Corporate Governance and Risk Management Information Disclosure in Malaysian Listed Banks: Panel Data Analysis

Sheila Nu Nu Htay*, Hafiz Majdi Ab. Rashid**, Muhammad Akhyar Adnan***, Ahamed Kameel Mydin Meera****

Corporate governance issue has attracted the researchers, including the Malaysian researchers due to the 1997-1998 economic crises. Furthermore, it is undeniable that the banking sector is the heart of the economy in any country and it cannot be separated since it is the main source in mobilizing the monetary system. Thus, this study investigates the impact of corporate governance on risk management information disclosure of Malaysian listed banks by using a panel data analysis. Effectiveness and goodness a corporate governance structure is determined by the board leadership structure, board composition, board size, director ownership, institutional ownership and block ownership. The researcher develops risk management information disclosure index and conducts content analysis by cross checking between the risk management disclosure in the annual reports and the disclosure index. Accountants and financial analysts play the important role since the disclosure score used in this study is weighted disclosure score after considering their opinions because they are the group who represent preparers and users of the accounting information respectively. This research finds that higher proportion of independent directors and lower directors’ ownership lead to higher risk management information disclosure.

Keywords: risk management, corporate governance; generalized least square; panel data; agency theory.

1. Introduction

Corporate governance issue becomes an attractive issue in Asian countries, including Malaysia in late 1990s following the 1997-1998 crises (Cheung & Chan, 2004; Tze, 2003). Agency theory and many corporate guidelines suggest having a good corporate governance system for more transparent disclosing information about the corporation. In addition, the stability of financial sector and the sustainability of economy rely on the effectiveness of corporate governance of

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Poor corporate governance of the banks can drive the market to lose confidence in the ability of a bank to properly manage its assets and liabilities, including deposits, which could in turn trigger a liquidity crisis and then it might lead to economic crisis in a country and pose a systemic risk to the society at large (Cebenoyan & Strahan, 2001; Basel Committee on banking supervision, 2005; Alexander, 2006; Garcia-Maro & Robles-Fernandez, 2008). Therefore, it is interesting to examine the importance of corporate governance mechanisms in the banking sector.

Moreover, risk is everywhere and it can’t be avoided in any types of business activities. The main problem in the banking sector is that its business nature exposes to more risk than other business sectors. According to Santomero (2007) many commercial banks are upgrading their risk management and internal control systems since risk management is important in the banking industry. Raghavan (2003) also mention that risk management is necessary because it involve two major process of risk which are risk identification and risk measurement. Then, the bank will choose their risk and take action on it whether it can be reduced or avoided and establish the procedures to monitor the risk. Banks should make sufficient risk information disclosure to make sure that market participants can assess the strategies practiced by the banks. Similarly, Santomero (2007) states that one of the ways to implement a risk management system is to emphasize on risk reporting through financial reports to the regulators and shareholders. Since boards of directors are the ultimate monitors of the banks, they should be fully responsible for risk management disclosure.

Similarly, the importance of the disclosure of information in the annual reports has been highlighted as one of the important aspects of the good corporate governance. According to Millstein, Albert, Cadbury, Denham, Feddersen and Tateisi (1998: 40), “disclosure is an important and efficient means of protecting shareholders and is at the heart of corporate governance. They further state that adequate and timely information about corporate performance enables investors to make informed buy-and-sell decisions and thereby helps the market reflect the value of a corporation under present management”. It also stated by Patel, Balic and Bwakira (2002), Utama (2003), Basel committee on banking supervision (2005) that disclosure is integral to corporate governance, i.e. an important element of corporate governance, since higher disclosure could be able to reduce the information asymmetry, to clarify the conflict of interests between the shareholders and the management, and to make corporate insiders accountable. Among the different types of information disclosed in the annual reports, disclosure on risk management information is the focus of this study because risk management is believed to be important for the banking sector and this risk information disclosure provides the investors about the details and to predict the potential risk of the firms and to know how the banks are managing their risks.

