

BOARD STRUCTURE, INSTITUTIONAL PRESSURES AND CORPORATE VOLUNTARY DISCLOSURES

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Abstract

Corporate disclosure has been subjected to calls for corporate transparency by corporate governance movement as a matter of good corporate governance. Managers face substantial pressure to make more transparent disclosure of their activities to promote efficient governance of their companies or risk losing legitimacy from the perspectives of the investors and other stakeholders. Using the annual reports of 155 Malaysian listed companies, this study investigates the competing effects of board structure and institutional pressures on the extent and credibility of corporate voluntary disclosure during the period when public listed companies in Malaysia faced new corporate governance regulation. This study provides evidence that under the influence of dominant owners on board, management voluntary disclosure decisions are driven by mimetic pressures when their company is structured to meet expectations of good corporate governance. Managers' voluntary disclosure strategy to gain legitimacy seems to override their incentives to disclose credible information to outside investors. This inference is consistent with the evidence that management voluntary disclosures are not viewed as credible by outside investors. These findings contribute to a better understanding of the relationships between various board structures and institutional pressures on management disclosure decisions in particular agency settings.

Keywords: Voluntary disclosure; board structure; institutional pressures; legitimacy.

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1. Introduction

Corporate disclosure has been subjected to calls for transparency as part of the corporate governance movement, in particular among companies in East Asian countries. A primary reason for the widespread interest in such disclosure is that it can improve proper evaluation of managers' activities by investors and other stakeholders (Bushman & Smith, 2001; Taylor et al., 2007). However, disclosure of such information is a sensitive management decision which can also publicly expose managerial weaknesses in operation and investment decisions. But, from a corporate governance perspective, making such information transparent is very important to the interests of the investors and possibly other stakeholders.

The emphasis on corporate transparency as a matter of good corporate governance by regulatory bodies and policy makers will shift investors and other stakeholders' expectations toward expecting more adequate disclosure of managers' activities. Managers face substantial pressures to increase such disclosure as a matter of good corporate governance practice or otherwise risk potential loss of legitimacy regarding their activities from the perspectives of

investors and other stakeholders. However, managers' incentives to be on the forefront of or join other companies practicing more disclosure of voluntary information for legitimacy purposes may outweigh their incentive to communicate useful information to investors to promote efficient governance of their company. In such situation, can managers voluntary disclosure strategy reveals credible information as monitoring mechanism to investors.

The extent of corporate disclosures made will affect investors' ability to make informed judgments about whether managers have acted in their best interests as owners (Healy & Palepu, 2001). However, the supply of information will not provide assurance to the investors that their investments are not expropriated or wasted on unattractive projects by the managers if it is not viewed as credible by the investors (Lundholm & Myers, 2002). The information can lose its credibility if investors expect managers to supply financial reports for self-interested purposes due to divergence of interests between managers and investors (Fan & Wong, 2002; Healy & Palepu, 1993, , 2001).

The agency literature suggests that alignment of managers' interests with the interests of the investors can be achieved through monitoring of managers'

activities by the board of directors (Fama, 1980; Fama & Jensen, 1983; Healy & Palepu, 2001). However, as board structure differs across companies, the quality of board monitoring on the quality of corporate information communicated to outside investors is likely to vary (Beasley, 1996; Vafeas, 2000). An improved understanding of influences on management's decisions to disclose more or less voluntary information and the credibility of the information would therefore be sought by outside investors (and possibly other stakeholders such as debt holders, employees and regulators). In particular, it is contended in this study that management voluntary disclosure decisions, in terms of both the extent and credibility of the information disclosed, is a complex balance between the competing effects of board structure and institutional pressures.

The theoretical perspective taken in this study under the agency theory is that management have incentives to disclose higher level of voluntary information because it signals that they are acting in the interests of the investors. But this benefit could be outweighed by certain elements of board structure that potentially limit more transparent disclosure of voluntary information to outside investors. A second theoretical perspective invoked in this study is that managers have incentives to disclose more voluntary information to enhance their company's and their own legitimacy. Such disclosure strategy provides managers with important means of managing impressions of their own credibility and that of the company in ways that are acceptable among companies practicing greater corporate disclosure in response to calls for greater corporate transparency.

