OWNERSHIP STRUCTURE AND VOLUNTARY DISCLOSURE IN CORPORATE ANNUAL REPORTS OF MALAYSIAN LISTED FIRMS

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Abstract

This paper examines the impact of ownership structure on the voluntary disclosure in the annual reports of Malaysian listed firms. The result shows that there is an increase in the extent of voluntary disclosure in Malaysian listed firms over the eleven-year period from 1996 to 2006. Ownership concentration consistently shows positive association with voluntary disclosure. Firms with higher foreign and institutional ownership have a significantly positive association with voluntary disclosure levels while firms with family ownership exhibit lower voluntary disclosure. Consistent with agency theory, different ownership structures have varied monitoring effects on agency costs and clearly influence firm's disclosure practices. The findings provide insights to policy makers and regulators in their desire to increase transparency and accountability amidst the continual enhancement of corporate governance. The findings provide evidence that optimized ownership structure in any jurisdiction should be considered in any regulatory process that seeks to improve transparency.

Keywords: Ownership Structure, Ownership Concentration, Corporate Governance, Voluntary Disclosure, Malaysia

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We are grateful for the helpful comments and suggestions from participants at the 20th Asian-Pacific Conference on International Accounting Issues in Paris, 1999.

1. Introduction

There have been major changes taken place particularly in strengthening corporate governance, transparency and accountability over the last decade. These changes were largely brought about by the external shocks such as the 1997 Asian financial crisis and high profile corporate collapses. These external events have contributed to renewal of interest in improving corporate governance practices as a means to improve the quality and reliability of information disclosed in annual reports (Kulzick, 2004). Corporate voluntary disclosure and its determinants have received considerable attention in the accounting literature especially since the 1997 Asian financial crisis. The dissemination of discretionary nature of information should reflect as closely as possible the economic reality of a firm's business to stakeholders. Holland (1998) argues that corporate voluntary disclosure is associated with the desire to create favorable institutional and market states, with external benchmarks and pressures on firms for high quality communication.

The Malaysian corporate sector has high level of ownership concentration (World Bank, 2005; Mohd Sehat and Abdul Rahman, 2005; Abdul Samad, 2004). The revamped reporting and governance regimes over the years have improved Malaysian corporate transparency and accountability (World Bank 2005). However, like many Asian countries, Malaysian legal system is such that the rights of the minority shareholders are weak and regulatory enforcement environment is less stringent (Liew 2007). This may induce controlling owners to undertake value-maximising behaviour at the expense of small shareholders. Ramli (2010) finds the evidence of expropriation of minority shareholders by large shareholders in Malaysian listed firms. Internal governance mechanism is an important monitoring device but the persistently concentrated ownership structure in the hand of large shareholders could influence managerial disclosure decisions depending on efficient monitoring or entrenchment stances. Hence, the purpose of the study is to examine the impact of ownership structure on the extent of voluntary disclosure in the annual reports of Malaysian listed firms.

Many of the Malaysian listed firms tend to be ultimately controlled by the family members, foreigners or local-based institutional groups. The uniqueness of ownership structure in Malaysian corporate sector provides an interesting opportunity to empirically examine how corporate information disclosure is affected in this distinctive socio-economic environment. Prior research identifies ownership structure (either concentration or diffusion) and ownership identities (family, managerial, foreign, institutional or government controlled) as individual determinants of voluntary disclosure using a single regression formulation (Akhtaruddin *et al.*, 2009; Darus *et al.*, 2008; Guan *et al.*, 2007; Ghazali and Weetman, 2006; Barako *et al.*, 2006; Chau and Gray, 2002; Eng and Mak, 2001). To extend these prior studies, this study decomposes ownership concentration into three mutually exclusive groups of family-controlled, foreign institutions-controlled and local institutions-controlled; and recognizing the impact of different types of ownership within the concentrated ownership structure on voluntary disclosures.

The context chosen for the study is the corporate disclosure environment in Malaysia at three key time periods of 1996, 2001 and 2006. The earlier period 1996, taken as pre-1997 Asian financial crisis, represents the period when Malaysia accounting environment was under the merit-based regulatory regime. The period 2001 is chosen to represent the phase with significant accounting and governance reforms implemented in the wake of the 1997 financial crisis. The latter 2006 period reflects a phase of further regulatory initiatives adjustment to boost greater corporate transparency following the high profile international corporate collapses. These time periods are considered critical in terms of Malaysian regulatory and governance changes as a response to internal and external pressures. Little is known about the influence of ownership structure change in the midst of corporate governance change on voluntary disclosure. Hence, the longitudinal approach undertaken in this study allows the investigation of the voluntary disclosure practices in these key periods.

Using a matched-sample of 100 Malaysian listed firms from each of the three periods, the results show that there is an increase in corporate communication over the periods 1996-2006. Malaysian listed firms are disclosing greater information of discretionary nature in the post financial crisis period. Ownership concentration is found to be positively and significantly associated with the extent of voluntary disclosure in all three key time periods. While foreign ownership and institutional ownership are significant and positive predictors of the extent of voluntary disclosure, family-held firms are associated with lower voluntary disclosure.

This study provides insights on the impact of ownership structure on voluntary disclosure amidst the strengthening of corporate governance from 1996 to 2006. The results shed light on the efficiency of block shareholders' monitoring through greater information sharing. Despite the reforming efforts, the persistently high concentration of ownership over time continues yet in a climate of greater accountability and transparency. This result is important for Asian countries, especially for those firms with high ownership concentration. This study also enriches the voluntary disclosure literature by longitudinally investigating the association between voluntary disclosure, ownership concentration and different types of shareholdings within the concentrated ownership structure.

The remainder of the paper is structured as follows. Section 2 introduces institutional background. Section 3 reviews literature to develop hypotheses. Section 4 describes the research approach. The key findings of the study are highlighted in Section 5 followed by concluding remarks in Section 6.

