Journal of Engineering and Applied Sciences 13 (8): 2086-2091, 2018
ISSN: 1816-949X

The Influence of Corporate Governance on Voluntary Risk Disclosure: Malaysian Evidence

Nur Ezainee Musa, Mazurina Mohd Ali and Noor Hasniza Haron
Faculty of Accountancy, Universiti Teknologi MARA Selangor, Kampus Puncak Alam, Selangor, Malaysia

Abstract: The purpose of this study is to investigate the relationship between board characteristics of Malaysian companies based on Malaysian Code of Corporate Governance (MCCG) 2012 and the level of voluntary risk disclosure. The board characteristics used in this study consists of board independence, role duality, published board charter and tenure of independent directors. The annual reports of top 300 public listed companies for the financial year ending 2014 are carefully analyzed using content analysis. Results from this study reveal that companies with combined roles of Chairman and CEO have a negative relationship with the level of risk disclosure in their annual reports. Besides that, this study finds that the published board charter leads to greater transparency of voluntary risk disclosure. Specifically, this study adds value to the existing studies that support and prove that better corporate governance is a key to enhance good practice of greater risk disclosure by companies in Malaysia.

Key words: Board characteristics, risk disclosure, content analysis, corporate governance, reports, support

INTRODUCTION

In recent years, demand for more information disclosure by companies has received significant amount of attention from investors and other stakeholders, since, the collapses of many big companies (e.g., Enron, WorldCom and Tyco). One of the reasons of these large-scale companies collapses is lack of transparency and weak corporate governance structure in the companies. The investors and other stakeholders demand companies to disclose timely, clear and relevant information related to both financial performance and business activities, especially, information related to their corporate risks. However, the risk information disclosed in companies annual reports was limited (Amran *et al*., 2008; Linsley and Shrives, 2006; Lajili and Zegal, 2005). This is because, risk information that is published in an annual report can be classified as voluntary as it depends on manager's discretion.

Globally, previous studies that focus on corporate risk disclosure include, to name a few, Madrigal *et al*. (2015), Buckby *et al*. (2015), Rajab and Handley-Schachler (2009), Lajili (2009), Linsley and Shrives (2006). In regard of risk disclosure in Malaysia, it had been studied by, to name a few, Ali and Taylor (2014a, b); Ismail and Rahman (2013) and Amran *et al*. (2008). However, prior studies do not take into consideration the effect of the revised Malaysian Code of Corporate Governance (MCCG) 2012 on the extent of voluntary risk disclosure. This study aims to examine the relationship between voluntary risk disclosure and corporate governance based on the revised MCCG 2012. This study focuses to examine the effects of principles and recommendations under MCCG 2012 on voluntary risk disclosure, since, these have not been highlighted under the MCCG 2007. This study also examines the changes and improvements from the MCCG 2007-2012 based on the guidelines from the Securities Commission website. Table 1 shows the differences between the MCCG 2012 and 2007. The remainder of this study is structured as follows. The next section discusses the literature review, hypothesis development, research design, method and discussion of the findings. The final section provides conclusion and some suggestions for future research.

Literature review

Risk reporting and disclosure requirements in Malaysia: Compliance with Paragraph 15.26 (b) Bursa securities main market listing requirements, board of directors are required to make disclosures regarding risk management and internal control in their company's annual reports. Accordingly, Principle 6 of the Malaysian Code on Corporate Governance 2012 stated that, the board should establish a sound risk management framework and internal

Corresponding Author: Mazurina Mohd Ali, Faculty of Accountancy, Universiti Teknologi MARA Selangor, Kampus Puncak Alam, Selangor, Malaysia

