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Impact of Corporate Governance on Disclosure Quality: Empirical Evidence from Listed Banks in Malaysia

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ABSTRACT

The Asian financial crisis in 1997 has awakened the regulators and corporates on the importance of corporate governance. In any country's economy, banking sector plays an important role for the better economy. Accordingly, the objective of this study is to examine the relationship between corporate governance and disclosure quality of listed banks on Bursa Malaysia. Corporate governance variables tested in this study are the board leadership structure, board composition, board size, director ownership, institutional ownership and block ownership. The researchers developed the disclosure index and it will be checked against the information disclosed in the annual reports. Then, in calculating the weighted disclosure score, the views of accountants and financial analysts are also considered through survey questionnaire. The results reveal that better disclosure quality of the annual reports in banking sector can be achieved by having separate board leadership structure, higher proportion of independent non-executive directors, higher board size, lower ownership by the directors, institutional and block shareholders.

Keywords: Disclosure quality, board of directors, banks

INTRODUCTION

In Asian countries, including Malaysia, corporate governance issue becomes an attractive issue for researchers in late 1990s following the 1997-1998 crises (Cheung and Chan, 2004). According to agency theory, a good corporate governance system is necessary for more transparent information disclosure about the corporation,

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particularly in the annual reports which are the main sources of information provided to investors. Moreover, corporate governance of the banks plays an important role to ensure that financial sector is stable for the better economy of the country (Basel Committee, 2005; Alexander, 2006; Garcia-Marco and Robles-Fernandez, 2008). Therefore, it is interesting to investigate the impacts of corporate governance variables in the banking sector. It also has been stated by Patel *et al*. (2002), Utama (2003) and Basel Committee (2005) that disclosure is integral to corporate governance because higher disclosure is able to reduce the information asymmetry and to make top management answerable for their tasks.

To the researchers' knowledge, there is no study has been done on the impact of corporate governance on disclosure quality in the annual reports of banking sector in Malaysia. Hence, the aim of this study is to examine the important role of board of directors regarding disclosing quality of the annual reports. The main research question is whether corporate governance mechanisms can affect the disclosure quality of annual reports of listed banks in Malaysia.

This paper is organized into few sections. The following section explains theoretical framework and prior empirical studies. Then, a brief discussion on the accounting standards in Malaysian banking sector is presented. The next section elaborates on the hypotheses development and research design. Then, the results are discussed and the paper later concludes.

THEORETICAL FRAMEWORK AND EMPIRICAL STUDIES

Jensen and Meckling (1976) state that due to the separation of ownership and control, agency problems may occur. Thus, Williams *et al*. (2006) and Judge *et al*. (2003) suggest to implement a good corporate governance system to minimize the agency cost because it promotes goal congruence among principals and agents (Conyon and Schwalbach, 2000). Short *et al*. (1999) and Cheung and Chan (2004) also mention that the main aim of corporate governance is to monitor the management to ensure that the management decision fulfills shareholders' interests.

The following discussions explain the corporate governance mechanisms from the agency theory perspective and the empirical findings related to this study.

Agency Theory and Separate Leadership Structure

According to Jensen and Meckling (1976), agency theory argues for a clear separation of the responsibilities of the Chief Executive Officer (CEO) and the chairman of the board. If the CEO and the chairman of the board are not different persons, the same person will monitor his own performance and consequently it will decrease the effectiveness of board (Finkelstein and D'Aveni, 1994; Florackis and Ozkan, 2004). Thus, CEO and board chairperson should not be the same person in order to create pressure on the top management led by CEO to have better disclosure quality of the annual report. Hence, it can be asserted that better disclosure quality can be achieved by having separate board leadership structure.

There is a positive relationship between separate leadership structure and information disclosure found in studies by Ho and Wong (2001), Gul and Leung (2004), Lakhal (2005), Byard *et al*. (2006) and Huafang and Jianguo (2007) which are in line with the theoretical expectation. On the other hand, a study by Norita and Shamsul Nahar (2004) reveal that separate leadership structure is not associated with voluntary disclosure.

Agency Theory and Board Composition

According to Choe and Lee (2003), board composition is an important corporate governance mechanism. Although the executive directors have better knowledge about the firms, the role of the independent directors is essential to have independent decisions which are in line with the interest of shareholders (Weir, 1997; Firth *et al*. 2002; Cho and Kim, 2003). Furthermore, it is believed that more independent directors will result better disclosure quality. The findings of Chen and Jaggi (2000), Gul and Leung (2004), Byard *et al*. (2006), Cheng and Courtenay (2006) and Norita and Shamsul Nahar (2004) are consistent with the theoretical expectation.