2. Malaysian Institutional Framework

The Companies Act 1965 provides the principal legislation governing corporate reporting in Malaysia. It recognises the importance of disclosure of financial information of a firm primarily for the benefit of its stakeholders (Rachagan *et al.*, 2002). For instance, Section 169 of the Act requires all companies incorporated under the Act to furnish financial statements comprising profit and loss accounts, balance sheet and directors' reports. Section 166A mandates these accounts to be prepared and presented in accordance with accounting standards while Section 169(14) specifies all companies need to comply with the disclosure requirements set out in the Ninth Schedule of the Act.

Up until 1997, the corporate disclosure and reporting practices were largely based on the accounting standards adopted by the two accounting professional bodies, Malaysian Institute of Accountants and Malaysian Association of Certified Public Accountants. The merit-based regulatory regime (MBR) governed the financial reporting environment. Under such a regime, regulators decided on the propriety of firm transactions, while the management disclosed the information as required and was accountable to the regulators (Securities Commission 1999). Since the disclosure was arguably not user-oriented, the information flow under the MBR effectively lowered market incentives for greater disclosure (Cheng and Courtenay 2006; Tan and Chew 1996).

The Malaysian accounting environment continued to evolve as the government announced the establishment of a new financial reporting regime in 1997. Under this new reporting regime, the Malaysian Accounting Standards Board (MASB) and the Financial Reporting Foundation (FRF) were established under the Financial Reporting Act 1997 (FRA). The MASB is tasked with the role of developing and issuing accounting and financial reporting standards. The FRA is designed to address the weak enforcement by giving the force of law to the accounting standards. The new reporting framework heralded a new era for the nation's accounting arena.

Recognising the increasing importance of the Malaysian capital market as a place for raising funds for public companies, the Securities Commission embarked on the three-phase [10] shift from the MBR towards the disclosure-based regime (DBR). The DBR entails the making of investment decision by each prospective investor based upon sufficient and accurate information provided. There is greater market incentive for enhanced disclosure (Cheng and Courtenay 2006). The final phase of the shift to DBR was achieved in 2001 with full DBR focusing on requirements for higher standards of disclosure, due diligence and corporate governance.

While the accounting landscape evolved, the 1997 East Asian financial crisis erupted and sent the nation to a state of shock. The crisis was regarded as the watershed event for corporate governance, disclosure and transparency in Malaysia. In recognition of the need to enhance the standards of corporate governance and corporate transparency, the High Level of Finance Committee on Corporate Governance in Malaysia strongly advocated systems for improved disclosure practices to be at the heart of establishing good corporate governance (Anwar and Tang 2003). The culminated efforts resulted in the eventual introduction of the Malaysian Code of Corporate Governance (MCCG) to the public in 2001. At the same time, the Bursa Malaysia Revamped Listing Requirement adopted the provisions of the Code. Yet, compliance with the Code is voluntary. As a self-regulatory mechanism to promote good corporate governance, implicitly, the MCCG aims to encourage disclosure by providing investors with timely and relevant information to facilitate investment decision making (Abdul Rahman 2006).

Further, the incidents of corporate collapses generated huge controversies over corporate accounting practices and the quality of information disclosed to investors. High profile corporate failures focused attention on the importance of corporate disclosure in building and sustaining corporate credibility and investor confidence. This resulted in the establishment of a Taskforce on Corporate Disclosure Best Practices in October 2002 and the subsequent issue of guidance entitled "Best Practices in Corporate Disclosure" in August 2004. Although these best practices are voluntary, Malaysian listed firms are highly encouraged to incorporate these guidelines into their own disclosure practices, with an aim to move beyond minimum disclosures (Bursa Malaysia 2004).

The 'global-shift' move to external pressures for change is also evident in the accounting realm where all the country-specific MASB accounting standards were aligned to International Financial Reporting Standards in 2006. The move represents a greater international convergence as not only does it aim to improve credibility of financial statements issued by Malaysian corporations, it maintains parity with countries that have

[10] The shift to DBR took effect over a period of five years under three phases: phase one (1996-1999): flexible MBR allowed with enhanced disclosure; phase two (1999-2000): hybrid MBR and DBR with further emphasis on disclosure enhancement; and phase three (2001-onwards): full DBR with high standards of disclosure (Securities Commission 1999). This three-phase shift augurs well for the selection of the three time periods (1996, 2001 and 2006) in this study.

adopted the IFRSs (Malaysian Institute of Accountants 2005).

Figure 1 depicts the key milestones in the development of the Malaysian accounting and governance landscape. Over the last fifteen years, considerable efforts have been initiated in enhancing corporate disclosure and transparency. Investors rely on information disclosed in annual reports as a key medium to evaluate their decisions and therefore, are concerned about the quality of information provided. The challenges for corporations and regulators are to continue to enhance the levels of transparency, governance and accountability in the Malaysian capital market. The development in the Malaysian accounting environment over the dynamic period from 1996 till 2006, the focus of this study, is posited to have a substantial impact on a firm's disclosure policy.

Periods	**1996**	**2001**	**2006**
Regime & Initiatives	Merit-based regime, *old* financial reporting framework	Disclosure-based regime, MCCG, new MASB financial reporting framework	Bursa Malaysia's new transparency initiatives, IFRS alignment

Figure 1. Accounting Regulatory Periods: 1996 to 2006

3. Literature Review And Hypotheses Development

Jensen and Meckling's (1976) agency theory position is that when there is a separation of ownership and control of a firm, the potential for agency costs arises due to the conflict of interest arising from divergent goals between the contracting parties. The conflicting interest between managers and shareholders caused by differences in incentives and information asymmetry may reduce the value of firm. As a result, there is a need for control mechanisms to align the interests of managers and shareholders in order to resolve the agency problem. Patel *et al.* (2002) suggest that the agency problem could be mitigated by a vigilant board, timely and adequate disclosure of information, and transparent ownership clarifying the conflict of interests between shareholders and managers. This study focusing on voluntary disclosure presents an excellent opportunity to apply this agency theoretical framework.