Table 1: Comparison between the MCCG 2012 and the 2007 code

MCCG 2012	MCCG 2007
The board should formalise, periodically review and make public its board charter	-
The tenure of an independent Director should not exceed a cumulative term of 9 years. Upon completion of the 9 years, the independent Director may continue to serve on the board subject to the Director's re-designation as a non-independent Director	-
The positions of Chairman and CEO should be held by different individuals and the Chairman must be a non-executive member of the board	Chairman and Chief Executive Officer
The board must comprise a majority of independent directors where the Chairman of the Board is not an independent Director	Chairman and Chief Executive Officer

control system in order to recognise and manage risks in companies (Anonymous, 2000, 2012). Furthermore, Malaysian Accounting Standard Board (MASB) has developed and issued the accounting standards which are relevant to risk requirements (i.e., MFRS 132, MFRS 139 and MFRS 7). However, this study only focuses on MFRS 132 financial instruments-disclosure and presentation which contains requirements for the presentation of financial instruments and identifies the information that should be disclosed by companies. Disclosures may include a combination of narrative descriptions and quantified data as appropriate to the nature of the instruments and their relative significance to the company. The reporting of financial risk is mandatory disclosed by companies. However, this study will focus only on voluntary disclosure by Malaysian public listed companies (Table 1).

Voluntary risk definition and classification: Risk is defined as "uncertainty to gain benefit or loss" (ICAEW., 1999). The information concerning firm's strategies, characteristics, operations and other external and internal factors that may impact the economic outcome of a company is called risk disclosure (Beretta and Bozzolan, 2004). Based on the risk information that is disclosed in annual reports, the users be able to profile and make assessment of opportunity and impact of the risk to the future performance (Rajab and Handley-Schachler, 2009; Linsley and Shrives, 2006; Beretta and Bozzolan, 2004). Focussing on voluntary risk disclosure, this study categorizes risk into three risk types: operational risk (Ali and Taylor, 2014a, b; Amran *et al*., 2008; Lajili and Zegal, 2005), environmental (Ali and Taylor, 2014a, b; Lajili and Zegal, 2005) and strategic (Ali and Taylor, 2014a, b; Amran *et al*., 2008; Linsley and Shrives, 2006).

Hypothesis development: Boards of directors have major role in financial management and implementation of corporate governance practice in the company. Though there are various characteristics of board structures in Malaysia this study only focuses on the four board characteristics that have been highlighted in the revised MCCG 2012, namely, board independence, role duality, published board charter and tenure of independent directors.

Board Independence (INED): Board independence is regarded as an important characteristic for board effectiveness (Yanesari *et al*., 2012). Board independence acts as an intermediary between internal managers and shareholders in order to minimize agency problems and to protect shareholder's interests (Fama and Jensen, 1983). The presence of independent members on board who possess wide range of experience, knowledge, skills and expertise can help a company to monitor their management, controlling the agency problems and to improve firm performances (Adams *et al*. 2005; Booth *et al*., 2002). Hence, board independence can improve the transparency and disclosure of more information (Chen and Jaggi, 2000).

Despite this, Sartawi *et al*. (2014) and Barako *et al*. (2006) found a negative relationship between the proportion of independent directors and the voluntary disclosure while Mohamad and Sulong (2010), Haniffa and Cooke (2002) and Buckby *et al*. (2015) found no relationship between the board independence. However, some findings consistent with hypothesis development which revealed a positive relationship between the number of independent directors and voluntary disclosure (Barros *et al*., 2003; Yanesari *et al*., 2012; Yuen *et al*., 2008; Cheng and Courtenay, 2006). Given this, the following hypothesis was proposed:

- H_1: there is a positive relationship between board independence and voluntary risk disclosure

Role Duality (ROLE_DUALITY): Role duality could allow greater internal control and less intervention from outsiders and subsequently increase companies efficiently (Donaldson and Davis, 1991; Eisenhardt, 1989). However, CEO duality could reduce the board's ability to control management and decrease the tendency to disclose more information (Sartawi *et al*., 2014) due to the close relationship with management rather than shareholders that would limit unfavourable information to shareholders (Kurawa and Kabara, 2014). Most empirical studies provide evidences towards the negative relationship between role duality and voluntary disclosure (Kurawa and Kabara, 2014; Yanesari *et al*., 2012; Clemente and Labat, 2009). Therefore, the following hypothesis was proposed:

- H_2: there is a negative relationship between role duality and voluntary risk disclosure

Published Board Charter (B_CHARTER): The function of a board charter is to clarify the role and responsibilities of board committees. The board should set out the key values, principles and code of company in establishing a board charter. The new guideline can influence company to disclose more information especially risk information to the public. Even though there are limited evidences on the relationship between published board charter and voluntary risk disclosure, this study has taken a monumental step in providing an interesting perceptual avenue on this relationship. Therefore, the following hypothesis was proposed:

- H_3: there is a positive relationship between published board charter on corporate website and voluntary risk disclosure

Tenure of independent directors (TENURE): New guideline from MCCG 2012 recommends that the tenure of an independent director on board should not exceed 9 years of service. Chan *et al.* (2013) argues that long-board tenure of outside directors may resulted in greater impact on knowledge and experiences, hence, increases the effectiveness of monitoring. CEOs in the early years of their services tend to show good performances in order to build their reputations and to prove their abilities to the market (Hermalin and Weisbach, 1998). However, after they have established their reputations, the long-tenured CEOs tend to report less aggressively in order to protect their reputations (Diamond, 1989). Long-board tenure directors could likely to have friendlier relationships with managers and would impair the effectiveness of monitoring. From the above discussion, the following hypothesis was proposed:

- H_4: there is a negative relationship between tenure of independent directors (<9 years) and voluntary risk disclosure

MATERIALS AND METHODS

The initial sample of this study consist of top 300 public listed companies listed on the Main Board of Bursa Malaysia in the year of 2014 based on market capitalization and comply with MCCG 2012. Large companies have more tendencies to disclose risk information (Ali and Taylor, 2014a, b; Linsley and Shrives, 2006; Bujaki and McConomy, 2002). However, after excluding financial institution only 279 companies available for the study. All variables are extracted manually from companies annual reports and websites. Content analysis is used in this study to measure the level of risk disclosure based on total number of words disclosure (Ali and Taylor, 2014a, b; Barros *et al.*, 2003; Lajili, 2009; Amran *et al.*, 2008; Rajab and Handley Schachler, 2009). This method is widely used ny researchers due to its suitability in assessing and measuring the volume of risk disclosure (Lajili, 2009). A set of decision rules was developed and applied to ensure the reliability and validity of the measurement (Ali and Taylor, 2014a, b; Rajab and Schachler, 2009; Amran *et al.*, 2008; Linsley and Shrives, 2006). The following is regression model developed to test the hypothesis:

$$\begin{aligned}&\text{TOTAL\_RISK} = \beta_0 + \beta_1(\text{INED}) + \beta_2(\text{ROLE\_DUALITY}) + \\ &\beta_3(\text{B\_CHARTER}) + \beta_4(\text{TENURE}) + \beta_5(\text{LN\_ASSETS}) + \\ &\beta_6(\text{TYPE}) + \varepsilon\end{aligned}$$

Where:

TOTAL RISK	=	Total number of words of Risk dsclosure (Ali and Taylor, 2014a, b; Barros *et al.*, 2003)
INED	=	Percentage of Independent non-executive Directors to the total number of board members (Buckby *et al.*, 2015; Sartawi *et al.*, 2014; Htay *et al.*, 2012; Yanesari *et al.*, 2012; Yuen *et al.*, 2008; Barako, 2007; Haniffa and Cooke, 2002; Chen and Jaggi, 2000)
ROLE_DUALITY	=	Labelled “1” if hold position of CEO and Chairman and “0” if otherwise (Yanesari *et al.*, 2012; Yuen *et al.*, 2008; Haniffa and Cooke, 2002)
B_CHARTER	=	Labelled “1” if firm shows board charter on corporate website and labelled “0” otherwise
TENURE	=	Labelled “1” if Tenure ≤9 years and group “2” if otherwise as disclosed in Directors’ profile
LN_ASSETS	=	Natural logarithm of total Assets (Sartawi *et al.*, 2014; Yanesari *et al.*, 2012; Yuen *et al.*, 2008; Chen and Jaggi, 2000)
TYPE	=	Classification based on Bursa Malaysia sectors classification (Amran *et al.*, 2008)
ε	=	Error term