Agency Theory and Board Size

Jensen (1993) and Florackis and Ozkan (2004) mention that boards with more than seven or eight members are unlikely to be effective. The smaller the board size, the better communication and coordination is (Huther, 1997; Yoshikawa and Phan, 2003) and it will result in better disclosure quality. This expectation is supported in a study by Byard *et al*. (2006). In contrary, the finding of Lakhal (2005) does not support the theoretical expectation.

Agency Theory and Ownership

Based on agency theory, this study examines the impacts of ownership structure variables on disclosure quality by using three proxies. They are director ownership, block ownership and institutional ownership.

Director Ownership

Jensen and Meckling (1976) state that when directors are monitoring the firms where they have ownership interest, they may not require more disclosure in an attempt to create pressure on the management. It might be due to two reasons; first, they know the inside information about the firms and thus do not need information from the companies' annual reports. Second, the directors might be interested to maximize their own interests at the expense of outside shareholders and in this situation, they may prefer to conceal some of the material information. The theoretical expectation seems to be supported by Chau and Gray (2002), Eng and Mak (2003) and Leung and Horwitz (2004). While Norita and Shamsul Nahar (2004) and Ballesta and Garcia-Meca (2005) find that higher director ownership provides higher quality of financial reporting, studies by Chau and Gray (2002) and Huafang and Jianguo (2007) reveal no relationship between the variables.

Block Ownership

According to Kang and Sorensen (1999), Maher and Anderson (1999) and Kim and Lee (2003), block owner is defined as an individual who owns shares which is five percent and above of the total issued shares. By using their voting power, the block owners might select their trusted persons to be appointed as a CEO or board members. For the block shareholders, additional information disclosure might not be necessary because they can assess the inside information through their proxies, i.e. their selected CEO and board members. They might even want to conceal some of the information to protect their interest. Therefore, a negative relationship between block holders and disclosure is expected. This is supported by Lakhal (2005). However, the findings of Chau and Gray (2002), Luo *et al*. (2006), Huafang and Jianguo (2007) and Norita and Shamsul Nahar (2004) are not consistent with the theoretical expectation.

Institutional Investors

Kim and Nofsinger (2004), Leng (2004), Solomon and Solomon (2004), Seifert *et al*. (2005), Le *et al*. (2006), Chen Li and Lin (2007) and Ramzi (2008) collectively agree on the important role of institutional shareholders in monitoring firm's business operation. The disclosure quality of the annual report may also increase due to their high ownership and a fiduciary responsibility towards the ultimate owners. Thus, the positive relationship between institutional ownership and disclosure quality is expected. The findings of Eng and Mak (2003) and Lakhal (2005) are in parallel with the theoretical expectation.

ACCOUNTING STANDARDS IN MALAYSIAN BANKING INDUSTRY

In 2013, Bank Negara Malaysia has provided "Financial Reporting Standard". It mainly consists of four parts. First, the guideline provides an overview which consists of the applicability, legal provision, level of application and interpretation. Second, it presents the regulatory requirement for the banks such as compliance with Malaysian Financial Reporting Standards (MFRS), specific requirements on the application of the MFRS, the use of fair value option for financial instruments and the minimum disclosure requirement. Third, the standard covers on the regulatory process and submission requirements, for instance declaration and payment of dividends, annual financial statements and interim financial reports. The last part of the standard presents the annual financial statements and the interim financial reports. This standard requires the banks to comply with the key principles on disclosure of information, for instance, timely and up-to-date information disclosure in order to avoid undue delays in disclosure. The standard recommends for timely information disclosure because if there is any delay in disclosing the information, it might impair the relevancy of the information. In addition, there should be adequate information disclosure on uncertain events or situations to reduce risk to the investors. The disclosure should emphasize on key accounting estimates, assumptions and the probabilities of the occurrence of various scenarios. Comparative accounting information should be disclosed whereever necessary to provide more comprehensive information to be useful for all the involved parties.

DEVELOPMENT OF HYPOTHESES AND RESEARCH DESIGN

Development of Hypotheses

According to Patel *et al*. (2002), United Nation (2003) and Leong (2005), disclosure quality of annual reports is the heart of corporate governance because it shows the extent of how good corporate governance is. In addition, Beekes and Brown (2006) find that better-governed firms do make more informative disclosure. Hence, it is interesting to examine whether corporate governance variables could affect the disclosure quality of annual reports and the following alternative hypotheses are developed.