However, to the extent of the researchers’ knowledge, there is no study has been done on the impact of corporate governance on risk information disclosure in Malaysian banking sectors. Hence, the aim of this paper is to investigate on this issue in order to examine to what extent corporate governance can influence the
risk information disclosure. The main research question is whether corporate
governance mechanisms can affect the risk management disclosure.

This paper is organized into seven sections. Section 2 explains theoretical
framework and empirical studies. Section 3 elaborates on the development of
hypotheses and research design. Section 4 describes the profiles of
respondents. Section 5 discusses findings. Section 6 concludes and section 7
presents limitation of this research and suggestions for future research.

2. Theoretical Framework and Empirical Studies

According to Jensen and Meckling (1976), due to the separation of ownership
and control, agency problems, i.e. moral hazard (hidden action) and adverse
selection (hidden information) could occur and the directors might maximize their
own interests at the expense of the shareholders. Thus, Williams et al. (2006)
said that the main issue from the agency theory is the existence of agency cost.
The suggested mechanism to minimize this cost is implementing a good
corporate governance (Gursoy & Aydogan, 2002; Judge et al., 2003) since it
promotes goal congruence among principals and agents (Conyon & Schwalbach,
2000). Short et al. (1999) and Cheung and Chan (2004) also describe that the
ultimate goal of corporate governance is to monitor the management decision-
making in order to ensure that it is in line with shareholders’ interests, and to
motivate managerial behavior towards enhancing the firms’ wealth.

The following discussions provide some explanations of corporate governance
mechanisms from the agency theory perspective and most relevant the empirical
findings related to this research.

Agency Theory and Separate Leadership Structure

According to Jensen and Meckling (1976), Fama and Jensen (1983) and Jensen
(1993) agency theory argues for a clear separation of the responsibilities of the
CEO and the chairman of the board. Brickley et al. (1997) and Weir (1997)
avoid the reason is that since the day-to-day management of the company is
led by the CEO, the chairman of the board, as a leader of a board, needs to
monitor the decisions made by the CEO which will be implemented by the
management and to oversee the process of hiring, firing, evaluating and
compensating the CEO. If the CEO and the chairman of the board is the same
person, there would be no other individual to monitor his or her actions and CEO
will be very powerful and may maximize his or her own interests at the expense
formalize that the combination of leadership structure promotes CEO
entrenchment by reducing board monitoring effectiveness. A separate leadership
structure is recommended in order to monitor the CEO objectively and effectively
and to give pressure on the management led by CEO in disclosing the more
material information about the company, which is in line with the interest of the
shareholders. Hence, it could be assumed that better disclosure about the
companies can be achieved by separate board leadership structure.
There is a positive relationship between separate leadership structure and disclosure since the findings of Ho and Wong (2001), Gul and Leung (2004), Lakhal (2005), Byard, Li and Weintrop (2006) and Huafang and Jianguo (2007) are in line with theoretical expectation. In the case of study by Norita and Shamsul Nahar (2004), the results show that separate leadership structure is not associated with voluntary disclosure.

**Agency Theory and Board Composition**

According to Choe and Lee (2003), board composition is one of the determinant factors to effectively monitor the managers and reduce the agency cost. Although the executive directors have specialized skills, expertise and valuable knowledge of the firms’ operating policies and day-to-day activities, there is a need for the independent directors to contribute the fresh ideas, independence, objectivity and expertise gained from their own fields (Weir, 1997; Firth et al., 2002; Cho and Kim, 2003). Kiel and Nicholson (2003), Le et al. (2006), Florackis and Ozkan (2004) and Williams et al. (2006) also recommend the involvement of independent non-executive directors to monitor any self-interested actions by managers and to minimize agency costs. In addition, agency theory formalizes that higher proportion of the independent non-executive directors on the board will result in higher disclosure of the material aspects of the company. It also can increase transparency since independent boards will be able to encourage the management to disclose more information.