2. Motivation For The Study

There is a paucity of empirical evidence regarding the competing impacts of board structure and institutional pressures on the extent of voluntary disclosure and credibility of the information disclosed, particularly among companies in East Asian countries. Prior empirical research on disclosure in East Asian countries has predominantly focused on the impacts of corporate governance structures on the extent of voluntary disclosure based on the agency theory explanation (K. Chen et al., 2004; Eng & Mak, 2003; Haniffa & Cooke, 2002; Ho & Wong, 2001; Hossain et al., 1994; Nazli & Weetman, 2006) Further, limited studies in this area has been concerned with the effects on credibility of voluntary information disclosed (Luo et al., 2006).

In addition to the extent of voluntary disclosure, the issue of credible voluntary information is particularly important among companies in East Asian countries. In these companies, corporate ownership structures are highly concentrated and when owners hold important positions in management and on the board, the information disclosed can be viewed by outside investors as reported for self interested purposes by the inside owners (Fan &

Wong, 2002). The presence of these owners may be a countervailing force to the growing efforts for increasing corporate transparency as an important element of corporate governance.

By considering the effects of institutional pressure, this study differs from most previous studies in the area that were confined to examination of corporate governance structures on management voluntary disclosure decisions. As such, combining institutional theory and agency theory explanations on voluntary disclosure behavior in this study will provide a better understanding of the relationships between various elements of board structures and institutional pressures on management voluntary disclosure decisions in particular agency settings.

The context chosen for the study is the corporate disclosure environment in Malaysia during 2002 when public listed companies faced new disclosure requirements regarding their corporate governance practices as required by the Malaysian Code on Corporate Governance (MCCG). The implication of this requirement is that it establishes an expectation of accountability through greater transparency. The context chosen is conducive to the study of incentives for management to be responsive to the institutional pressure by voluntarily disclosing information concerning their activities as a matter of good corporate governance practice. At the same time, the setting of an increase in regulatory and public pressures regarding companies' compliance with good corporate governance structures is conducive to the study of management incentives to manage company legitimacy through voluntary disclosures.

3. Literature Review And Generation Of Hypotheses

This study has identified variables to represent particular aspects of board structure and institutional pressures. The impacts of these variables on managers' voluntary disclosure decisions are formulated into a set of hypotheses based on prior literature. Further, proxy deemed relevant in assessing the credibility of the information disclosed has also been identified for the purpose of testing the hypothesized relationship.

3.1 Family Members on Board

Prior studies suggest that family owned companies gained control of the company by nominating family members on the board of directors (C. J. P. Chen & Jaggi, 2000; Ho & Wong, 2001; Nazli & Weetman, 2006). Further, this can also suggests the existence of dominant group of shareholders or a substantial shareholder with strong influence on the board's decision. Both suggestions point to the possibilities that the company is being managed by family owners and less diffused in terms of ownership structure. As owner managers have greater access to internal information, they have less incentive to disclose

voluntary information to outside investors (Chau & Gray, 2002; Haniffa & Cooke, 2002).

The lack of information to outside investors provides opportunities to the family owners to engage in expropriation of outside investors' wealth. For instance, expropriation activities engaged through connected party transactions by transferring profits to other companies under their control. These activities increase even further the family owners' incentive to reduce voluntary disclosure to outside investors.

Gaining control of the company also enable the owners to influence the appointments of individuals holding top management positions and board members (C. J. P. Chen & Jaggi, 2000; Ho & Wong, 2001; Wang, 2006). Appointments of independent non-executive directors that are influenced by personal ties to the controlling family owners could impair the directors' independence and consequently their influence on disclosure for more comprehensive financial information to outside investors. Lack of independence in this situation leads to higher risk of collusion between independent non-executive directors and family owners. Prior empirical evidence suggests that independent non-executive directors appointed through the influence of family owners support major decisions in favour of family owners rather than outside investors (C. J. P. Chen & Jaggi, 2000; Leung & Horwitz, 2004).

The potential entrenchment effect of family owners on voluntary disclosure can be mitigated by greater demand for detailed disclosure of voluntary information in the annual reports by outside investors (Wang, 2006). However, outside investors' role in mitigating this entrenchment effect in Malaysia may be an ineffective control mechanism as outside investors' activism is still developing. Hence, the overall arguments suggest that the existence of higher percentage of family members on the board is expected to reduce managers' incentives to disclose voluntary information to outside investors. Hence, this study formulates the following hypothesis:

H1: The percentage of family members on the board is significantly negatively related to the extent of voluntary disclosure.