H_{a1}: *Disclosure quality is positively related to separate leadership structure.*

H_{a2}: *Disclosure quality is positively related to proportion of independent non-executive directors on the board.*

H_{a3}: *Disclosure quality is negatively related to board size.*

H_{a4}: *Disclosure quality is negatively related to director ownership.*

H_{a5}: *Disclosure quality is negatively related to block ownership.*

H_{a6}: *Disclosure quality is positively related to institutional ownership.*

Research Design

Dependent Variable

Weighted disclosure score is used as a dependent variable and it is measured by the disclosure index (*Refer to Appendix 1*) developed by the researchers based on the rules and regulations governing the banks such as Bank Negara, Basel Committee, Statement on Internal Control issued by the Institute of Internal Auditors Malaysia for public listed companies. Additionally, prior studies by Goldberg *et al*. (1995), Hafiz-Majdi (2000), Christopher and Salleh (2005) and Wong (2005) are also being reviewed to develop the disclosure index. In order to compute the weighted disclosure score, the following steps have been taken. First, the disclosure check list is created with two hundred and twelve items which are mixed of both voluntary and mandatory items of disclosure in the annual reports. Next, this disclosure checklist is used as a benchmark to examine whether the items from the list are disclosed in the annual reports of banks. Dichotomous variables, i.e. (1= disclosure item and 0= non-disclosure item) are used. This gives the disclosure score for each item from the checklist. Then, survey questionnaire (*Refer to Appendix 2*) is developed to obtain views from financial analysts and accountants on the importance of each disclosure items. The level of importance ranges from 1 to 5, where 1 refers to the least important and 5 refers to the most important. For each item from the questionnaire, the mean of the respondents' answer is taken to compute the average important level. Then it is multiplied with the disclosure score of each item which has been checked during the second stage of data collection in order to compute the weighted disclosure score, i.e. the dependent variable.

Empirical Model

There are six independent variables which comprise of three structural measures of corporate governance (i.e. board leadership structure, board composition and board size) and three measures of ownership structure (i.e. director ownership, institutional ownership, and block ownership). The empirical model of the study also includes two control variables related to firm-specific characteristics (i.e. firm size and leverage). The complete empirical model is as follow.

$$Y_{it} = \beta_{o} + \beta_1 x_{1it} + \beta_2 x_{2it} - \beta_3 x_{3it} - \beta_4 x_{4it} + \beta_5 x_{5it} - \beta_6 x_{6it} + \beta_7 x_{7it} + \beta_8 x_{8it} + \mu_{it}$$

Where,

i = represent the number of banks
t = represent the number of sample years
Y = Weighted information disclosure score
x_1 = Board leadership structure (BLS)
x_2 = Proportion of independent non-executive directors on the board (INE_BZ)
x_3 = Board size (BZ)
x_4 = Proportion of director ownership (DOWN)
x_5 = Proportion of institutional ownership (IOWN)
x_6 = Proportion of block ownership (BOWN)
x_7 = Log of total assets (LNTA)
x_8 = Leverage (TD_TE)
μ = Error term

The respective measures for each variable are as follows:

(a) Board leadership structure is measured as follows:

Company with combined leadership structure = 0 Company with separate leadership structure = 1

(b) Proportion of independent non-executive directors on the board is calculated as follows:

$$\text{Proportion of independent non-executive directors} = \frac{\text{Number of independent non-executive directors}}{\text{Total number of directors on the board}}$$

(c) Board size is calculated as follows:

Board size = Total number of directors on the board

(d) Proportion of director ownership is calculated as follows:

$$\text{Proportion of director ownership} = \frac{\text{Number of shares owned by the directors}}{\text{Total number of shares issued}}$$

(e) Proportion of institutional ownership

$$\text{Proportion of institutional ownership} = \frac{\text{Sum of the number of shares owned by the institutional shareholders}}{\text{Total number of shares issued}}$$

(f) Proportion of block ownership is calculated as follows:

$$\text{Proportion of block ownership} = \frac{\text{Sum of the number of shares of the owners who own 5\% and above}}{\text{Total number of shares issued}}$$

Sample Selection and Statistical Methods

There are only twelve listed banks in Malaysia. Thus, all banks are included as sample of the study. Sample data have been collected from 1996 until 2005 incorporating data from period of five years before and after the introduction of Malaysian Code on Corporate Governance (MCCG) in year 2001. The total number of observations is 120 observations. However, a number of the observations have been removed due to unavailability of data and a few companies were not classified as banks in all the ten years' period. It left the final observations to 108 observations. Panel data analysis (generalized least square method) is used in this study because the sample data are not normally distributed and the data have either heteroskedasticity problem, autocorrelation problem or both. According to Gujarati (2003), using generalized least square method will overcome all these problems.

RESULTS AND DISCUSSION

Pilot Test

Pilot test has been conducted. A total of fifty nine questionnaires, i.e. twenty four questionnaires to accountants and thirty five questionnaires to financial analysts are sent. Out of fifty nine, nine accountants and twelve financial analysts responded. Hence, the response rate is thirty six percent. The purpose of the pilot test is to find out whether the questionnaire that has been developed to examine the opinion of financial analysts and accountants is clear, good and comprehensive enough to use as the actual questionnaire. Data analysis of pilot test shows that the Cronbach's alpha value is 0.94 and so it can be concluded that the questionnaire is internally consistent. In addition, the overall mean score for comprehensiveness of the questionnaire is 4.05, for understandability of the questions are 4.10 and for understandability of the instruction is 4.62 (*Refer to Table 1*). Therefore, it can be asserted that the piloted questionnaire is good to be used as an actual questionnaire.