The findings of Chen and Jaggi (2000), Gul and Leung (2004), Byard et al. (2006), and Cheng and Courtenay (2006) and Norita and Shamsul Nahar (2004.) are in line with theoretical expectation. Gul and Leung (2004) find that firms with higher proportion of outside directors become weaker when the extent of the negative association between combined leadership structure and voluntary disclosure exist. This highlights the importance of the presence of outside directors on the board. In addition, Leung and Horwitz (2004) study 376 Hong Kong listed companies in 1996 and find that contribution of non-executive directors to enhance voluntary segment disclosure is effective for firms with lower director ownership but not for concentrated ownership firm. When there is concentrated ownership firm, it is difficult for the independent directors to influence the management to disclose more information. It might be due to two reasons. First, independent directors can be removed from the board if they are against the decisions of major shareholders using voting power of concentrated ownership. Second, most of Hong Kong firms are family-owned firms and they might not want to disclose some of the information to the public.

**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. They explain that the large number of board can lead to less effective coordination, communication, and decision making, and are more likely to be controlled by the CEO. Yoshikawa and Phan (2003) also highlight that by having large number of
boards, more potential interactions and conflicts among the group members can occur and finally, it will lead to less cohesiveness and difficulty to coordinate among them. In addition, Yoshikawa and Phan (2003) further state that large boards are often created by CEOs because the large board makes the board members disperse the power in the boardroom and reduce the potential for coordinated action by directors, leaving the CEO as the predominant figure.

In sum, Huther (1997) mention that small number of boards seem to be more conducive to board member participation because it can give positive impact on the monitoring function and the decision-making capability of the board as well as independence from the management. It is expected that smaller board should be able to monitor the decision of the management related to the information disclosure. This expectation is supported by the findings of Byard et al. (2006). They study 1279 firms over the years 2000 to 2002 and find that financial disclosure related to forecast information decreases with board size. However, the finding of Lakhal (2005) show that there is an insignificant and weak association between board size and disclosure.

**Agency Theory and Ownership**

Agency theory emphasizes the importance of ownership structure and this study examines its influence to improve the corporate governance by looking at these three different perspectives, which are; (a) director ownership, (b) block ownership, and (c) institutional ownership.

1. **Director Ownership**

According to Jensen and Meckling (1976) the directors can act as the owners and directly instructing and monitoring the management of the companies if they own the shares. Hence, it can reduce agency problems as compared to the situation where the directors, who are not the owners, supervise the management of the company. It is also supported by Seifert et al. (2005) who discuss agency conflicts. However, in the case of information disclosure, the effect of director ownership on disclosure might be different from the block holders and institutional investors. Directors who own substantial amount of ownership share probably might not want to disclose more information to the public because they can use their discretionary power to spend firm resources to fulfill their own interest at the expenses of other shareholders. They also might want to conceal any fraud and incompetence. So, negative relationship between director ownership and disclosure could be expected. Theoretical expectation seems to be supported by Chau and Gray (2002), Eng and Mak (2003), and Leung and Horwitz (2004). Chau and Gray (2002) find that the level of information disclosure is likely to be less in insider or family-controlled companies and it is supported by Eng and Mak (2003) that show the lower managerial ownership is associated with increased disclosure. According to Leung and Horwitz (2004), when firm performance is very poor the negative relationship between high concentration of board ownership and the voluntary segment disclosure become stronger. Huafang and Jianguo (2007) find that there is no
relationship between them. In contrast, Ballesta and Garcia-Meca (2005) find that higher director ownership provides higher quality of financial reporting because when managers act as owners, they act in the interest of the firms and thus result in financial statement are less likely to attract audit qualification. The results is also been supported by Norita and Shamsul Nahar (2004).