Ownership structure is considered as having a strong influence on systems of corporate governance particularly in determining the nature of the agency problem. Within the context of corporate governance, ownership concentration and composition are two key aspects of ownership structure that affect the level of monitoring (Asian Development Bank, 2000).

3.1 Ownership Concentration

The degree of ownership concentration is an important determinant of the distribution of power within a firm (Thomsen and Pedersen, 2000). The fundamental agency problem in highly concentrated firms is between controlling shareholders and minority shareholders. Majority ownership is controlled by a small number of large, dominant shareholders who play an important role in monitoring management. There is a reduced agency problem in the highly concentrated firms because of the greater incentive alignment between owners and managers (Jensen & Meckling, 1976). According to the efficient-monitoring hypothesis, large block holders are better at monitoring management and thereby, reduce agency costs (La Porta *et al.*, 2000; Shleifer and Vishny, 1986).

Just as ownership structure delineates a firm's agency problem, it also impacts the firm's reporting practices. Empirically, Birt *et al.* (2006) report that firms having a high level of shares owned by top 20 shareholders are more likely to disclose voluntary segment information in Australia. Luo *et al.* (2006) find that the existence of outside block ownership considerably increases corporate voluntary disclosure in Singapore. Recently, Jiang and Habib (2009) document the positive effect of ownership concentration on voluntary disclosure in New Zealand firms. In Malaysia, Akhtaruddin *et al*. (2009) and Darus *et al*. (2008) report that firms with high proportion of outside share ownership tend to disclose more voluntary information in 2002 annual reports. Similarly, Haniffa and Cooke (2002) document a significant positive relationship between voluntary disclosure of Malaysian firms and the top ten shareholders in 1995 annual reports. These findings suggest that large blockholders play monitoring management role in mitigating the agency problems inherent in a firm by influencing the voluntary disclosures practices.

On the other hand, expropriation of minority shareholders' wealth can become a concern when ownership is largely concentrated in the hands of large block holders. Shleifer and Vishny (1997) and La Porta *et al*. (1999) argue that high ownership concentration leads to conflicts of interest between large and small shareholders. In the context of disclosure, there is a likely effect of expropriating minority shareholders due to the information asymmetry between controlling (large block) and minority shareholders (Attig *et al*., 2006). Large block holders are likely to obscure and delay the disclosure of information to minority shareholders. Fan and Wong (2002) argue the entrenchment and the information effects and find that high ownership concentration weakens the informativeness of reported earnings to outside investors. Barako *et al*. (2006); Leung and Horwitz (2004) and Hossain *et al*. (1994) document a negative association between voluntary disclosure and ownership concentration. These studies suggest the entrenchment effect of large shareholdings in dominating managerial disclosure decisions.

Yet again, there are studies that do not show any relation between ownership concentration and voluntary disclosure. Ghazali and Weetman (2006) reveal that ownership concentration is not statistically significant in explaining the variability of voluntary disclosure of Malaysian listed firms. Eng and Mak (2003) and Alsaeed (2005) find no significant association between the level of disclosure and blockholder ownership structure in Singapore and Saudi Arabian firms respectively. Clearly, previous empirical results on the association between voluntary disclosure and ownership concentration produced mixed results.

Internal governance provides an important monitoring device and concentrated ownership structures could positively (negatively) affect voluntary disclosure practices depending on efficient monitoring (entrenchment) stances. Thus, it is hypothesised that the extent of voluntary disclosure is positively (negatively) associated with firms of higher ownership concentration.

3.2 Classification of Ownership Types

The identity of shareholders has implications for their objectives and the way they exercise their power, corporate strategy and performance (Thomsen and Pedersen, 2000). Studies have shown that disclosure incentives of firms are greatly influenced by the identity of ownership (Gelb, 2000; Lam *et al*., 1994; Smith, 1976). Although previous studies have addressed the various types of shareholders, this paper enriches the area by decomposing ownership concentration into three key groups namely, family controlled, local institutional group-controlled, and foreign institutional group-controlled. Such classification would allow the inference of the real differential impacts due to the disparity of monitoring costs and incentives of these different types of dominant shareholders.

3.2.1 Family-controlled

One of the distinctive types of Malaysian corporate ownership structure is the shareholdings by family members. Claessens *et al.* (2000) document that on average, 59% of public companies is owned and managed by family members. Similarly, the study by World Bank (2005) also provides similar evidence that about 67% of Malaysian firms is managed by the controlling family members. Firms with the concentrated family shareholdings have a better matching of the control rights of the dominant shareholder with its cashflow right. The information asymmetry and opportunistic behaviour should be minimized due to the fact that ownership and control still remain one and the same in family controlled firms. However, the dominant control gives the family power to seek private benefits at the expense of minority shareholders.

In the context of disclosure, managers in the family-held firms may limit information disclosure to the public in order to prevent leakage of proprietary information to competitors as well as avoid unwanted political and social scrutiny. The unique family ownership generates low demand for adequate disclosure causing a threat to corporate transparency. A number of past disclosure studies reveal the low level of disclosure in family-controlled firms such as, Chau and Gray (2002) in Hong Kong and Singapore; Ho and Wong (2001) in Hong Kong; Haniffa and Cooke (2002); Ghazali and Weetman (2006); and Darus *et al.* (2008) in Malaysia. All these findings show that the entrenched behaviour provides incentives to the controlling family owner to disclose less information. Thus, it is hypothesized that the extent of voluntary disclosure is negatively associated with a higher proportion of family ownership.