Table 1 Mean score for comprehensiveness and understandability of the questions and the instruction: Pilot test

No.	Description	Mean		
		Accountants	**Financial analysts**	**Overall**
1	The questionnaire comprehensively covers the important disclosure items of the annual reports.	4.22	3.92	4.05
2	The contents of the questionnaire are easy and simple for the respondents to understand.	4.22	4.00	4.10
3	The instructions to answer the questionnaire are clear.	4.78	4.50	4.62

Table 2 shows Cronbach's alpha value of each section from the pilot test. The minimum alpha value is 0.71 and thus, it can be assumed that the respondents' answer from the pilot test is reliable and consistent

Table 2 Reliability test results: Pilot test

	Alpha		
	Accountants	**Financial analysts**	**Overall**
Disclosure on strategic information	0.95	0.90	0.94
Disclosure on risk management	0.97	0.96	0.97
Disclosure on financial information	0.87	0.95	0.90
Disclosure in the notes to the accounts	0.97	0.99	0.98
Disclosure on segmental information	0.88	0.82	0.85
Disclosure on market share, contingent liabilities and assets, and other information	0.95	0.93	0.95
Disclosure on social, environmental and value added information	0.98	0.75	0.95
Additional disclosure on operations of islamic banking	0.71	0.97	0.93

The Results

For the actual questionnaire, the opinions of one hundred and thirty one accountants and fifty one financial analysts are taken. The profile of the respondents can be referred to Table 3.

Table 3 describes the background information about the respondents. Overall, both male and female respondents seem to be equally distributed when forty nine percent of the respondents are male and fifty one percent of them are female. Regarding the educational background, the majority of the respondents are bachelor degree holders, and the rest are professional certificate holders. Since fifty seven percent of the respondents are from the audit firms and forty three percent are from the non-audit firms, the opinion seems not to be too much influenced by one particular group because majority of the respondents are accountants. The age range of the majority is between twenty to twenty nine, followed by the age range between thirty to thirty nine years old. In terms of working experience, majority of the respondents, i.e. forty three percent, are below three years working in the current profession and twenty three percent of them have working experience between three to seven years.

Table 3 Profile of the respondents

	Accountants		Financial analysts		Overall	
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
Gender						
Male	52	39.69	37.00	72.55	89.00	48.90
Female	79	60.31	14.00	27.45	93.00	51.10
Total	131	100.00	51.00	100.00	182.00	100.00
Educational background						
Bachelor degree	74	56.92	25.00	50.00	99.00	55.00
Master	6	4.62	19.00	38.00	25.00	13.89
Ph.D			1.00	2.00	1.00	0.56
Professional qualification (ACCA, CIMA, CFA, etc)	50	38.46	5.00	10.00	55.00	30.56
Total	130	100.00	50.00	100.00	180.00	100.00
Employment category						
Audit firm	103	78.63	1.00	1.96	104.00	57.14
Non-audit firm	28	21.37	50.00	98.04	78.00	42.86
Total	131	100.00	51.00	100.00	182.00	100.00
Age range						
Below 20						
20-29	63	48.09	11.00	21.57	74.00	40.66
30-39	35	26.72	22.00	43.14	57.00	31.32
40-49	27	20.61	14.00	27.45	41.00	22.53
50-59	4	3.05	4.00	7.84	8.00	4.40
60 and above	2	1.53			2.00	1.10
Total	131	100.00	51.00	100.00	182.00	100.00

Table 3 (Cont'd)

Working experience with current profession						
Below 3 years	63.00	48.09	15.00	29.41	78.00	42.86
3 – 7	29.00	22.14	13.00	25.49	42.00	23.08
8 – 12	16.00	12.21	10.00	19.61	26.00	14.29
13 – 17	15.00	11.45	7.00	13.73	22.00	12.09
18 – 22	2.00	1.53	3.00	5.88	5.00	2.75
23 – 27	2.00	1.53	3.00	5.88	5.00	2.75
Above 27	4.00	3.05			4.00	2.20
Total	131.00	100.00	51.00	100.00	182.00	100.00
Additional information						
Masters			1.00	1.96	1.00	0.55
Professional qualifications (ACCA, CIMA, CFA, etc)	15.00	11.45	7.00	13.73	22.00	12.09

The reliability test for the actual respondents is also carried out. The results show that the minimum Alpha value is 0.87 from the overall results. Accordingly, it could be concluded that the respondents' answers are reliable (*Refer to Table 4*). Finally, non-response biasness is checked. There is no non-response bias from the questionnaire received from the accountants and financial analysts based on t-tests and Mann-Whitney U test between early respondents and late respondents.