(2) **Block Ownership**

According to Kang and Sorensen (1999), Maher and Anderson (1999), and Kim and Lee (2003), an individual with substantial amount of interest in a company (usually measured at 5%) will be more interested in the performance of a company compared to the shareholders who own smaller number of shares due to dispersed ownership may have less incentives to monitor management. By using their voting power, the block owners might have select their trusted persons to appoint as a CEO or board members. For the block shareholders, additional information disclosure might not be necessary since 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 them. Therefore, a negative relationship between block holders and disclosure can be expected. Lakhal (2005) find there is a significant negative association between ownership concentration and voluntary disclosure. Eng and Mak (2003) conclude that there is no relationship between block holders ownership and disclosure. Moreover, Chau and Gray (2002), Luo, Courtenay and Hossain (2006), Huafang and Jianguo (2007) and Norita and Shamsul Nahar (2004) find that extent of outside block ownership is positively associated with voluntary disclosures.

(3) **Institutional Investors**

Kim and Nofsinger (2004), Leng (2004), Solomon and Solomon (2004), Seifert et al. (2005), Le et al. (2006), Langnan et al. (2007) and Ramzi (2008) collectively agree on the important role of institutional shareholders in monitoring firm based on the these reasons: (a) institutional shareholders own huge number of shares, (b) the potential benefits from shareholders activism is large enough to be worth their effort, (c) the ability to liquidate the shares without affecting the share price is less compared to the individual shareholders, (d) substantial influence on the management, (e) they have a fiduciary responsibility towards the ultimate owners, (f) they have ability to monitor executives because of their professionalism. David and Kochhar (1996) explain that institutional ownership can become an important player to have higher disclosure since their voting power can be used as a tool to monitor agents. Therefore, it can be concluded that positive relationship between institutional investors and disclosure is exist since the ownership by the institutional shareholders enable them to monitor compared to shareholders with small amount of ownership. The findings of Eng and Mak (2003), and Lakhal (2005) are in line with theoretical expectation since Eng and Mak (2003) use government ownership as a proxy for institutional shareholder and Lakhal (2005) use the foreign institutional investor’s ownership as the proxy.
3. Development of Hypotheses and Research Design

3.1 Development of Hypotheses

Disclosing the material information of the firms reduces the information asymmetry between the management and the owners, and it will also reduce the agency conflicts between them. According to Patel et al. (2002) and United Nation (2003), disclosure is an important part and necessary in corporate governance because it shows the extent of how good corporate governance is. Leong (2005) also mentions that disclosure and transparency are partners of good corporate governance. Moreover, Beekes and Brown (2006) study 250 Australian firms rated in the 2002 Horwath Corporate Governance Report and find that better-governed firms do make more informative disclosure. Hence, the researcher is interested to examine whether corporate governance variables could affect the risk management information disclosure and the following hypotheses are developed based on the discussions on the theoretical framework. All the hypotheses are stated in the alternative form.

$H_{a1}$: Risk management disclosure is positively related to separate leadership structure.
$H_{a2}$: Risk management disclosure is positively related to proportion of independent non-executive directors on the board.
$H_{a3}$: Risk management disclosure is negatively related to board size.
$H_{a4}$: Risk management disclosure is negatively related to director ownership.
$H_{a5}$: Risk management disclosure is negatively related to block ownership.
$H_{a6}$: Risk management disclosure is positively related to institutional ownership.

3.2 Research Design

**Dependent Variable**

Weighted risk management information disclosure score is used as a dependent variable, where questionnaire is developed to obtain views on the importance of each disclosure item from financial analysts and accountants. The index of disclosure items can be referred to in Table 1.

Pilot test has been conducted before the actual questionnaire is sent, and the findings show that the Cronbach’s alpha value is 0.94 and so it has been concluded that the questionnaire is internally consistent. In addition, pilot test results show that 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. Therefore, it can be concluded that the pilot test questionnaire is good enough to be used as an actual questionnaire.