RESULTS AND DISCUSSION

As shown in Table 2, the trading/services sector has the highest company disclosed all the risk categories (mean value: 75.38). These companies also disclosed the highest operational risk information (mean value: 63.80). This study revealed the companies in the properties/REITs/hotel industry are likely to disclose environmental risks in their corporate annual report (mean value: 4.87). Furthermore, the table also shows that companies in the trading /services sector are tend to disclose more strategic risk information (mean value 6.75).

Table 3 reports the results of the tests of the research Hypothesis. The results do not support H_1 but do support H_2-H_4. Role duality, published board charter and tenure is significant at 5% confidence interval with voluntary risk disclosure. Role duality represent the combined roles of Chairman and CEO as per revised in MCCG 2012. H_2 is supported and consistent with previous study (Kurawa and Kabara, 2014; Yanesari *et al*., 2012; Clemente and Labat, 2009). H_3 is statisticaly significant which indicate that regular publishing board charter of a company on the corporate website may increase the level of risk disclosure. Similarly, the result for H_4 shows that tenure of independent directors not exceed 9 years has a negative relationship with risk disclosure.

Table 2: Voluntary risk disclosure: sample descriptive statistics

Types	No. of firms	Mean	Median	SD
Total risk disclosure				
1	21	53.1	48	26.66
2	20	46.7	44	16.44
3	39	59.0	54	24.47
4	66	57.9	52	27.64
5	79	75.3	65	47.88
6	40	58.1	52	29.94
7	14	52.2	51	14.31
Operational risk				
1	21	44.1	42	20.72
2	20	41.3	40	15.65
3	39	53.4	48	23.01
4	66	50.7	45	26.51
5	79	63.8	57	38.45
6	40	49.6	47.5	25.42
7	14	46.2	47	12
Environmental risk				
1	21	4.14	3	4.86
2	20	2.95	3	4.86
3	39	2.9	2	2.45
4	66	3.56	3	3.27
5	79	4.84	4	6.30
6	40	4.87	4	4.88
7	14	2.25	2	2.28
Strategic risk				
1	21	4.81	3	5.4
2	20	2.4	2	1.1
3	39	2.69	2	1.87
4	66	3.65	3	2.4
5	79	6.75	4	8.4
6	40	3.6	3	4.64
7	14	3.43	3	2.56

1: Plantations, 2: Constructions, 3: Consumer products, 4: Industrial products, 5: Trading/services, 6: Properties/REITs/hotel, 7: Technology/IPC

Table 3: Multiple regression results

Models	Standardized coefficients (β)	t-values	Sig.
Constant	3.46	0.00	
INED	0.10	1.72	0.09
ROLE DUALITY	-0.13	-2.23	0.03
B_CHARTER	0.14	2.32	0.02
TENURE	-0.16	-2.79	0.01
TYPE_IND	0.12	2.04	0.43
LOG_ASSET	0.01	0.13	0.90

CONCLUSION

Improved corporate governance practice in Malaysia is reflected through revised MCCG 2012. For instance, companies with combined roles of Chairman and CEO could be protective and in favour of management and therefore, disclose less risk information in the annual report. The longer independent Directors sits on the board could increase the possibility of disclosing less voluntary risk information to the public. Another important implication of the study is encouraged by the positive significant relationship between board charter and risk disclosure where as regulatory authorities can insist listed company in Malaysia to publish their board charter annually as presently not many company publish board charter in the companies website.