Table 4 Reliability test results: Actual respondents

	Alpha		
	Accountants	**Financial analysts**	**Overall**
Disclosure on strategic information	0.92	0.86	0.90
Disclosure on risk management	0.96	0.97	0.96
Disclosure on financial information	0.92	0.93	0.93
Disclosure in the notes to the accounts	0.95	0.96	0.96
Disclosure on segmental information	0.92	0.91	0.92
Disclosure on market share, contingent liabilities and assets, and other information	0.88	0.85	0.87
Disclosure on social, environmental and value added information	0.88	0.90	0.89
Additional disclosure on operations of islamic banking	0.92	0.93	0.93

Table 5 shows the descriptive statistics of the variables used in the study. Concerning the board leadership structure, its mean value (0.81) shows that a majority of the banks have separate leadership structure although the minimum value (zero) shows that there are banks which have combined leadership structure. Similar to the recommendation of the MCCG (2001), the sample mean value (0.36) shows that ratio of independent directors is slightly more than one third of the total number of the directors. The mean value (8.23) of board size shows existence of a quite reasonable board size. For ownership, the mean values of director ownership and institutional ownership are 0.02 and 0.17 respectively. The ownership of shares by directors can be considered very low where, on average, only 2 percent of shares owned by the directors. On the other hand, institutional investors, on average, owned 17 percent of shares which could still be considered low although it is significantly higher than the ownership by the directors. In the case of block ownership, its mean value (0.53) shows that the significant portion of the shares is owned by large shareholders. The mean value of weighted information disclosure

Table 5 Descriptive statistics: Independent, dependent and control variables

	Mean	Std. Dev.	Min	Median	Max	Skewness	Kurtosis
Independent variables							
(a) CG variables							
BLS	0.81	0.40	0.00	1.00	1.00	-1.57	0.46
INE_BZ	0.36	0.18	0.10	0.33	0.83	0.68	-0.49
BZ	8.23	2.34	4.00	8.00	14.00	0.33	-0.62
(b) Ownership variables							
DOWN	0.02	0.05	0.00	0.00	0.25	3.26	10.40
IOWN	0.17	0.18	0.00	0.09	0.64	1.00	-0.53
BOWN	0.53	0.21	0.00	0.58	1.00	-0.81	0.04
Dependent variable							
(c) Disclosure variable							
WDS[1]	321.91	108.24	119.84	316.95	574.68	0.12	-0.80
Control variables							
TA	45992.19	40245.92	1120.36	33326.95	191895.30	1.54	2.28
TD_TE	344.73	331.14	14.03	223.80	1442.26	1.60	1.89

[1]WDS refers to weighted information disclosure score.

score is 321.91. As for the firm-specific characteristics, the sample companies have the means values of RM45992.19 millions for total assets and 344.73 for the ratio of total debt to total equity.

Table 6 and 7 show the results on the impact of corporate governance variables on disclosure quality. INE_BZ, BZ and BOWN have a significant impact on disclosure at one percent significant level. However, only the result of INE_BZ and BOWN are in line with the hypothesis. Thus, it is supported that higher INE_BZ and lower block ownership have better disclosure, but not for BZ. BLS is in line with the hypothesis while DOWN and IOWN are not although the findings are not significant. Therefore, it could be generally concluded that higher disclosure could be achieved by separate BLS, higher INE_BZ, higher BZ, higher DOWN, lower IOWN and lower BOWN. The findings support the concerns raised by the MCCG (2001) on monitoring roles of the independent non-executive directors. It also follows the concerns by other regulation such as the Combined Code in UK and the Sarbanes Oxley Act in US. With more inclusion of independent non-executive directors on the board, it could perform its monitoring functions more effectively, and thus enhance disclosure quality.

Table 6 GLS results of weighted disclosure score

	Coefficient	Z_value	P value
Independent variables			
BLS	18.06	0.69	0.49
INE_BZ	**262.54**	**9.47***	**0.00**
BZ	**16.38**	**7.04***	**0.00**
DOWN	195.37	0.91	0.37
IOWN	-5.65	-0.24	0.81
BOWN	**-75.16**	**-3.01***	**0.00**
Control variables			
LNTA	**110.50**	**11.08***	**0.00**
TD_TE	**-0.16**	**-8.11***	**0.00**
CONS	**-913.54**	**-10.09***	**0.00**
Chi-Sq.			**1967.27***
P value			**0.00**
Heteroskedastic	LR Chi^2		**37.71***
(LR Test)	P value		**0.00**
Autocorrelation	F statistics		**84.11***
(Wooldridge Test)	P value		**0.00**
* Significant at 1%	** Significant at 5%		

Meanwhile, both control variables, i.e. LNTA and TD_TE have significant impact on disclosure but the finding from leverage, i.e. TD_TE, is not according to what is expected in theory. It might be due to the fact that in Malaysia, the creditors or the lenders do not have much power to create pressure on the management regarding information disclosure.