3.2 Independent Non-Executive Directors

Fama & Jensen (1983) suggests that board composed of higher percentage of independent non-executive directors strengthened the extent to which the board is independent of management and thus are more effective monitors of managerial actions and decisions. Prior empirical research provide evidence that independent non-executive directors on the board impact a range of managerial actions and decisions, particularly in the interests of the investors (Bhagat & Black, 1999; Brickley et al., 1994; Cotter et al., 1997; Dahya & McConnell, 2005; Hermalin & Weisbach, 1998). These studies show that independent non-executive directors are associated with firing ineffective chief executive offices (Hermalin &

Weisbach, 1988), negotiations of tender offers (Cotter et al. 1997) and appointment of outside chief executive officers (Dahya & McConnell, 2005). While these studies provide evidence of some form of monitoring activities performed by independent non-executive directors, other empirical studies on firm value fails to provide consistent results (Agrawal & Knoeber, 1996; Bhagat & Black, 1999; Erickson et al., 2004; Hermalin & Weisbach, 1991; Klein et al., 2005; Vafeas & Theodorou, 1998).

With regard to the association between the independent non – executive directors on the board and managers' disclosure tendencies, the evidence is limited and mixed. Prior research shows that independent non-executive directors on the board are associated with more comprehensive mandatory financial disclosures (Chen & Jaggi, 2000) and more voluntary segment disclosure (Leung & Horwitz, 2004). In contrast, several studies show independent non-executive directors on the board are negatively associated with the extent of management voluntary disclosures (Gul & Leung, 2002; Eng & Mak, 2003), while other studies find no significant associations between independent non-executive directors and management voluntary disclosures (Haniffa & Cooke, 2002; Ho & Wong, 2001; Nazli & Weetman, 2006). Given the mixed findings in relation to the impact of independent non-executive directors on managers' voluntary disclosure decisions, this study will further investigate the relationship.

In addition to protecting the interests of investors, independent non-executive directors potentially protects the interests of outside investors in companies characterized by concentrated ownership (Anderson et al., 2004; Park & Shin, 2004; Shleifer & Vishny, 1997). In this setting, independent non-executive directors are normally appointed by the dominant owners, being the same individuals to be controlled by the independent non-executive directors. As such, the possible collusion between the independent non-executive directors and the dominant owners can limit the monitoring role of the independent non-executive directors.

Even if the risk of collusion is not eliminated, this study expects that the potential effect of this risk will be constrained by regulatory efforts in strengthening corporate governance in Malaysia. The existence of regulatory definition for independent non – executive directors under the stock exchange listing requirements is expected to increase their reputation concern as competent and responsible board members. When external regulatory bodies emphasize greater corporate transparency, boards align their monitoring objectives to those of the external regulatory bodies and encourage companies to disclose more voluntary information (Cheng & Courtenay, 2006). Hence, it is contended in this study that the independent non-executive directors on the board will influence managers to increase disclosure of voluntary information in the annual reports that are

relevant to outside investors. This leads to formulation of the following hypothesis:

H2: The percentage of independent non-executive directors on the board is significantly positively related to the extent of voluntary disclosure.

3.3 Board Interlock

Under uncertain conditions, institutional theory suggests that companies imitate each other's practices in an attempt to gain legitimacy (DiMaggio & Powell, 1983). Two important organization and business mechanisms that can facilitate managers to imitate other companies' voluntary disclosure practices for legitimacy purposes are through board interlock and industry concentration. The first mechanism, board interlock refers to appointment of director, either executive or independent non-executive director, on multiple boards. In this study, board interlock refers to appointment of independent non – executive directors on other boards. While both types of directors are responsible to facilitate management actions and decisions, independent non-executive directors are also expected to monitor management activities. As they are expected to act in the interests of outside investors, the imitation of other companies' disclosure strategy by management through independent non-executive directors networking is expected to result in voluntary disclosure that will secure acceptance by outside investors.

Prior studies provide evidence that board interlocks allow focal company to imitate specific and multiple policies of other companies (Brandes et al., 2006; Westphal et al., 2001). Imitation is possible through board interlock since the non – executive directors can learn decision-making processes through monitoring management decisions and also from direct participation in decision making of other boards.