3.2.2 Foreign Ownership

Many of the multinational firms incorporated in Malaysia are subsidiaries of big conglomerate in foreign countries. According to Malaysia (1991), foreign ownership in Malaysia was dominant totaling about 62% in 1969. However, a radical change affected by the nation economic policy resulted in the shift of ownership and control to the government-linked companies, government-controlled trust funds or agencies (Azham, 2002). Foreign investment into Malaysia started to increase again in the early 1990s after the liberalization of capital flows (Suto, 2003). The Malaysian government has broadened equity policy for the manufacturing sector in respect of new investment, expansion and diversification effective July 1998, allowing foreign investors to own 100% equity (Malaysian Industrial Development Authority, 1998). The significance of foreign investment is again emphasised under the Securities Commission's Capital Market Master Plan in 2001 (Securities Commission, 2005). Foreign equity ownership continues to play a crucial role in stimulating the economic growth of the company and the country. The presence of foreigners on board can influence the quality of information disclosure in order to meet foreign reporting requirements.

Foreign owners' presence in the company can influence corporate governance practices, which impacts significantly on firm's disclosure decision. Haniffa and Cooke (2002) and Barako *et al.* (2006) find a significant positive association between voluntary disclosure and foreign ownership. This is in line with expectations and supports the argument that obtaining foreign funds means a greater need for disclosure to monitor actions by management. Given the increasing importance of foreign ownership in Malaysian corporate sector, this group of investors can influence corporate disclosure practices of listed firms. Thus, it is hypothesised that the extent of voluntary disclosure is positively associated with a higher proportion of foreign ownership.

3.2.3 Institutional Ownership

The changing Malaysian socio-economic environment witnessed the emergence of institutional investors like provident and pension funds, insurance companies, unit trusts, and government agencies. This category of investors is emerging and seen as an important group of agents in the market for corporate equity because of their ability to exert direct influence on management activities (Abdul Rahman, 2006). The importance of institutional investors in enhancing good corporate governance practices in Malaysia is recognised in Part 4 of the Malaysian Code on Corporate Governance.

Substantial shareholdings by institutional investors help to create strong incentives to monitor corporate disclosure practices to reduce informational asymmetry (El-Gazzar, 1998). Managers may voluntarily disclose information to meet the expectations of these large shareholders. Empirically, Bushee and Noe (2000) find a significant positive relationship between institutional shareholdings and corporate disclosure practices. However, based on a study of interim disclosure by Finnish firms, Schadewitz and Blevins (1998) report an inverse relationship between institutional ownership concentration and disclosure, whereas, McKinnon and Dalimunthe (1993) find weak support for the hypothesis that increased institutional ownership associated with voluntary disclosure practices. Haniffa and Cooke (2002) report no significant association between institutional investors and voluntary disclosure. Thus, notwithstanding the inconclusive findings, it is hypothesised that the extent of voluntary disclosure is positively associated with a higher proportion of institutional ownership.

4. Research Methodology

4.1 The Annual Report Sample

The analysis covers three key time periods that are considered critical in terms of regulatory reforms in enhancing corporate transparency and accountability through corporate voluntary disclosure and ownership practices in Malaysia. These periods include 1996, 2001, and 2006. The sample for this study is selected from companies listed on the Kuala Lumpur Stock Exchange (KLSE, the name was subsequently changed to Bursa Malaysia in 2004). The criteria of sample firm selection are: (i) the availability of annual reports of firms for all the three periods; (ii) firms selected in 1996 must remain listed on the stock exchange in the other two periods; and (iii) all banks, unit trust, insurance and finance companies are excluded from the study due to different regulatory requirements.

Using 1996 as a base year, there were 413 firms listed on the Main Board of the KLSE. Excluding the 32 firms listed in the finance sector, 40 firms newly listed in 1996 and the 26 firms subsequently delisted and unavailability of annual reports; the sampling population consists of 315 firms. These firms are subject to stratified (by industry) random sample selection of 100 listed firms from the five industry groupings of 20 firms each. The final sample of one hundred firms selected in 1996 represents 31.8% of the appropriate population. Guided by the criteria, the matched sample is selected for the latter two periods, giving rise to a total sample of 300 firm-year observations. Table 1 summarises the sampling procedure followed in this study.

Table 1. Sample-Selection Procedures

Description	No. of listed firms
Firms listed on the Main Board of the KLSE in 1996	413
Less: Firms listed on the finance sector	(32)
Less: Firms listed in 1996	(40)
Less: Firms delisted and unavailability of annual reports	(26)
Number of firms available for sampling	315
Number of firms in final sample in each period	100
Percentage of firms from available population	*31.8%*

Firms listed on Bursa Malaysia Stock Exchange in 1996 are used as a basis for sample selection. The final sample represents 31.8% of sampling population.

4.2 Development and Scoring of Disclosure Checklist

The extent of voluntary disclosure is measured using a comprehensive voluntary disclosure index (VDI) comprising 85 voluntary disclosure items. Items comprising VDI are derived from prior disclosure studies conducted in developing countries (eg. Ghazali and Weetman, 2006; Barako *et al.,* 2006; Gul and Leung, 2004; Haniffa and Cooke, 2002). The preliminary disclosure checklist undergoes a rigorous process of screening by two professional accountants who have specific knowledge and expertise of Malaysian accounting and disclosure practices. The process involves the checking of items of voluntary in nature and refining for appropriateness of each item in the Malaysian context. This results in the final validated instrument comprising 85 voluntary disclosure items. The instrument is used for capturing and measuring differences in disclosure practices among firms.