Furthermore, this study is the extension research to examine keys enhancement in the corporate governance to the extent of risk management disclosure in Malaysia. This study will aid other growing research to study in publish board charter variables which to date no studies have been conducted. This research also contributes to other countries to enhance their key factors in corporate governance structure as well as enforcement of policies and practice.

LIMITATIONS

This study is limited in scope. First, the study conducted is only limited to top 300 companies and based on three risk categories. Future research could consider to increase sample and risk categories that could help to provide better findings. Second limitation is due the different adoption year for MCCG 2012 by companies. Some companies stated that they had been adopted MCCG 2012 in year 2013 and others in year 2014. However, there are some companies still in developing stages to comply with MCCG 2012. The other limitation is lack of previous studies in relation to revised MCCG 2012 that gives restriction to conduct the research, especially, published board charter in which this is new, to our knowledge, no studies have been conducted upon this variable.

RECOMMENDATIONS

Nonetheless, this study perhaps may give ideas and values to future growing researchers to collect the information and filling the gaps of previous studies.

REFERENCES

Adams, R.B., H. Almeida and D. Ferreira, 2005. Powerful CEOs and their impact on corporate performance. Rev. Financial Stud., 18: 1403-1432.

Ali, M.M. and D. Taylor, 2014a. Content analysis of corporate risk disclosure in Malaysia. Proceedings of the 4th Annual International Conference on Accounting and Finance, April 28-29, 2014, Global Science & Technology Forum, Singapore, pp: 1-11.

Ali, M.M. and D. Taylor, 2014b. Corporate risk disclosure in Malaysia: The influence of pre-dispositions of chief executive officers and chairs of audit committee. Res. J. Fin. Account., 5: 92-106.

Amran, A., M.A. Rosli and C.H.M. Hassan, 2008. Risk reporting: An exploratory study on risk management disclosure in Malaysian annual reports. Managerial Auditing J., 24: 39-57.

Anonymous, 2000. Statement on risk management and internal control: Guidelines for directors of listed issuers. Bursa Malaysia, Malaysia.

Anonymous, 2012. Malaysian code on corporate governance 2012. Securities Commission, Kuala Lumpur, Malaysian. https://www.sc.com.my/malaysian-code-on-corporate-governance-2012/.

Barako, D.G., 2007. Determinants of voluntary disclosures in Kenyan companies annual reports. Afr. J. Bus. Manage., 1: 113-128.

Barako, D.G., P. Hancock and H.Y. Izan, 2006. Relationship between corporate governance attributes and voluntary disclosures in annual reports: The Kenyan experience. Fin. Rep., Reg. Gov., 5: 1-26.

Barros, C.P., S. Boubaker and A.H. Caepem, 2003. Corporate governance and voluntary disclosure in France. J. Appl. Bus. Res., 29: 561-577.

Beretta, S. and S. Bozzolan, 2004. A framework for the analysis of firm risk communication. Intl. J. Accounting, 39: 265-288.

Booth, J.R., M.M. Cornett and H. Tehranian, 2002. Boards of directors, ownership and regulation. J. Banking Finance, 26: 1973-1996.

Buckby, S., G. Gallery and J. Ma, 2015. An analysis of risk management disclosures: Australian evidence. Managerial Auditing J., 30: 812-869.

Bujaki, M. and B.J. McConomy, 2002. Corporate governance: Factors influencing voluntary disclosure by publicly traded Canadian firms. Can. Accounting Perspect., 1: 105-139.

Chan, A.M.Y., G. Liu and J. Sun, 2013. Independent audit committee members' board tenure and audit fees. Accounting Finance, 53: 1129-1147.

Chen, C.J. and B. Jaggi, 2000. Association between independent non-executive directors, family control and financial disclosures in Hong Kong. J. Accounting Public Policy, 19: 285-310.

Cheng, E.C.M. and S.M. Courtenay, 2006. Board composition, regulatory regime and voluntary disclosure. Int. J. Account., 41: 262-389.