The opinions of one hundred and thirty one accountants and fifty one financial analysts are being taken to weigh risk management information disclosure score.
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. The annual reports of the sample companies are checked against disclosure index developed by the researcher. The researcher uses dichotomous score, i.e. one is given if the company discloses the information, and zero for otherwise. However, some of the disclosures in the annual reports are not clear for the researcher to decide whether some parts of annual report disclosure represent the items from the disclosure index. Hence, for these confusing items, questionnaire is constructed and ten accountants and six financial analysts are required to complete this task in order to seek their opinions on whether these confusing disclosures in the annual reports represent the items in the disclosure check list. It is found out that there is no significant difference between the score provided by the researcher and the answers provided by the selected accountants and financial analysts. Finally, the weight for each disclosure item is calculated by the mean score of each disclosure item provided by the accountants and financial analysts.
Table 1: Index of Risk Management Information Disclosure

<table>
<thead>
<tr>
<th>B. RISK MANAGEMENT</th>
<th>I. Overall market risk exposure</th>
<th>1. Brief definition of market risk</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2. Methodology (procedure) used to measure market price risk</td>
<td>3. Quantitative analysis of market risk</td>
</tr>
<tr>
<td></td>
<td>4. Explanations supported by graphs and tables</td>
<td></td>
</tr>
<tr>
<td></td>
<td>II. Interest rate risk exposure</td>
<td>5. Brief definition of interest rate risk</td>
</tr>
<tr>
<td></td>
<td>6. Methodology (procedure) used to measure interest rate risk</td>
<td>7. Analysis by reference to category of assets and liabilities</td>
</tr>
<tr>
<td></td>
<td>8. Analysis based on maturity structure</td>
<td>9. Explanations supported by graphs and tables</td>
</tr>
<tr>
<td></td>
<td>III. Currency exposure of net assets</td>
<td>10. Brief definition of foreign exchange risk</td>
</tr>
<tr>
<td></td>
<td>11. Key procedures to manage foreign exchange risk</td>
<td>12. Major exchange rates used in the accounts</td>
</tr>
<tr>
<td></td>
<td>13. Quantitative analysis of currency risk</td>
<td>14. Explanations supported by graphs and tables</td>
</tr>
<tr>
<td></td>
<td>IV. Liquidity risk</td>
<td>15. Brief definition of liquidity risk</td>
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<tr>
<td></td>
<td>16. Key procedures to manage liquidity risk</td>
<td>17. Quantitative analysis of liquidity risk</td>
</tr>
<tr>
<td></td>
<td>18. Explanation supported by graphs and tables</td>
<td></td>
</tr>
<tr>
<td></td>
<td>V. Credit risk</td>
<td>19. Brief definition of credit risk</td>
</tr>
<tr>
<td></td>
<td>20. Key procedures to manage credit risk</td>
<td>21. Quantitative analysis of credit risk</td>
</tr>
<tr>
<td></td>
<td>22. Explanation supported by graphs and tables</td>
<td></td>
</tr>
<tr>
<td></td>
<td>VI. Operational risk</td>
<td>23. Brief definition of operational risk</td>
</tr>
<tr>
<td></td>
<td>24. Key procedures to manage operational risk</td>
<td>25. Quantitative analysis of operational risk</td>
</tr>
<tr>
<td></td>
<td>26. Explanation supported by graphs and tables</td>
<td></td>
</tr>
<tr>
<td></td>
<td>VII. Derivatives</td>
<td>27. Fair value analysis, classified by types of derivatives (e.g. options, swaps)</td>
</tr>
<tr>
<td></td>
<td>28. Maturity analysis of notional principal amount of derivatives</td>
<td>29. Maturity analysis, classified by types of derivatives</td>
</tr>
<tr>
<td></td>
<td>VIII. Hedging strategy</td>
<td>30. Discussion of the extent to which market risks are hedged (Qualitative)</td>
</tr>
<tr>
<td></td>
<td>31. Discussion of contracts undertaken in hedging (Qualitative)</td>
<td>32. Net gains (losses) on the contracts for hedging (Quantitative)</td>
</tr>
</tbody>
</table>

**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). Finally, 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.