Adopting Gray *et al.*'s (1992) approach, this study applies the unweighted scoring approach where an item scores 1 if disclosed and 0 if it is not, subject to the applicability of the item concerned. A more subjective weighted approach is not used because the focus of this study is not directed at a particular user group. Moreover, prior research has shown that unweighted and weighted approaches produce very similar results when there are a large number of items included (Beattie *et al.*, 2004). The VDI, calculated for each firm in each period, is the ratio of actual disclosure for each firm and the maximum possible disclosure score for each firm.

4.3 Independent and Control Predictors

The independent variables examined in this study include: (i) the ownership concentration as the key variable of ownership structure; and (ii) the family; local-based institutions and foreign ownership as variables of ownership identities.

Based on extant studies ((Liu and Sun, 2010; Akhtaruddin *et al.,* 2009; Chen and Jaggi, 2000), the following control variables are included: role duality, board independence, firm size and leverage in the statistical analysis. According to Karamanou and Vafeas (2005), board characteristics are associated with the quality of financial reporting. The strength of corporate governance structure may shape the firm's ownership and control. In addition, firm size and leverage are included as these characteristics affect firm's disclosure behaviour.

4.4 Regression Models

Multiple regression models are utilized to examine the relationship between explanatory variables and voluntary disclosure. The first regression equation estimated is to test the association between the ownership concentration and voluntary disclosure index cross-sectionally in each period.

$$VDI_{jt} = \beta_0 + \beta_1 OCON_{jt} + \beta_2 RDUAL_{jt} + \beta_3 BIND_{jt} + \beta_4 FSIZE_{jt} + \beta_5 LEV_{jt} + \varepsilon_{jt} \quad (1)$$

Equation (1) does not classify ownership into different classes to investigate the impact of each group on voluntary disclosure. By decomposing ownership concentration into different strands of ownership, Equation (2) is estimated to capture the effect of each type of controlling ownership on the extent of voluntary disclosure, as follows:

$$VDI_{jt} = \beta_0 + \beta_1 FAM_{jt} + \beta_2 FOR_{jt} + \beta_3 INST_{jt} + \beta_4 RDUAL_{jt} + \beta_5 BIND_{jt} + \beta_6 SIZE_{jt} + \beta_7 LEV_{jt} + \varepsilon_{jt} \quad (2)$$

5. Results Analysis

5.1 Descriptive Statistics

Table 1 presents descriptive statistics of the voluntary disclosure index (dependent variable), independent and control variables for the 100 companies in each of the three periods. Over the eleven-year period, the mean voluntary disclosure index (VDI) has steadily increased from 23% in 1996 to 36% in 2006. There is wide variation in the voluntary disclosure score. The range of VDI in 1996 is from 5% to 55% in 1996, 11% to 65% in 2001, and 6% to 81% in 2006. The significant difference between voluntary disclosures is further supported by strong results obtained from the paired sample *t*-tests in each year of the study. As documented in Table 2, the increase in means of VDI between two periods (1996-2001, 2001-2006, 1996-2006) is statistically significant at the 1% level. The largest increase in mean VDI occurs between 1996 and 2001 (32%) with a more moderate increase of 12% between 2001 and 2006. Over the eleven-year study period, the increase in mean VDI between 1996 and 2006 is 48%. The result suggests that firms are disclosing far greater information of discretionary nature in the post financial crisis period (1996 and 2001) compared to the period of further regulatory initiatives amidst the high profile international corporate collapses (2001 and 2006).

Table 2. Descriptive statistics for all variables

Panel A: 1996	Minimum	Maximum	Mean	Standard Deviation
VDI	5.06	54.88	22.97	11.31
OCON	24.40	88.15	61.87	14.91
FAM	0.00	74.32	22.99	24.64
FOR	0.50	87.12	23.75	22.91
INST	0.00	85.46	18.50	21.52
RDUAL	0.00	1.00	0.64	0.48
BIND	0.00	1.00	0.37	0.48
FSIZE	3.88	7.51	5.86	0.62
LEV	0.05	0.89	0.41	0.21
Panel B: 2001	Minimum	Maximum	Mean	Standard Deviation
VDI	10.98	64.71	31.45	12.12
OCON	17.89	90.7	58.47	18.71
FAM	0.00	70.56	22.32	24.21
FOR	0.00	76.05	16.32	20.69
INST	0.44	88.30	21.54	23.56
RDUAL	0.00	1.00	0.75	0.43
BIND	0.00	1.00	0.66	0.48
FSIZE	4.24	7.74	5.99	0.62
LEV	0.00	1.03	0.39	0.24
Panel C: 2006	Minimum	Maximum	Mean	Standard Deviation
VDI	6.49	81.18	35.95	17.31
OCON	22.10	90.42	60.86	15.14
FAM	0.00	75.46	22.74	25.43
FOR	0.00	76.57	18.30	20.93
INST	0.00	89.85	19.58	23.70
RDUAL	0.00	1.00	0.80	0.40
BIND	0.00	1.00	0.91	0.29
FSIZE	4.26	7.81	6.09	0.63
LEV	0.00	1.61	0.43	0.27

VDI is voluntary disclosure index for each sample firm; Ownership concentration, OCON is top 5 shareholder concentration; Family ownership, FAM is the proportion of family ownership within the top five shareholders to total shares outstanding; Foreign ownership, FOR is the proportion of foreign ownership within the top five shareholders to total shares outstanding; Institutional ownership, INST is the proportion of institutional ownership within the top five shareholders to total shares outstanding; Role Duality, RDUAL is coded one where the role of Chairman is independent of Chief Executive Officer, and zero otherwise; Board Independence, BIND is coded one where independent non-executive directors comprise at least one-third of the board membership, and zero otherwise; Firm size, FSIZE is natural log of total assets; and Leverage, LEV is the ratio of debt to equity.