Clemente, A.G. and B.N. Labat, 2009. Corporate governance mechanisms and voluntary disclosure: The role of independent directors in the boards of listed Spanish firms. Master Thesis, Autonomous University of Madrid, Madrid, Spain.

Diamond, D.W., 1989. Reputation acquisition in debt markets. J. Polit. Econ., 97: 828-862.

Donaldson, L. and J.H. Davis, 1991. Stewardship theory or agency theory: CEO governance and shareholder returns. Aust. J. Manage., 16: 49-64.

Eisenhardt, K.M., 1989. Making fast strategic decisions in high-velocity environments. Acad. Manage. J., 32: 543-576.

Fama, E.F. and M.C. Jensen, 1983. Separation of ownership and control. J. Law Econ., 26: 301-325.

Haniffa, M.R. and T.E. Cooke, 2002. Culture, corporate governance and disclosure in Malaysian corporations. Abacus, 38: 317-349.

Hermalin, B.E. and M.S. Weisbach, 1998. Endogenously chosen boards of directors and their monitoring of the CEO. Am. Econ. Rev., 88: 96-118.

Htay, S.N.N., M.Z. Aung, H.M. Rashid and A.M. Adnan, 2012. The impact of corporate governance on the voluntary accounting information disclosure in Malaysian listed banks. Global Rev. Accounting Finance, 3: 128-142.

ICAEW., 1999. Inside Out: Reporting on Shareholder Value. Institute of Chartered Accountants in England and Wales, London, England, UK., ISBN:9781841520131,.

Ismail, R. and R.A. Rahman, 2013. Risk management disclosure in Malaysian public listed companies. J. Bus. Administration Manage. Sci. Res., 2: 172-177.

Kurawa, J.M. and A.S. Kabara, 2014. Impact of corporate governance on voluntary disclosure by firms in the downstream sector of the Nigerian petroleum industry. Proceedings of International Conference on World Business Research Conference, April 21-23, 2014, Novotel World Trade Centre, Dubai, UAE., ISBN:978-1-922069-48-1, pp: 1-19.

Lajili, K. and D. Zeghal, 2005. A content analysis of risk management disclosures in Canadian annual reports. Can. J. Administrative Sci., 22: 125-142.

Lajili, K., 2009. Corporate risk disclosure and corporate governance. J. Risk Financial Manage., 2: 94-117.

Linsley, P.M. and P.J. Shrives, 2006. Risk reporting: A study of risk disclosures in the annual reports of UK companies. Br. Accounting Rev., 38: 387-404.

Madrigal, M.H., B.A. Guzman and C.A. Guzman, 2015. Determinants of corporate risk disclosure in large Spanish companies: A snapshot. Contaduria Administracion, 60: 757-775.

Mohamad, W.I.A.W. and Z. Sulong, 2010. Corporate governance mechanisms and extent of disclosure: Evidence from listed companies in Malaysia. Intl. Bus. Res., 3: 216-228.

Rajab, B. and M. Handley-Schachler, 2009. Corporate risk disclosure by UK firms: Trends and determinants. World Rev. Entrepreneurship Manage. Sustainable Dev., 5: 224-243.

Sartawi, I.I.M., R.M. Hindawi, R. Bsoul and A.E.J. Ali, 2014. Board composition, firm characteristics and voluntary disclosure: The case of Jordanian firms listed on the Amman Stock Exchange. Int. Bus. Res., 7: 67-82.

Yanesari, A., M. Gerayli, A. Ma'atoofi and A. Abadi, 2012. Board characteristics and corporate voluntary disclosure: An Iranian perspective. Arch. Des Sci., 64: 478-484.

Yuen, C.Y., M. Liu, X. Zhang and C. Lyu, 2008. A case study of voluntary disclosure by Chinese enterprises. Asian J. Finance Accounting, 1: 118-145.