Table 7 Summary of findings

Independent variables	Disclosure quality
BLS	
In line with hypothesis	√
Significant level	
INE_BZ	
In line with hypothesis	√
Significant level	1%
BZ	
In line with hypothesis	X
Significant level	1%
DOWN	
In line with hypothesis	X
Significant level	
IOWN	
In line with hypothesis	X
Significant level	
BOWN	
In line with hypothesis	√
Significant level	1%

CONCLUSIONS

In sum, this study conducts a content analysis from the annual reports of Malaysian public listed banks from 1996 to 2005. Panel data analysis finds that the effectiveness of the board in influencing better disclosure quality of the annual reports is largely due to separate board leadership structure, the higher proportion of independent non-executive directors, higher board size, lower ownership by the directors, institutional and block shareholders, block-holders. However, other conventional measures of corporate governance are not significant.

Although the sample of the study includes twelve listed banks in Malaysia only, it is believed that the findings will contribute significantly to the current literature, academicians, investors and regulators. The study uses the weighted disclosure score to measure the disclosure quality of the annual reports. The weight for each disclosure item is obtained from the opinions of accountants and financial analysts. This study does not only use score one or zero for disclosure and non-disclosure items, but it also incorporates the opinion of the users and preparers of the annual reports in measuring disclosure quality. Therefore, it is expected that the weighted score used in this study is more meaningful, compared to scoring of one or zero.

In addition, panel data analysis is used to obtain more optimal results because it takes into account time series of cross-section observations. Ordinary multiple regression technique cannot give optimal results for changes in the dependent variables over time. Results from panel data analysis give more informative data, more variability, less collinearity among variables, more degrees of freedom and more efficiency. Thus, it is expected that the findings are reliable because the study uses the statistical technique which can provide the optimal results.

In the context of disclosure, the disclosure quality of the annual reports is examined comprehensively because the total number of the disclosure items in the index is two hundreds and twelve. Additionally, the study covers a period of ten years (1996-2005), i.e. five years before and after the implementation of the MCCG (2001).

Hence, it is believed that the findings contribute to the academicians to further extend the research, the investors to make the investment decisions, and the regulators and policy makers to draft further rules and regulations. Future research within this context is proposed to include unlisted banks because it may represent a broader disclosure quality in the annual reports. In addition, it is also recommended that future research will incorporate interviews with the board of directors to find out how decision has been made to disclose information in the annual reports, particularly voluntary information disclosure.

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APPENDIX 1

Disclosure index

A. STRATEGIC INFORMATION

I. General background

1. Brief history of company
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3. Identification of principal products or services
4. Description of specific characteristics of these products or services
5. Identification of principal markets
6. Description of specific characteristics of these markets
7. Identification of senior managers
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11. – Financial (Qualitative)
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16. Discussion of macroeconomic trends (e.g. inflation)
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20. Description of key procedures of the internal control system
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40. Age of directors
41. Educational qualifications (Academic and professional)
42. Description of commercial experience of directors
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55. Impact of market risks on future results (Quantitative/ Qualitative)
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68. Analysis based on maturity structure
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72. Major exchange rates used in the accounts
73. Quantitative analysis of currency risk
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76. Key procedures to manage liquidity risk
77. Quantitative analysis of liquidity risk
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80. Key procedures to manage credit risk
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85. Quantitative analysis of operational risk
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122. Breakdown of dealing securities
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125. Disclosure of each type of fixed assets with respective accumulated depreciation

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127.		– By maturity
128.		– By type of customer
129.		– By interest/ profit rate sensitivity (e.g. Fixed rate, Variable rate)

130. – By sector (e.g. Agriculture, Manufacturing)
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132. Movements in non-performing loans, advances and financing (Qualitative)
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165. Bank's dividend policy (Qualitative)
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171. Share option schemes-Policy (Qualitative)
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190.	– By type of customer
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195. Movements in non-performing loans, advances and financing (Qualitative)	
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197. Movements in allowance for bad and doubtful financing (Qualitative)	
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APPENDIX 2

Section A: Disclosure Items in the Annual Reports

Please give your opinion on how important you think the following items in the annual report are by circling or crossing the appropriate number. The objective is to obtain your opinion on the importance of these items in general, as some of the following items may not be appropriate to your company or organization specifically.