Table 3. Paired T-Tests

	1996-2001	2001-2006	1996-2006
Mean of paired differences	7.40	3.74	11.14
% change Voluntary Disclosure Index	32.22	12.32	48.51
Correlation	0.81*	0.82*	0.75*
Hypothesized Mean Difference	0	0	0
df	99	99	99
t-Stat	-9.37	-4.39	-10.05
P(T<=t) one-tail	0.000	0.000	0.000
t Critical one-tail	1.66	1.66	1.66

* significant at 0.01 levels (one-tailed tests). The *t*-statistic is derived using a paired sample *t*-test. The *t*-tests are performed to examine differences between the means of the voluntary disclosure index over the study period. The paired comparison *t*-tests are to determine whether the means of the distribution of differences in values of voluntary disclosure index is zero.

In addition, the descriptive results reported in Table 1 reveal that the average ownership concentrated in the hands of top five shareholders in 1996 is 62%. Despite the implementation of Malaysian Code of corporate governance and several regulatory initiatives to promote corporate transparency, the Malaysian corporate ownership structure remains highly concentrated where the average ownership concentration reported in 2001 and 2006 is 58% and 61% respectively.

In terms of ownership composition, the shareholdings held by family members are consistent with an average of 22% from 1996 till 2006. Foreign ownership shrinks from 24% in 1996 to 18% in 2006. Local-based institutional investors hold an average of 18% of total equity in sample firms in 1996, increase to 21% in 2001 but register a slight decrease to 19% in 2006. The numerous governance and regulatory initiatives during the eleven-year period do not have any effect on changes in ownership structure. Instead, the proportion of ownership structure maintains over time yet in the climate of greater accountability and transparency.

The Pearson's product moment correlations between dependent and predictor variables are shown in Table 3. Correlation matrices indicate that ownership concentration is positively correlated with voluntary disclosure in all three study periods. Family ownership is negatively correlated with voluntary disclosure whilst foreign and institutional ownerships are positively correlated with voluntary disclosure in all the three periods. Correlation coefficients presented in Table 3 indicate that whilst there are a number of independent variables that are significantly correlated with each other, none of the coefficients are greater than 0.8. This suggests that multicollinearity is not a major problem in this study.

Besides, the Variance Inflation Factor (VIF) is used to test the presence of multicollinearity in the regression model. The VIF figures (not reported in Table 4) of all the predictor variables are below 2.5. Hence, both correlation and VIF results support the absence of multicollinearity in these variables.

Table 4. Pearson's Product Moment Correlations

1996	VDI	OCON	FAM	FOR	INST	RDUAL	BIND	FSIZE	LEV
VDI	1.000								
OCON	.327*	1.000							
FAM	-.458*	-.206**	1.000						
FOR	.208**	.225**	-.379*	1.000					
INST	.471*	.415*	-.408*	-.190**	1.000				
RDUAL	.081	.152	-.151	.150	.184**	1.000			
BIND	-.010	.003	-.028	-.192**	.160	.143	1.000		
FSIZE	.566*	.008	-.239*	-.008	.397*	.046	.015	1.000	
LEV	-.119	-.171**	-.011	.002	-.020	.032	-.151	.146	1.000
2001									
VDI	1.000								
OCON	.295*	1.000							
FAM	-.373*	-.133	1.000						
FOR	.159	.335*	-.289*	1.000					
INST	.523*	.435*	-.479*	-.117	1.000				
RDUAL	.102	.190**	-.307*	.049	.326*	1.000			
BIND	.204**	.158	-.010	.101	.127	.122	1.000		
FSIZE	.607*	.073	-.175**	-.122	.497*	-.032	.128	1.000	
LEV	-.016	-.376*	-.151	-.146	.005	.177**	-.097	.248*	1.000
2006									
VDI	1.000								
OCON	.307*	1.000							
FAM	-.362*	-.083	1.000						
FOR	.202**	.235*	-.271*	1.000					
INST	.559*	.357*	-.485*	-.112	1.000				
RDUAL	.174**	.079	-.290*	.013	.296*	1.000			
BIND	.052	-.003	-.164	.145	.042	.017	1.000		
FSIZE	.627*	.034	-.076	.015	.498*	-.044	-.025	1.000	
LEV	-.012	-.359*	-.059	-.056	-.056	.027	-.041	.153	1.000

* $p < 0.01$, one-tailed; ** $p < 0.05$, one-tailed.

VDI is voluntary disclosure index for each sample firm; Ownership concentration, OCON is top 5 shareholder concentration; Family ownership, FAM is the proportion of family ownership within the top five shareholders to total shares outstanding; Foreign ownership, FOR is the proportion of foreign ownership within the top five shareholders to total shares outstanding; Institutional ownership, INST is the proportion of institutional ownership within the top five shareholders to total shares outstanding; Role Duality, RDUAL is coded one where the role of Chairman is independent of Chief Executive Officer, and zero otherwise; Board Independence, BIND is coded one where independent non-executive directors comprise at least one-third of the board membership, and zero otherwise; Firm size, FSIZE is natural log of total assets; and Leverage, LEV is the ratio of debt to equity.

5.2 Regression Results

The multiple regression results reported in Table 4 show the explanatory power of the ownership concentration and ownership identities for each period. The multiple regression models report significant *F* values (at the 1 percent level) for the level of voluntary disclosure in all periods. All reported adjusted R^2 for both multiple regression models are over 40%, which suggest that a significant percentage of the variations in voluntary disclosure can be explained by the variations in the predictor variables.