Through direct participation, the independent non-executive directors can rehearse specific behaviors in the decision-making process in other similar situations and reenact the specific decisions at the focal company (Westphal et al., 2001). Brandes et al. (2005) find strong support for imitation strategy by managers through board interlocks in relation to imitation of voluntary recognition of stock option costs within the income statement. Further, they argue that managers adopt voluntary expensing of stock options to deflect criticisms against negative public impressions of companies' executive compensation and to signal that they have good corporate governance structures in place. Following this reasoning, it is contended in this study that the presence of board interlock facilitates managers to imitate other companies' specific disclosure practices for legitimacy reasons.

Besides imitation of a specific content of disclosure items of other companies' voluntary disclosure practices, board interlock also has the

prospects of facilitating managers to imitate the mimetic decision process of other companies. Through board interlock, the independent non-executive directors can internalize the decision making process of other company to increase voluntary disclosures for legitimization purposes from direct participation on other boards and reenact the decisions at the focal company. This imitation strategy, also known as second-order imitation (Westphal et al., 2001), has the propensity to diffuse the practice of increasing voluntary disclosures for legitimization purposes among the tied companies.

Regulatory authorities' calls for corporate transparency as a matter of good corporate governance practice create uncertainty regarding appropriate management voluntary disclosure practices in response to these calls. Management disclosure practices that conform to other companies practicing more transparent disclosure will be perceived as legitimate by regulators and investors (Aerts et al., 2006; Brandes et al., 2005; Cormier et al., 2005; Touron, 2005). Through voluntary disclosure, managers can communicate impressions of good corporate governance practices to these social actors. Hence, it is contended in this study that the presence of board interlocks will facilitate managers' imitation strategy of other companies' disclosure practices in an attempt to gain legitimacy from regulators and investors.

Managers' imitation strategy may result in direct imitation of other companies' disclosure practices or indirectly through second-order imitation of the disclosure decision processes of other companies. Irrespective of the imitation strategy, it is expected that board interlocks will increase managers' incentives to increase voluntary disclosure in annual reports. Based on this reasoning, the following hypothesis is formulated:

H3: The percentage of board interlocks is significantly positively related to the extent of voluntary disclosure.

3.4 Industry Concentration

The second mechanism that can facilitate managers' incentives to imitate voluntary disclosure practices of other companies is through network of companies within the same industry. The existence of a reference model of voluntary disclosure strategy within the industry can help to reduce the uncertainty regarding appropriate disclosure practices to be adopted by other companies within the industry (Aerts et al., 2006). As such, in managing the impressions of good corporate governance practice of a company through greater corporate transparency, conformance to the reference model voluntary disclosure practices can help to secure company' legitimacy (Aerts et al., 2006; Brandes et al., 2006).

In choosing a model to imitate, managers are more likely to adopt the behaviour of companies with which they like to be assimilated (Aerts et al., 2006;

Touron, 2005). Companies perceived as a leader or model practicing the legitimate activities will provide a strong model for other companies to assimilate. Aerts et al. (2006) provide substantive evidence that the existence of a number of large companies in a highly concentrated industry provide a strong disclosure model of environmental reporting for other companies to imitate. In other words, the presence of a strong model in a highly concentrated industry allows social actors to accept the practice of the model as legitimate, thus exerting pressure on other companies to conform to such practice.

Imitating disclosure strategies of another company that is widely perceived as a leader or model practicing good corporate governance will allow the managers to justify their actions and deflect criticisms regarding their voluntary disclosure and corporate governance practices. Hence, it is contended in this study that the existence of a strong disclosure model in a highly concentrated industry increases managers' incentives to increase voluntary disclosure. Such reasoning leads to the formulation of the following hypothesis:

H4: The percentage of industry concentration is significantly positively related to the extent of voluntary disclosure.

3.5 Extent of Voluntary Disclosure and Return-Earning Relation

This study also investigates the credibility of the voluntary information disclosed in annual reports. As owners gain effective control of the company and also the control of the production of the company's accounting information and reporting policies, it also provides opportunities for them to make self-serving reporting purposes (Healy & Palepu, 2001). Accordingly, the information disclosed may not be truthful and credible signals that can be used by outside investors.

