| 31 | Intan Utilities Bhd | 2/7/1997 | TS | 38.5 |
| 32 | Integrated Logistic Bhd | 15/7/1993 | TS | 19.5 |
| 33 | IOI Corporation Bhd | 28/7/1980 | PL | 67.7 |
| 34 | Jerasia Capital Bhd | 10/11/1993 | CP | 77.9 |
| 35 | Johan Holdings Bhd | 2/8/1973 | TS | 90.7 |
| 36 | Keck Seng (M) Bhd | 26/5/1977 | IP | 15.1 |

Cont'd

Cont'd The List of Selected MNCs

| | | | | |
|----|-----------------------------------|------------|------|------|
| 37 | Ken Holdings Bhd | 22/5/1996 | CN | 17.6 |
| 38 | KFC Holdings (M) Bhd | 11/11/1988 | TS | 26.9 |
| 39 | Kim Hin Industry Bhd | 22/7/1992 | IP | 15.2 |
| 40 | Kinta Kellas PLC | 28/5/1974 | TS | 80.8 |
| 41 | Kluang Rubber Co (M) Bhd | 6/4/1961 | PL | 11.4 |
| 42 | Kretam Holdings Bhd | 18/1/1989 | PL | 36.6 |
| 43 | Kulim (M) Bhd | 14/11/1975 | PL | 61.6 |
| 44 | Kumpulan Fima Bhd | 15/11/1996 | TS | 21.5 |
| 45 | Kumpulan Guthrie Bhd | 25/8/1989 | PL | 60.5 |
| 46 | Leader Universal Holdings Bhd | 25/8/1978 | IP | 41.3 |
| 47 | Leong Hup Holdings Bhd | 29/10/1990 | CP | 28.9 |
| 48 | Linear Corporation Bhd | 18/11/1994 | IP | 39.9 |
| 49 | Lion Diversified Holdings Bhd | 11/2/1982 | CP* | 91.2 |
| 50 | Lityan Holdings Bhd | 1/3/1994 | TECH | 19.0 |
| 51 | LKT Industrial Bhd | 12/6/1995 | TECH | 54.4 |
| 52 | Malayan Flour Mill Bhd | 7/10/1968 | CP | 22.0 |
| 53 | Malayan United Industries Bhd | 30/6/1971 | TS | 80.3 |
| 54 | MISC Bhd | 2/3/1987 | TS | 53.9 |
| 55 | Malaysia Smelting Corp Bhd | 15/12/1994 | IP | 44.2 |
| 56 | Malaysian AE Models Holdings Bhd | 26/5/1999 | IP | 12.9 |
| 57 | Malaysian Airline System Bhd | 14/12/1985 | TS | 83.5 |
| 58 | Matsushita Electric Co (M) Bhd | 14/12/1966 | CP | 51.0 |
| 59 | Measat Global Bhd | 1/7/1978 | TS | 25.9 |
| 60 | Mechmar Corporation (M) Bhd | 17/1/1986 | TS | 88.8 |
| 61 | Mega First Corporation Bhd | 11/8/1970 | TS | 59.7 |
| 62 | Meico Chipboard Bhd | 26/5/1998 | IP | 15.1 |
| 63 | Muda Holdings Bhd | 2/11/1984 | IP | 12.5 |
| 64 | Muhibbah Engineering (M) Bhd | 25/2/1994 | CN | 18.0 |
| 65 | Mulpha International Bhd | 30/11/1983 | TS | 43.2 |
| 66 | Nestle (M) Bhd | 13/12/1989 | CP | 17.0 |
| 67 | NTPM Holdings Bhd | 25/4/2003 | CP | 29.0 |
| 68 | Nylex (M) Bhd | 17/12/1990 | IP | 54.9 |
| 69 | Oriental Holdings Bhd | 10/3/1964 | CP | 56.4 |
| 70 | Paracorp Bhd | 7/5/1997 | IP | 20.6 |
| 71 | PDZ Holdings Bhd | 5/7/1996 | TS | 26.3 |
| 72 | Pentamaster Corporation Bhd | 23/7/2003 | TECH | 36.7 |
| 73 | Pernas International Holdings Bhd | 25/9/1990 | TS | 16.4 |
| 74 | Pilecon Engineering Bhd | 27/12/1984 | CN | 49.3 |
| 75 | Pohmay Holdings Bhd | 12/3/1997 | CP | 89.7 |
| 76 | Polymate Holdings Bhd | 29/4/1997 | IP | 13.6 |
| 77 | PPB Group Bhd | 30/3/1972 | CP | 65.4 |
| 78 | PPB Oil Palms Bhd | 12/8/1997 | PL | 12.3 |
| 79 | Ramatex Bhd | 12/11/1996 | IP | 45.4 |