As reported in Table 4 Panel A, the ownership concentration (OCON) is found to be positively and significantly associated with the extent of voluntary disclosure in all three key time periods. The positive coefficients are statistically significant at the 1 percent level in 1996 and 2006 and the 5 percent level in 2001. The regression results show that companies with ownership concentrated in the top five shareholders disclose more in annual reports in all the periods under study, consistent with Haniffa and Cooke (2002), Birt *et al.* (2006) and Xiao and Yuan (2007). Thus, the *positive* hypothesis is supported throughout the eleven-year period in this study. The findings imply that companies with concentrated ownership in the hands of large shareholders appears to be a more important monitoring tool to mitigate agency problems by influencing greater disclosure in annual reports. It may reflect a firm's choice of governance and disclosure practices when investor protection is weak.

The regression results of the decomposition of ownership concentration into family, foreign and institutional ownership are reported in Table 4 Panel B. Both foreign ownership (FOR) and institutional ownership (INST) are found to be significant predictors of the extent of voluntary disclosure in all three key time periods. The positive coefficients are statistically significant at the 5 percent level. The results suggest that firms with high proportions of ownership held by foreign and institutional investors disclose more voluntary information, thus the hypotheses are supported in all periods under the study. The findings imply that the monitoring roles of these shareholders in influencing managerial actions towards greater disclosure and transparency. The coefficients on family ownership (FAM) are negative and statistically significant at the 5 percent level in all the three periods under study. The results indicate that a high proportion of shareholdings held by family members is associated with lower voluntary disclosure. Hence, the hypothesis is supported. This implies that the agency issues arising from the expropriation by family-held firms are more prominent than the foreign and institutional shareholders.

The study includes two board governance and two firm-specific variables as the control variables in the regression models. The results show that role duality and board independence are not significantly associated with voluntary disclosure in 1996 and 2001. Despite the emphasis on corporate governance in the wake of the 1997 Asian financial crisis and the eventual implementation of the Malaysian Code on Corporate Governance in 2001, the results suggest that these mechanisms show no influence on managerial disclosure decision. Nonetheless, role duality (R_DUAL) has significantly (at the 1 percent level) positive effect on the extent of voluntary disclosure in 2006, suggesting that firms with a separate board Chairman and Chief Executive Officer tend to disclose more on a voluntary basis. Board independence (BIND) has no significant association with voluntary disclosure. Such findings are consistent with Cheung *et al.* (2010).

Firm size (FSIZE) is positively and statistically significantly (at the 1% levels) associated with voluntary disclosure in all years. Firm size influencing the extent of voluntary disclosure has been well documented in previous studies. Large firms tend to disclose information more extensively because of the exposure to public scrutiny (Schipper 1981), the need to raise capital at the lower cost (Botosan 1997), and the need to minimize high agency cost typical in large companies (Watts and Zimmerman 1986). However, leverage lacks statistical significance in all years, suggesting that a company's gearing status has no significant association with the extent of voluntary disclosure. The result is consistent with Akhtaruddin *et al.* (2009) and Ghazali and Weetman (2006).

5.3 Additional Analysis

The preceding multiple regression analysis provided in models 1 and 2 assumes the exogenous determination of ownership structure variables. The endogeneity concern caused by unobservable firm-specific factors and omitted variables such as operational characteristics between firms may cause OLS estimates to be biased (Larcker *et al.* 2007). In a recent study, Andres (2008) maintains that ownership structure is endogenously determined by firm performance. A potential correlated omitted variable problem may occur where there are factors that may potentially affect ownership structure, and that may affect voluntary disclosure of information simultaneously (Karamanou and Vafeas 2005).

The study attempts to control for the omitted variable problem by examining the association between the change in the levels of ownership structure and change in voluntary disclosure over the study period. This approach is appropriate since there is less likely to be a corresponding change in any potential omitted variable that is correlated with both the dependent and independent variables. Thus, an additional regression model (not shown for brevity) is estimated to examine whether changes in ownership structure are associated with changes in voluntary disclosure between pre- and post crisis (1996 and 2001); and (b) post crisis and Enron (2001 and 2006).

The results (not shown for brevity) indicate that there is no significant association between the change in voluntary disclosure and the change in ownership concentration except for the change between 2001 and 2006 when further regulatory initiatives were implemented following the rampant corporate collapses. The results could possibly due to small variation in ownership structure which is relatively minor between periods compared to the change in voluntary disclosure index. The results also show that there is a positive and statistically significant (at the 5% and 10% levels respectively) association between the change in voluntary disclosure and the change in foreign and institutional ownerships between 1996 and 2001. However, the changes in these variables are not significant predictors between 2001 and 2006. The change in family ownership variable lacks statistical significance. The change in voluntary disclosure is positively and statistically significantly associated with the change in firm size (at the 1% level) between 1996 and 2001, and between 2001 and 2006 but the change in leverage has no influence on the change of voluntary disclosure.

Table 5. Cross-Sectional Regression Results For Each Period

Panel A		1996			2001			2006		
Adjusted R²		41.9			42.4			48.5		
F statistic		15.295			15.589			19.638		
Significance		0.000*			0.000*			0.000*		
Variables	Predicted sign	Beta	t	Sig	Beta	t	Sig	Beta	t	Sig
Intercept		-49.340	-5.483	0.000*	-59.043	-5.622	0.000*	-46.568	-3.005	0.000*
OCON	+/-	0.221	3.698	0.000*	0.129	2.011	0.023**	0.301	3.407	0.000*
RDUAL	+	0.506	0.275	0.392	3.108	1.209	0.115	7.675	2.482	0.007*
BIND	+	-1.085	-0.593	0.278	2.098	0.933	0.176	3.851	0.896	0.187
FSIZE	+	10.600	7.561	0.000*	13.490	7.522	0.000*	17.052	8.565	0.000*
LEV	-	-0.082	-0.923	0.178	-0.022	-0.236	0.407	-0.040	-0.440	0.330
Panel B		1996			2001			2006		
Adjusted R²		51.8			49.1			51.9		
F statistic		14.136			14.644			16.235		
Significance		0.000*			0.000*			0.000*		
Variables	Predicted sign	Beta	t	Sig	Beta	t	Sig	Beta	t	Sig
Intercept		-22.695	-2.573	0.006*	-40.565	-3.491	0.000*	-56.469	-3.863	0.000*
FAM	-	-0.083	-1.954	0.027**	-0.087	-1.660	0.050**	-0.102	-1.641	0.042**
FOR	+	0.093	2.117	0.018**	0.113	2.093	0.019**	0.139	2.175	0.016**
INST	+	0.137	2.758	0.003*	0.108	1.748	0.042**	0.153	1.986	0.025**
RDUAL		-0.705	-0.395	0.347	0.565	0.218	0.414	3.860	1.193	0.018**
BIND		-1.162	-0.653	0.257	2.187	1.027	0.153	0.096	0.023	0.491
FSIZE	+	8.117	5.571	0.000*	11.689	5.788	0.000*	14.180	5.881	0.000*
LEV	-	-0.107	-1.308	0.271	-0.100	-1.082	0.141	-0.130	-1.114	0.134