As inferred by findings in Lundholm & Myers (2002), only credible management voluntary disclosures provide useful information to investors. They demonstrate that voluntary disclosure activity provides useful information to investors by changing their expectation about the company's future performance. Consequently, this is reflected in the stock price. This implies that corporate voluntary disclosure activity, when viewed as credible by investors, reflects management's tendency to publicly reveal value relevant information about current and future earnings that are impounded in the stock price. In other words, corporate voluntary disclosure activity viewed as credible by investors reflects management incentives to disclose credible voluntary information. It is hypothesized that:

H5: The extent of voluntary disclosure is significantly positively related to the current stock return and earnings relation.

4. Methodology

The relationships developed in the five hypotheses are depicted in an empirical schema as given in Figure 1. The dependent variable corresponding to the first four hypotheses is the extent of voluntary disclosure (VDISC) in companies' annual reports. VDISC is based on the aggregate score of five categories of disclosures developed in a self-constructed disclosure index. The dependent variable related to H5, examination of the credibility of the voluntary information is based on the interaction of the extent of voluntary disclosure and the return-earnings relation model adapted from Lundholm & Myers (2002) and Luo et al. (2006). The model measures the relation between current annual stock returns and earnings (contemporaneous annual earnings and future earnings). As the information is expected to be credible and reveal better information about future earnings, including the extent of voluntary information is expected to strengthen the return-earnings relation.

This study also includes three firm characteristics identified in prior research as determinants of management voluntary disclosure (e.g. Botosan, 1997; Chau & Gray, 2002; Haniffa & Cooke, 2002) as control variables. These variables are firm size, gearing and profitability. All the hypotheses will be tested using a sample of 155 companies listed on the main board of Bursa Malaysia at the end of the year 2002. The research approach involves the content analysis of listed companies' published annual reports.

The definition and measurement of variables is listed in Table 1.

5. Analysis And Results

5.1 Descriptive Statistics

Descriptive statistics for independent variables used in this study are given in Table 2. Percentage of family members on board (FAM) ranges from 0% to 100%, while the average value for independent non-executive directors on board (INED) is 37.98%. This suggests that companies in the sample on average are complying with the stock exchange requirement where at least one-third of the board members must be independent directors. On average, 42.39% of these directors are also board members of other public listed companies (INTER). Further, the maximum value of 100% for INTER revealed that all the board members in some companies are connected to other public listed companies through board interlocks. The average value for industry concentration (INDC) is 25.11%.