Cont'd

Cont'd The List of Selected MNCs

| | | | | |
|-----|--------------------------------|------------|------|-------|
| 80 | Rohas-Euco Industries Bhd | 16/3/1995 | IP | 15.6 |
| 81 | Silverstone Corporation Bhd | 25/7/1991 | CP | 77.9 |
| 82 | Sime Darby Bhd | 28/12/1979 | TS | 62.0 |
| 83 | Sinora Industries Bhd | 3/7/1996 | IP | 81.2 |
| 84 | Southern Acids (M) Bhd | 23/8/1991 | IP | 70.7 |
| 85 | Southern Steel Bhd | 17/12/1993 | IP | 100.0 |
| 86 | Subur Tiasa Holdings Bhd | 27/11/1997 | IP | 83.2 |
| 87 | Sungei Bagan Rubber Co (M) Bhd | 18/4/1961 | PL | 27.0 |
| 88 | Supermax Corporation Bhd | 7/8/2000 | IP | 38.0 |
| 89 | Ta Ann Holdings Bhd | 23/11/1999 | IP | 91.8 |
| 90 | Tekala Corporation Bhd | 28/8/1996 | IP | 70.0 |
| 91 | Texchem Resources Bhd | 17/5/1993 | TS | 53.3 |
| 92 | Thong Guan Industries Bhd | 19/12/1997 | IP | 56.6 |
| 93 | Tong Herr Resources Bhd | 3/11/1999 | IP | 100.0 |
| 94 | Top Glove Corporation Bhd | 27/3/2001 | IP | 12.7 |
| 95 | Tradewinds (M) Bhd | 23/8/1988 | CP | 23.9 |
| 96 | TSH Resources Bhd | 31/1/1994 | IP | 85.6 |
| 97 | UAC Bhd | 13/7/1966 | IP | 16.3 |
| 98 | Uchi Technologies Bhd | 19/7/2000 | IP | 100.0 |
| 99 | UEM Builders Bhd | 1/11/1990 | CN | 25.8 |
| 100 | Unisem (M) Bhd | 30/7/1998 | TECH | 90.8 |
| 101 | UPA Corporation Bhd | 5/3/1997 | CP | 37.9 |
| 102 | V.S. Industry Bhd | 15/6/1998 | IP | 56.2 |
| 103 | Versatile Creative Bhd | 11/1/1991 | IP | 20.3 |
| 104 | Wah Seong Corporation Bhd | 19/9/1991 | IP | 37.5 |
| 105 | Ye Chiu Metal Smelting Bhd | 12/9/1996 | IP | 18.9 |
| 106 | Yeo Hiap Seng (M) Bhd | 9/5/1975 | CP | 22.5 |
| 107 | YTL Corporation Bhd | 3/4/1985 | CN | 46.1 |

APPENDIX B

Summary of the Major Elements of Voluntary Disclosure Score

1. Background Information: (Maximum 13 items x 2 points = 26 points)

- i. Statement of corporate goals or objectives is provided
- ii. A statement of corporate strategy is provided
- iii. Action taken during the year to achieve the corporate goal is discussed
- iv. Planned actions to be taken in future years are discussed
- v. A time frame for achieving corporate goals is provided
- vi. Barriers to entry are discussed
- vii. Impact of barriers to entry on future profits is discussed
- viii. The competitive environment is discussed
- ix. The impact of competition on future profits is discussed
- x. A general description of the business is provided
- xi. The principle products produced are identified
- xii. Specific characteristics of these products are described
- xiii. The principle markets are identified

2. Ten- or Five-Year Summary of Historical Results: (Maximum item (i) to (iv) x 1.5 points + item (v) x 1 point = 7 points)