\[ Y_{it} = \beta_0 + \beta_1 x_{1it} + \beta_2 x_{2it} - \beta_3 x_{3it} - \beta_4 x_{4it} + \beta_5 x_{5it} - \beta_6 x_{6it} + \beta_7 x_{7it} + \beta_8 x_{8it} + \mu_{it} \]

Where,

- \( i \) = represent the number of banks
- \( t \) = represent the number of sample years
- \( Y \) = Weighted risk management information disclosure score
Sample selection and Statistical Methods

Sample includes the twelve listed banking companies since there are only twelve listed banks in Malaysia. Sample data have been collected from 1996 until 2005 because Malaysian Code on Corporate Governance (MCCG) was introduced in year 2001 and data collected period is five years before and after the introduction of the MCCG (2001). The total number of observations is 120 observations. However, some of the observations need to be dropped due to unavailability of data and some companies were not classified as banks in all the ten years’ period. It left the final observations to 108 observations. Data were collected either from the annual reports of the companies or from Bloomberg. The main statistical method used in this study is panel data analysis (generalized least square method). Generalized least square method is used 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.

4. Discussion on the Results

Table 3 shows the descriptive statistics of the variables used in the study. In case of 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, e.g. Jensen and Ruback (1983) suggest that a board size of not more than 7 or 8 members is considered reasonable in ensuring effectiveness. 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 risk information disclosure score is 40.09. As for the firm-specific characteristics, the
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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 3: Descriptive statistics: Independent, dependent and control variables

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Min</th>
<th>Median</th>
<th>Max</th>
<th>Skewness</th>
<th>Kurtosis</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) CG variables</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BLS</td>
<td>0.81</td>
<td>0.40</td>
<td>0.00</td>
<td>1.00</td>
<td>1.00</td>
<td>-1.57</td>
<td>0.46</td>
</tr>
<tr>
<td>INE_BZ</td>
<td>0.36</td>
<td>0.18</td>
<td>0.10</td>
<td>0.33</td>
<td>0.83</td>
<td>0.68</td>
<td>-0.49</td>
</tr>
<tr>
<td>BZ</td>
<td>8.23</td>
<td>2.34</td>
<td>4.00</td>
<td>8.00</td>
<td>14.00</td>
<td>0.33</td>
<td>-0.62</td>
</tr>
<tr>
<td>(b) Ownership variables</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DOWN</td>
<td>0.02</td>
<td>0.05</td>
<td>0.00</td>
<td>0.25</td>
<td>3.26</td>
<td>10.40</td>
<td></td>
</tr>
<tr>
<td>IOWN</td>
<td>0.17</td>
<td>0.18</td>
<td>0.00</td>
<td>0.64</td>
<td>1.00</td>
<td>-0.53</td>
<td></td>
</tr>
<tr>
<td>BOWN</td>
<td>0.53</td>
<td>0.21</td>
<td>0.00</td>
<td>0.58</td>
<td>1.00</td>
<td>-0.81</td>
<td>0.04</td>
</tr>
<tr>
<td>Dependent variable</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>(e) Disclosure variable</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>WDS</td>
<td>40.09</td>
<td>25.40</td>
<td>0</td>
<td>31.48</td>
<td>85.50</td>
<td>0.35</td>
<td>-1.38</td>
</tr>
<tr>
<td>Control variables</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TA</td>
<td>45992.19</td>
<td>40245.92</td>
<td>1120.36</td>
<td>33326.95</td>
<td>191895.30</td>
<td>1.54</td>
<td>2.28</td>
</tr>
<tr>
<td>TD_TE</td>
<td>344.73</td>
<td>331.14</td>
<td>14.03</td>
<td>223.80</td>
<td>1442.26</td>
<td>1.60</td>
<td>1.89</td>
</tr>
</tbody>
</table>

Table 4 shows the results on disclosure of risk management. The variable INE_BZ (i.e. proportion of independent non-executive directors) is highly significant and positively influences the extent of risk management information disclosure. The other variable which is significant is DOWN (i.e. directors’ ownership). The variable DOWN is highly significant and negatively influences the extent of disclosure. Indirectly, it could be concluded that in order for the board to be effective, in term of disclosure of accounting information, more independent non-executive directors should be appointed into the board, and lesser ownership of shares by directors should be allowed.