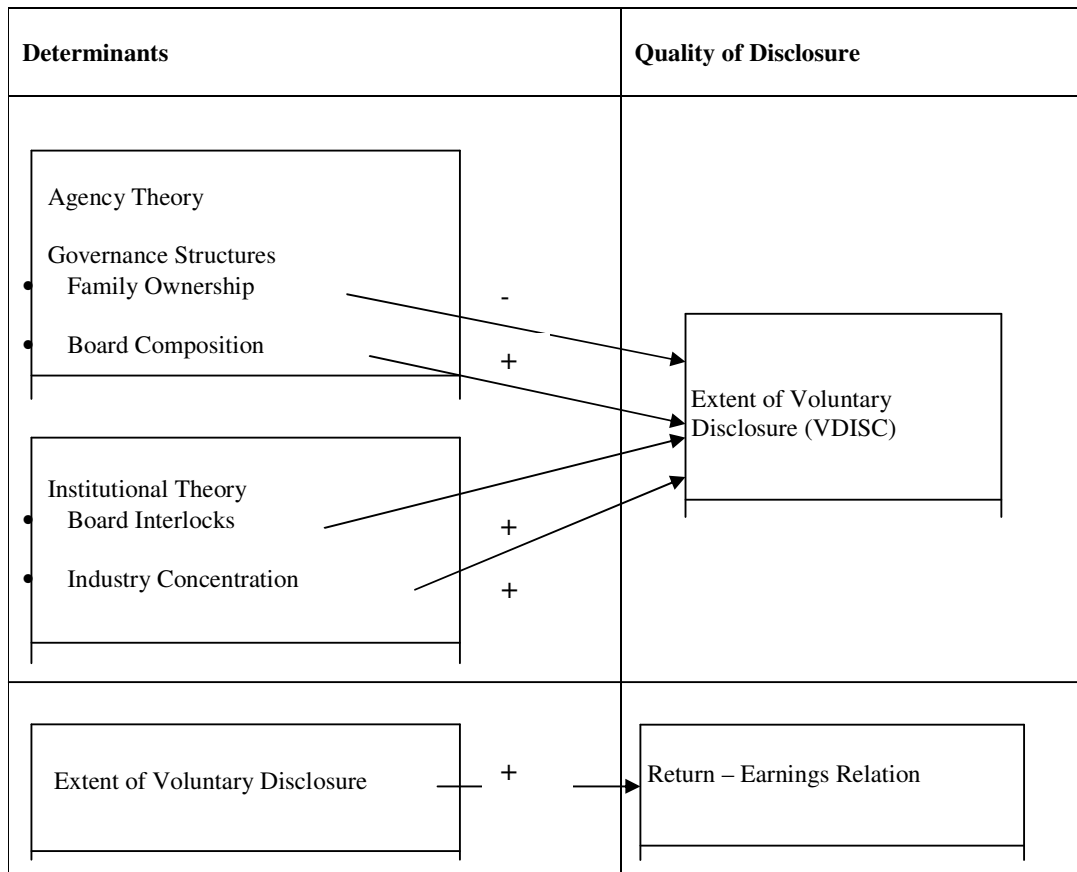


Figure 1. Empirical Schema

Table 1. Definition and Measurement of Variables

Variable Acronym	Definition	Measurement
VDISC	The extent of five categories of voluntary disclosure	Number of points awarded to each company across all the categories (score of “1” if item is disclosed and “0” if not)
FAM	Family members as defined by S122A of the Malaysian Companies Act, 1965	Percentage of family members on board to total number of directors on the board
INED	Independent non-executive directors as defined by MCCG	Percentage of the independent non – executive directors to the total number of board members
INTER	Board interlocks	Percentage of total number of independent non – executive directors with appointments on other boards divided by the number of total board members
INDC	Industry concentration	Percentage of the total sales made by the largest two companies in the industry to the total sales of that industry

The current annual stock returns (CRET) are in the range of negative 11.49% to 9.65%, while current earnings (CEARN) are between negative 107.58% and 35.45%. The mean current annual stock returns are negative 0.20% and the mean current earnings are negative 1.27%. These values suggest declining

performance among some of the companies in the sample during the current period of study. In contrast, the mean future earnings (FEARN) and future returns (FRET) are 8.58% and 1.17% respectively, indicating improve performance over the future years in the sample data.

Table 2. Descriptive Statistics of Independent Variables

	Label	Minimum	Maximum	Mean	Std. Deviation
Percentage of family members on board (%)	FAM	0.00	100.00	20.31	22.04
Percentage of independent non-executive directors on board (%)	INED	25.00	57.14	37.98	6.27
Percentage of total number of independent non – executive directors with appointments on other boards (%)	INTER	0.00	100.00	42.39	25.55
Percentage of total sales made by largest two companies in the industry to total sales of that industry (%)	INDC	12.47	68.30	25.11	9.95
Total assets (RM MIL)	SIZE	15	16,204	1,326	2,300
Profitability based pbit over shareholders funds (%)	PROF	-102.23	145.54	7.18	23.97
Gearing based on total debts over total assets (%)	GEAR	0.00	559.40	25.60	49.20
Current annual stock returns (%)	CRET	-11.49	9.65	-0.20	2.93
Current earnings (%)	CEARN	-107.58	35.45	-1.27	23.04
Change in earnings (%)	CHEARN	-108.22	590.44	4.33	56.08
Future earnings (%)	FEARN	-372.40	158.71	8.58	63.21
Future returns (%)	FRET	-12.07	50.63	1.17	6.54

5.2 Multivariate Analysis

Linear multiple regression is used as the basis of analysis for testing all the hypotheses developed in this study. Hypotheses H1, H2, H3 and H4 are examined based on model 1, while hypothesis H5 is examined based on model 2. The regression models are as follows.

Model 1: $VDISC = \beta_0 + \beta_2 FAM + \beta_3 INED + \beta_4 INTER + \beta_5 INDC + \beta_7 SIZE + \beta_8 GEAR + \beta_9 PROF + \epsilon_t$

where VDISC represents the extent of voluntary disclosure while definitions for independent variables are given in Table 2.

Model 2: $CRET_t = \beta_0 + \beta_1 CEARN_t + \beta_2 CHEARN_t + \beta_3 FEARN_t + \beta_4 FRET_t + \epsilon_t$

where variable definitions are given in Table 2.