- i. Return-on-assets or sufficient information to compute return-on-assets (i.e. net income, tax rate, interest expense and total assets) is provided
- ii. Net profit margin or sufficient information to compute net profit margin (i.e. net income, tax rate, interest expense and sales) is provided
- iii. Asset turnover or sufficient information to compute asset turnover (i.e. sales and total assets) is provided
- iv. Return-on-equity or sufficient information to compute return-on equity (i.e. net income and stockholder equity) is provided
- v. Summary of sales and net income for most recent eight quarters is provided

3. Key Non-Financial Statistics: (Maximum 20 items x 2 points = 40 points)

- i. Number of employees
- ii. Average compensation per employee
- iii. Order backlog
- iv. Percentage of order backlog to be shipped next year
- v. Percentage of sales in products designed in the last five years
- vi. Market share
- vii. Dollar amount of new orders laced this year
- viii. Unit sold
- ix. Unit selling price
- x. Growth in units sold

MALAYSIAN ACCOUNTING REVIEW

Contents

Earnings Management and Deferred Tax

Corporate Social Reporting in Malaysia: A Political
Theory Perspective

The Implication of Tax Rates on Corporate Capital Investment

Corporate Governance, Professional Regulation and Audit Quality

Professional Students' Technology Readiness, Prior Computing
Experience and Acceptance of an E-Learning System

Accounting Students' Perceptions of Effective Teaching Methods and
Instructor Characteristics: Some Malaysian Evidence

Voluntary Annual Report Disclosures by Malaysian
Multinational Corporations



UNIVERSITI
TEKNOLOGI
MARA

Pusat Penerbitan Universiti (UPENA)



MALAYSIAN ACCOUNTANCY RESEARCH
AND EDUCATION FOUNDATION

C O N T E N T S

- 1** **Earnings Management and Deferred Tax**
Rohaya Md Noor
Nor'Azam Mastuki
Zanariah Aziz
- 19** **Corporate Social Reporting in Malaysia: A Political Theory Perspective**
Azlan Amran
S. Susela Devi
- 45** **The Implication of Tax Rates on Corporate Capital Investment**
Nor Shaipah Abdul Wahab
Norhani Aripin
Kamil Md Idris
Ayoib Che Ahmad
- 65** **Corporate Governance, Professional Regulation and Audit Quality**
Alan Kilgore
- 85** **Professional Students' Technology Readiness, Prior Computing
Experience and Acceptance of an E-Learning System**
Lai Ming Ling
Chong Moi Moi
- 101** **Accounting Students' Perceptions of Effective Teaching Methods and
Instructor Characteristics: Some Malaysian Evidence**
A. H. Fatima
Nik Nazli Nik Ahmad
Anita Mohd. Nor
Putri Nor Suad Megat Mohd Nor
- 129** **Voluntary Annual Report Disclosures by Malaysian Multinational
Corporations**
Fathyah Hashim
Norman Mohd Saleh

- xi. Rejection/defect rates
- xii. Production lead-time
- xiii. Age of key employees
- xiv. Sales growth in key regions not reported as geographic segments
- xv. Break-even sales
- xvi. Volume of materials consumed
- xvii. Prices of materials consumed
- xviii. Ratio of inputs to outputs
- xix. Average age of key employees
- xx. Growth in sales of key products not reported as product segments

4. Projected Information: (Maximum 9 items x 3 points = 27 points)

- i. A comparison of previous earnings projections to actual earnings is provided
- ii. A comparison of previous sales projections to actual sales is provided
- iii. The impact of opportunities available to the firm on future sales or profits is discussed
- iv. The impact of risks facing the firm on future sales or profit is discussed
- v. A forecast of market share is provided
- vi. A cash flow projection is provided
- vii. A projection of capital expenditures and/or R&D expenditure is provided
- viii. A projection of future profits is provided
- ix. A projection of future sales is provided

5. Management Discussion and Analysis (explanations for change is provided): (Maximum 13 items x 2 points = 26 points)

- i. Change in sales
- ii. Change in operating income
- iii. Change in cost of goods sold
- iv. Change in cost of goods sold as a percentage of sales
- v. Change in gross profit
- vi. Change in gross profit as a percentage of sales
- vii. Change in selling and administrative expense
- viii. Change in interest expense or interest income
- ix. Change in net income
- x. Change in inventory
- xi. Change in account receivable
- xii. Change in capital expenditures of R&D
- xiii. Change in market share

(Source: Botosan, 1997 as quoted in Singleton and Globerman, 2002)