I. Disclosure on Strategic Information

Least important Most important

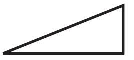
No.	Description					
1	General background of the company (Qualitative information, e.g. history of the company)	1	2	3	4	5
2	Corporate strategy					
	(a) Qualitative information	1	2	3	4	5
	(b) Quantitative information	1	2	3	4	5
3	List and composition of board and board sub-committees such as audit committee & remuneration committee	1	2	3	4	5
4	Roles and responsibilities of board and board sub-committees	1	2	3	4	5
5	Information on remuneration committee					
	(a) Qualitative information, e.g. description about the committee	1	2	3	4	5
	(b) Quantitative information, e.g. remuneration scheme	1	2	3	4	5
6	Directors' background information (e.g. age, educational qualification)	1	2	3	4	5
7	Information on internal control (e.g. key procedures)	1	2	3	4	5
8	Information on board and board sub-committee meetings (e.g. date, frequency, & attendance)	1	2	3	4	5
9	Description on *Shari'ah* committee (e.g. list, roles & responsibilities, education background, remuneration)	1	2	3	4	5
10	Projected or forecasted information					
	(a) Qualitative information	1	2	3	4	5
	(b) Quantitative information	1	2	3	4	5

II. Disclosure on Risk Management

Least important Most important

No.	Description					
1	Overall market risk exposure					
	(a) Qualitative information, e.g. procedure to manage market risk	1	2	3	4	5
	(b) Quantitative information, e.g. analysis of market risk exposure	1	2	3	4	5
2	Interest rate risk exposure					
	(a) Qualitative information, e.g. procedure to manage interest rate risk	1	2	3	4	5
	(b) Quantitative information, e.g. analysis of interest risk exposure	1	2	3	4	5
3	Currency risk exposure of net assets					
	(a) Qualitative information, e.g. procedure to manage currency risk	1	2	3	4	5
	(b) Quantitative information, e.g. analysis of currency risk exposure	1	2	3	4	5
4	Liquidity risk					
	(a) Qualitative information, e.g. procedure to manage liquidity risk	1	2	3	4	5
	(b) Quantitative information, e.g. analysis of liquidity risk	1	2	3	4	5
5	Credit risk					
	(a) Qualitative information, e.g. procedure to manage credit risk	1	2	3	4	5
	(b) Quantitative information, e.g. analysis of credit risk	1	2	3	4	5
6	Operational risk					
	(a) Qualitative information, e.g. procedure to manage operational risk	1	2	3	4	5
	(b) Quantitative information, e.g. analysis of operational ris	1	2	3	4	5
7	Derivatives (Quantitative information), e.g. maturity analysis	1	2	3	4	5
8	Hedging strategy					
	(a) Qualitative information, e.g. contracts undertaken	1	2	3	4	5
	(b) Quantitative information, e.g. gain/loss from hedging	1	2	3	4	5

III. Disclosure on Comparative Financial Information (Applied to Both Conventional and Islamic Disclosure, wherever applicable)



Least important Most important

No.	Description					
1	Comparative operating results (e.g. profit before tax expense & net interest income)					
	(a) 2 years and below	1	2	3	4	5
	(b) 3 years and above	1	2	3	4	5
2	Comparative expenses (e.g. staff costs & advances for losses on loans)					
	(a) 2 years and below	1	2	3	4	5
	(b) 3 years and above	1	2	3	4	5
3	Key balance sheets data (e.g. total assets, loans, liabilities, deposit from customers & commitment and contingencies)					
	(a) 2 years and below	1	2	3	4	5
	(b) 3 years and above	1	2	3	4	5
4	Shares information (e.g. basic earnings per share & share price)					
	(a) 2 years and below	1	2	3	4	5
	(b) 3 years and above	1	2	3	4	5
5	Share holdings (e.g. size & types)					
	(a) 2 years and below	1	2	3	4	5
	(b) 3 years and above	1	2	3	4	5
6	Financial performance ratio (e.g. profitability, dividend & efficiency ratios)					
	(a) 2 years and below	1	2	3	4	5
	(b) 3 years and above	1	2	3	4	5
7	Capital structure ratio (e.g. capital adequacy ratio)					
	(a) 2 years and below	1	2	3	4	5
	(b) 3 years and above	1	2	3	4	5
8	Gearing ratio/ Liquidity ratio					
	(a) 2 years and below	1	2	3	4	5
	(b) 3 years and above	1	2	3	4	5