Examination of H5 requires VDISC to be included as independent variable and interaction terms with the independent variables in model 2. The extended regression model 2 is stated as follows.

Model 2a: $CRET_t = \beta_0 + \beta_1 CEARN_t + \beta_2 CHEARN_t + \beta_3 FEARN_t + \beta_4 FRET_t + \beta_5 VDISC_t + \beta_6 VDISCCEARN_t + \beta_7 VDISCCHEARN_t + \beta_8 VDISCFEARN_t + \beta_9 VDISCFRET_t + \epsilon_t$

In all the above regression models, multicollinearity is tested using the variance inflation factor and tolerance levels, and found to be well within the satisfactory range. The results based on model 1 are presented in Table 3 while the results

based on model 2 are shown in Table 4. These results are now discussed in terms of tests of each of the hypotheses established in this study.

Table 3. Multiple Regression Results for Factors Affecting the Extent of Voluntary Disclosure

Dependent Variable: VDISC (Extent of voluntary disclosure) R Square = 44.5%, Adjusted R Square = 41.9%, F = 16.485, Sig. = 0.000			
Variables	Beta	t	Sig.
(Constant)			0.849
FAM	-0.185	-2.885	0.005* **
INED	-0.030	-0.476	0.635
INTER	0.116	1.756	0.081*
INDC	0.004	0.057	0.954
SIZE	0.493	7.681	0.000* **
GEAR	-0.046	-0.736	0.463
PROF	0.270	4.097	0.000* **

Coefficient for each variable is shown with *t* – statistics in parentheses
 * Significant at 10% level (1-tailed test); ** Significant at 5% level (1-tailed test);
 *** Significant at 1% level (1-tailed test)

Table 4. Comparison of the return-earnings regression results (model 2) and the return-earnings–disclosure results (model 2a)

Dependent Variable: CRET (Current annual stock returns)		
	Model 2	Model 2a
Adjusted R ²	0.188	0.189
F-value	9.936	4.976
Significance	0.000	0.000
(Constant)	1.000 (0.000)	0.775 (0.287)
CEARN	0.938 (-0.078)	0.608 (-0.515)
CHEARN	0.135 (1.505)	0.041* ** (2.062)
FEARN	0.000* ** * (4.562)	0.000* ** * (4.645)
FRET	0.882 (0.334)	0.129 (-1.528)
VDISC	-	0.862 (0.174)
VDISC*CEARN	-	0.672 (-0.424)
VDISC*CHEARN	-	0.074* (1.801)
VDISC*FEARN	-	0.883 (-0.147)
VDISC*FRET	-	0.194 (-1.304)

Coefficient for each variable is shown with *t* – statistics in parentheses
 * Significant at 10% level (1-tailed test); ** Significant at 5% level (1-tailed test);
 *** Significant at 1% level (1-tailed test)

First, H1 states that FAM will be inversely related to the extent of voluntary disclosure. The results in Table 3 reveal that FAM is significantly negatively related to the extent of voluntary disclosure (at sig. < 0.01%). Therefore, H1 is accepted. This result is consistent with the argument that higher

percentage of family members on board indicates the existence of a dominant group of shareholders or a substantial shareholder that could influence the board's decision to nominate family members to the board. Accordingly, these companies are likely to be closely held or owner managed (Claessens et al., 2000) with greater access to internal information. As such, family owners do not have to rely extensively on public disclosure to monitor their investments (e.g. Chau & Gray, 2002; Haniffa & Cooke, 2002). The opportunities to expropriate outside investors wealth by family owners due to lesser public disclosure will further reduce managers/owners incentives to disclose detailed voluntary information.

Second, H2 predicts that board composition as measured by the percentage of independent non-executive directors on the board is associated with a higher level of voluntary disclosure. Table 3 reveals a non significant relationship between the two variables. As such, H2 is not accepted. The result indicates that the presence of regulatory authorities' emphasis on board independence in this study has not increased the independent non-executive directors concern for their reputation. Accordingly, they have lesser incentives to perform their monitoring activities by exerting pressure on managers to disclose voluntary information to outside investors. This result is consistent with previous findings in Malaysia (Haniffa & Cooke, 2002; Nazli & Weetman, 2006). Elsewhere, prior findings have shown mixed results on the associations between the proportion of independent non-executive directors on board and the level of voluntary disclosure.