Other variables on corporate governance and ownership structure are insignificant in explaining disclosure of risk management information. The insignificant of board leadership structure might be due to the fact that most banks in Malaysia practice separate leadership structure. With regard to the board size of the sample banks, it is relatively small compared to the average board size in UK and US. According to Allen and Gale (2001), in U.S. and U.K., the BZ is around 10 to 15 people. The descriptive statistics results of this study show that on the average, the board size of the sample companies is around 8. Since the majority of sample companies obtain the optimal board size, in general, it may cause some difficulty to examine the significant and consistent impact of board size on the dependent variables. The insignificant of the institutional investors might be due to the ineffective role plays by the institutional investors in monitoring the activities of business entities. A report issues by the Asian
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Productivity Organization in 2007 states that the institutional shareholders in Malaysia are still considered weak. Finally, with regard to block ownership, on the average, block holders own 53 percent ownership of the sample banks. Such huge ownership by the large shareholders might motivate them to monitor the management. However, based on the results, they do not seem to play their role. Future research might need to look into this issue.

Table 4:
GLS results of disclosure: Risk management

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>Coefficient</th>
<th>Z_value</th>
<th>P value</th>
</tr>
</thead>
<tbody>
<tr>
<td>BLS</td>
<td>3.69</td>
<td>0.54</td>
<td>0.59</td>
</tr>
<tr>
<td>INE_BZ</td>
<td>87.88</td>
<td>7.35*</td>
<td>0.00</td>
</tr>
<tr>
<td>BZ</td>
<td>1.10</td>
<td>1.05</td>
<td>0.29</td>
</tr>
<tr>
<td>DOWN</td>
<td>-240.90</td>
<td>-5.58*</td>
<td>0.00</td>
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<tr>
<td>IOWN</td>
<td>6.26</td>
<td>0.6</td>
<td>0.55</td>
</tr>
<tr>
<td>BOWN</td>
<td>-9.53</td>
<td>-1</td>
<td>0.32</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Control variables</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>LNTA</td>
<td>12.34</td>
<td>3.16*</td>
<td>0.00</td>
</tr>
<tr>
<td>TD_TE</td>
<td>0.00</td>
<td>-0.22</td>
<td>0.83</td>
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<tr>
<td>CONS</td>
<td>-130.69</td>
<td>-4.2*</td>
<td>0.00</td>
</tr>
</tbody>
</table>

Chi-Sq. 371.41*  P value 0.00
Heteroskedastic LR Chi² 21.37**  P value 0.03
Autocorrelation F statistics 41.97*  P value 0.00

*Significant at 1% level
**Significant at 5% level

6. Conclusion

This study conducts a content analysis from the annuals reports of Malaysian public listed banks from 1996 to 2005. Panel data analysis finds that effectiveness of the board in influencing better disclosure of risk management information is largely due to the higher proportion of independent non-executive directors and lesser ownership by the directors. However, other conventional measures of corporate governance and ownership structure variables are not significant. In conclusion, although there are more theories emerged in the literature to explain the effect of corporate governance such as stakeholders' theory and resource dependence theory, the use of the agency theory is applicable even in the developing countries such as Malaysia.
Htay, Rashid, Adnan & Meera

7. Limitation and Area for Future Research

The limitation of this study is unlisted local and foreign banks are not included in the sample due to the unavailability of data. Thus, for future research, the researchers should try to include unlisted banks in their research and extend this research by interviewing the board to directors regarding risk management strategies that they adopt for the betterment of the firms to investigate the actual operations of risk management process in the banks.

Endnotes

1 WDS refers to weighted risk management information disclosure score.

References


Htay, Rashid, Adnan & Meera


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