* $p < 0.01$, one-tailed; ** $p < 0.05$, one-tailed; and † $p < 0.10$, one-tailed

Panel 1 shows the regression result of the key ownership concentration variable whilst the regression results for individual ownership types are shown in Panel 2. VDI is voluntary disclosure index for each sample firm; Ownership concentration, OCON is top 5 shareholder concentration; Family ownership, FAM is the proportion of family ownership within the top five shareholders to total shares outstanding; Foreign ownership, FOR is the proportion of foreign ownership within the top five shareholders to total shares outstanding; Institutional ownership, INST is the proportion of institutional ownership within the top five shareholders to total shares outstanding; Role Duality, RDUAL is coded one where the role of Chairman is independent of Chief Executive Officer, and zero otherwise; Board Independence, BIND is coded one where independent non-executive directors comprise at least one-third of the board membership, and zero otherwise; Firm size, FSIZE is natural log of total assets; and Leverage, LEV is the ratio of debt to equity.

6. Conclusions

This paper has examined factors influencing the extent of voluntary disclosure in annual reports of companies listed on Bursa Malaysia from 1996 to 2006. In the wake of the 1997 Asian financial crisis, numerous corporate governance and regulatory reforms have taken place during the eleven-year period to enhance corporate transparency and accountability. Yet, the proportions of ownership structure remain relatively unchanged over time. The empirical results of match-paired samples in each key time period show that the ownership concentration is consistently positively associated with voluntary disclosure. The positive association of ownership concentration may reflect the firms' choice to disclose more information as a governance initiative to monitor managerial activities. This concurs with the theoretical argument that large, dominant shareholders are taking the efficient monitoring stance.

Institutional and foreign owned firms have the motivation to disclose in excess of mandatory requirements. Consistent with the agency theory, institutional and foreign investors in a firm have a greater monitoring role in pushing firms to voluntarily disclose more information in annual reports. Such enhanced disclosure practice should be encouraged in order to attract funds from investors, both locally and abroad. Further, it is important that the management appreciates the importance of effective communication to the capital market especially its direct link to the reduction of cost of capital and subsequent increases in firm value and wealth creation for the shareholders. However, the findings also reveal that firms held by family members are reluctant to disclose information, reflecting the tradition of secrecy inherited from the past. Such firms are controlled by family members with very few foreign or local institutional investors, thus, the demand for information is less leading to lower level of disclosure.

The two corporate governance variables (role duality and board independence) identified in 1996 and 2001 are not significant, indicating the non-importance of these variables as determinants of voluntary disclosure. The earlier implementation of the Malaysian Code of Corporate Governance in 2001 could possibly have no same effect in changing the attitudes of Malaysian listed firms towards more voluntary information disclosure at the point of regulatory change. Despite of the various governance and regulatory initiatives adjustment after 2001, board independence remains to be a non-significant predictor in 2006 except role duality. This implies that not all corporate governance mechanisms have the same effect on voluntary disclosure. The findings also cast the doubt on the 'true' independence of the board of Malaysian listed firms in determining corporate policies and practices to enhance corporate transparency.

The study makes several contributions as follows. First, it strengthens the importance of separating ownership structure into various strands of ownership to infer the real impact of differential controlling properties on managerial disclosure decisions. Second, it sheds light on the efficiency of ownership concentration in terms of information disclosure and management monitoring in a country where investors protection is weak. Third, this study adds to the literature on the extent of corporate voluntary disclosure by examining the association between voluntary disclosure and ownership concentration and composition using matched sample over eleven-year period when regulatory and governance changes are eminent.

The findings of the study have implications for disclosure policies and the governance initiatives. The results provide the evidence that ownership structure should be considered in any regulatory process that attempts to improve transparency. Multi-ownership and optimizing ownership structure, particularly with the shareholdings by foreign and institutional investors, need to be on the national reform agenda. The ownership concentration in external shareholders tends to provide a good monitoring mechanism to lessen the opportunity of expropriation and promote greater efficiency in information sharing. The family-controlled firms have little motivation to disclose information in excess of mandatory requirement. In view of the structural feature of the Malaysian stock market providing a countervailing force to the growing pressures for internationalization and global transparency, the findings provide important implications for regulators, investors and companies. The longitudinal findings can resonate in Asian countries where corporate ownership is characterized by concentrated structure.

There are limitations in this study. First, the study draws conclusions about the extent of voluntary disclosure, not on its quality and informativeness of disclosure. Second, the voluntary disclosure index is calculated based on the researcher-constructed instrument. The index calculation can be affected if on the items of information selected are not voluntary in nature. Third, it focuses on one avenue of corporate disclosure via corporate annual reports. Future research could investigate the quality of voluntary disclosure and could possibly explore the extent to which firms voluntarily release information through other communication channels such as press release and the internet.

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