Third, H3 predicts that the higher the percentage of board interlocks as measured by the number of non – executive directors sitting on the boards of other public listed companies, the greater will be the level of voluntary disclosure. The result for the hypothesis test in Table 3 shows that board interlock is significantly positively correlated with the level of voluntary disclosure. Therefore, H3 is accepted. The result is consistent with Brandes et al. (2006) and confirms the fact that board interlocks allow focal company to imitate voluntary disclosure practices of other companies. Board interlocks facilitate the imitation strategy through their monitoring roles of management decisions on other boards and also direct participation in decision making of other boards. In such situations, board interlocks allow the independent non-executive directors at focal companies to learn specific or multiple policy decisions in relation to voluntary disclosure strategy. Consequently, this accelerates the awareness to disclose higher voluntary information among the independent non-executive directors and influence their voluntary disclosure decisions at the focal companies.

Managers' imitation strategy facilitated by board interlocks and the strong influence of family owners in this study infer a possible collusion between independent non-executive directors and family

owners. In a setting characterized by the presence of controlling owners, the risk of collusion is high because independent non-executive directors are generally appointed by these owners (Patelli & Prencipe, 2007). In such situation, the lower level of independence limits the monitoring role performed by the independent non-executive directors (C. J. P. Chen & Jaggi, 2000). Instead, they are more likely to support the controlling owners in major decisions (Leung & Horwitz, 2004). Hence, the results in this study infer that independent non-executive directors support family owners by influencing managers to increase voluntary information for legitimacy purposes. Further, it also offers a possible explanation to the insignificant relationship of independent non-executive directors on their board and the extent of voluntary disclosure (test of H2).

Fourth, H4 predicts that companies operating in highly concentrated industries are associated with higher level of voluntary disclosure. The result in Table 3 indicates that there is no significant relationship between industry concentration and the level of voluntary disclosure. The result shows a positive relationship indicating that companies in highly concentrated industries are more likely to increase public disclosure of voluntary information. This can occur where a number of large companies exists and provide a strong disclosure model for other companies within the industry to imitate. However, as the correlation coefficient is weak, H4 is rejected.

Finally, H5 predicts that the greater the extent of voluntary disclosure, the more positive is the relationship between current annual stock returns and future earnings. Table 4 presents the results for model 2 when VDISC is not included while results for model 2a include the effects of VDISC. The results in model 2 reveal that the future earnings variable is significant at 1% level (t value = 4.562). This finding is consistent with prior literature and it indicates the importance of future earnings in explaining the variation in the current stock returns (Collins et al., 1994; Lundholm & Myers, 2002; Luo et al., 2006). Further, the insignificant relationship between current annual reported earnings and current stock returns is also consistent with the argument in prior literature that current annual reported earnings do not reflect underlying economic events in a timely manner (Collins et al., 1994; Francis & Schipper, 1999; Lev & Zarowin, 1999).

When voluntary disclosure is included in model 2a, the positive effects of future earnings reported in model 2 are expected to be supplemented by the extent of disclosure. This is because disclosure becomes an important signaling to investors of corporate quality in influencing their determination of current annual stock returns. However, the results in model 2b show no significant effect of VDISC on current annual stock returns, but future earnings continue to show positive significant relations. Further, the overall results in model 2a suggest that voluntary disclosure is not viewed as credible to

investors in Malaysia. The insignificant change in the adjusted R^2 in both models further supports this suggestion. As such, H5 is not accepted.

6. Conclusion and Limitations

This study provides evidence that under the influence of dominant owners on board, management voluntary disclosure decisions are driven by mimetic pressures when their company is structured to meet expectations of good corporate governance. Instead of exerting pressure on management to increase voluntary disclosure to outside investors, the results infer that independent non-executive directors support management increase in voluntary disclosure of their activities for legitimacy purposes. Such disclosure practice seems to override management incentives to disclose credible information to outside investors. This inference is corroborated by the evidence that management voluntary disclosures are not viewed as credible by outside investors.

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

There are some limitations in this study. The proxy for voluntary disclosure can include some measurement error and the empirical model used to examine the extent of voluntary disclosure on the return-earnings relation can suffer from omitted variables. In particular, theoretical and empirical research suggests that returns and future earnings are affected by corporate governance mechanisms (Bushman et al., 2004). Future research can be extended to integrate other corporate governance mechanisms as well as other categories of corporate disclosures such as social reporting and earnings forecasts.

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