IV. Disclosure in the Notes to the Accounts (Applied to Both Conventional and Islamic Disclosure, wherever applicable)

Least important Most important

No.	Description					
1	Breakdown of fixed and currents assets (e.g. cash and short-term funds, investment securities)	1	2	3	4	5
2	Breakdown of other assets (e.g. loans, advances & financing) according to type, maturity, types of customers, interest rate sensitivity and sector	1	2	3	4	5
3	Breakdown of long-term and short-term liabilities (e.g. customer deposit & deposits and placements of other financial institutions)	1	2	3	4	5
4	Breakdown of the incomes from the profit and loss statement (e.g. interest income, non-interest income, other operating income)	1	2	3	4	5
5	Breakdown of the expenses from the profit and loss statement (e.g. interest expense, staff costs and overheads & other operating expenses)	1	2	3	4	5
6	Maturity structure of money market instruments, fixed deposits and negotiable instruments of deposits	1	2	3	4	5
7	Breakdown of non-performing loans (e.g. sector)	1	2	3	4	5
8	Movement in non-performing loans, advances and financing					
	(a) Qualitative information, e.g. explanation about movement	1	2	3	4	5
	(b) Quantitative information, e.g. maturity analysis	1	2	3	4	5
9	Movements in allowance for bad and doubtful financing					
	(a) Qualitative information, e.g. explanation about movement	1	2	3	4	5
	(b) Quantitative information, e.g. maturity analysis	1	2	3	4	5
10	Statutory deposits with Bank Negara Malaysia	1	2	3	4	5
11	Impairment loss					
	(a) Qualitative information, e.g. reasons for loss	1	2	3	4	5
	(b) Quantitative information, e.g. numerical value of loss	1	2	3	4	5
12	Capital adequacy	1	2	3	4	5
13	Breakdown of gross risk-weighted assets in various categories of risk-weight	1	2	3	4	5
14	Breakdown of profit equalization reserve	1	2	3	4	5

V. Disclosure on Segmental Information (Applied to Both Conventional and Islamic Disclosure, wherever applicable)

Least important — Most important

No.	Description					
1	Segmental information based on geographical analysis					
	(a) Qualitative information, e.g. description of each segment	1	2	3	4	5
	(b) Quantitative information, e.g. analysis of profit, revenue, assets	1	2	3	4	5
2	Segmental information based on line-of-business analysis					
	(a) Qualitative information, e.g. description of each business line	1	2	3	4	5
	(b) Quantitative information, e.g. analysis of profit, revenue, assets	1	2	3	4	5

VI. Disclosure on Market Share, Contingent Liabilities and Assets, and other Information (Applied to Both Conventional and Islamic Disclosure, wherever applicable)

Least important — Most important

No.	Description					
1	Market share information					
	(a) Qualitative information, e.g. explanation on increase/decrease in market shares	1	2	3	4	5
	(b) Quantitative information, e.g. share price	1	2	3	4	5
2	Contingent liabilities and contingent assets					
	(a) Qualitative information, e.g. explanation on their occurrence	1	2	3	4	5
	(b) Quantitative information, e.g. numerical amount	1	2	3	4	5
3	Other information					
	(a) Qualitative information, e.g. events after balance sheet date, dividend policy	1	2	3	4	5
	(b) Quantitative information, e.g. dividend policy, allowance for losses on loans and financing	1	2	3	4	5

VII. Disclosure on Social and Environmental Information

Least important — Most important

No.	Description					
1	Employees' general information					
	(a) Qualitative information, e.g. share-option policy	1	2	3	4	5
	(b) Quantitative information, e.g. amount spent on training	1	2	3	4	5
2	Community service					
	(a) Qualitative information, e.g. community program	1	2	3	4	5
	(b) Quantitative information, e.g. charitable donation	1	2	3	4	5
3	Environmental disclosure					
	(a) Qualitative information, e.g. environmental protection policy	1	2	3	4	5
	(b) Quantitative information, e.g. effect on environment	1	2	3	4	5

VIII. Additional Disclosure on Operations of Islamic Banking

Least important — Most important

No.	Description					
1	Breakdown of the incomes from the profit and loss statement (e.g. income from general or specific investment deposits, from investment of Islamic banking capital funds)	1	2	3	4	5
2	Breakdown of the expenses from the profit and loss statement (e.g. allowances for losses on financing, other operating expenses)	1	2	3	4	5
3	Breakdown of income attributable to depositors	1	2	3	4	5

Section B: Background of the Respondent

This section covers the background information of the respondent. Please answer all the questions by ticking (√) in the appropriate boxes.

1. Gender of the respondent

   Male ☐ Female ☐

2. Educational background (You may tick more than one)

   Bachelor degree ☐ Master ☐
   Ph.D ☐ Professional qualification (ACCA, CIMA, CFA, etc) ☐

3. Employment category

   Audit firm ☐ Non audit firm ☐

4. Age range

   ☐ Below 20 ☐ 20 – 29 ☐ 30 – 39
   ☐ 40 – 49 ☐ 50 – 59 ☐ 60 and above

5. Working experience with your current profession

   ☐ Below 3 year ☐ 3 – 7 ☐ 8 – 12
   ☐ 13 – 17 ☐ 18 – 22 ☐ 23 – 27
   ☐ Above 27