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The Influence of Insider Ownership and Board Independence on the Narrative Risk Reporting

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Abstract

Prior studies have examined the regulators' aim for corporate transparency improvement has less being supported by the insider ownership. Further, by addressing the issue of risk and uncertainty, the presence of insider ownership in the company has been observed to influence corporate decisions that eventually drive to lowering corporate transparency. The main objective of this study is to analyse the impact of insider ownership on the narrative risk reporting of Malaysian corporations. Using the data set of 328 companies for 2008 and 2009, the empirical findings indicate a negative effect between narrative risk reporting and the insider ownership that implies Malaysian corporations are continuously resisting to accept recurring changes for the betterment of the companies.

Keywords: management ownership, family ownership, risk reporting

1. Introduction

Effective corporate governance has been closely discussed in relation with enhanced corporate transparency. Most prior studies have suggested that a transparent report made by listed companies should be presented precisely, accurately and contain sufficient information as this kind of information is of interest to the investors and regulators. This in turn reduces the agency conflicts between managers and investors that are reflected in reduced information asymmetry. As a result, the expectation will be in the increase of information assessment of company's performance. Comprehensive reporting comprising both the mandatory and voluntary information is vital in assisting the investors' decision-making. Local corporate scandals such as Transmile Berhad and Megan Media Berhad have proved that there is a need to support mandatory reports with voluntary information, particularly on risks and uncertainties surrounding or impacting the business environment. The role of voluntary information disclosure has been indicated by Healy and Palepu (2001) as a tool to differentiate superior and significant information in explaining mandatory information. Furthermore, the lack of comprehensive voluntary risk information in annual reports may lead to the misinterpretation of current corporate performance condition that will affect the future business operations (Dobler, Lajili & Zeghal, 2011; Oliveira, Rodrigues & Craig, 2011), specifically in the recovery period after the Asian financial crisis.

Nevertheless, the manager's decision to provide comprehensive reports may depend on the company's disclosure policy which is strongly outlined by the effective governance mechanisms adopted by the company. For instance, several governance mechanisms such as the ownership structure, management structure and compensation structure have been evidenced to have great impacts in delineating the company's disclosure policy. Prior studies have drawn attention to the propensity of ownership concentration to create effective governance system, especially in developing and emerging economies (Mohd Ghazali, 2012; Nosheen & Chonglerttham, 2013; Probohudono, Tower & Rusmin, 2013; Samaha, Dahawy, Hussainey & Stapleton, 2012). Similarly, prior studies have documented the entrenchment effects of insider ownership influencing lower voluntary disclosure (Akhtaruddin & Haron, 2010; Leung & Horwitz, 2004). However, Chau and Gray (2010) highlighted additional factors that might have reduced the adverse influences of insider owners on greater voluntary risk disclosure. Thus, further investigation is to include the interaction of other governance factors that is expected to provide better inferences on the relationship between ownership concentration and voluntary risk disclosure decisions.

This study extends upon existing literature by addressing specific attributes of corporate governance and voluntary disclosure in the Malaysia context. Likewise in other East Asian countries, most of the Malaysian companies are structured by concentrated ownership such as family-owned with obviously fewer motives for greater disclosure. Further, this study seeks to understand why some companies dominated by insider ownership, namely family members and management, are reluctant to disclose beyond the standards in developing countries although they are willing to commit on strengthening financial reporting regulations and enhancing corporate governance mechanisms. Second, unlike other studies on voluntary disclosure, the information captured from the annual report is regarded as non-mandatory risk, namely business risks and uncertainty information. Thus, to obtain meaningful results of insider ownership influences on the voluntary risk disclosure decisions, this study seeks to provide in-depth measurement of information disclosed in excess of quantity measures. More detailed analysis of voluntary risk disclosure is employed to measure the sufficiency and adequacy of information. This information is important to be disseminated to the investors and other accounting users in assisting them making important decisions as an effort to maintain capital market efficiency (Amran, Rosli, & Haat, 2009; Arnold, 2010; Urquiza, Navarro, & Trombetta, 2009).

This study is organised as follows. Section 2 reviews the literature on the corporate governance and corporate reporting practices. The hypotheses are described and developed in the same section. Section 3 describes the methodology and discusses the construction of quality index and operationalization of variables. Section 4 presents and interprets the results of hypotheses testing. The final section comprises the conclusions, limitation and suggestions for future research.

2. Literature Review and Hypothesis Development

Most voluntary disclosure studies provide explanation on manager's disclosure incentives from the agency theory perspective. Voluntary disclosure has been proven to reduce information asymmetry and conflicts between managers and the shareholders resulting from disagreement of their goal congruence (Fama & Jensen, 1983). The role of corporate governance in mitigating agency conflicts has been widely debated and it has been proven to provide positive linkage with reduced information asymmetry through greater voluntary disclosure (Eng & Mak, 2003). The separation of ownership and management control is practiced to minimise managers' opportunistic behaviours, which influences greater voluntary disclosure by the owners (Fama & Jensen, 1983). In recent years, the issue of reporting quality has been widely discussed among market participants as a mean to promote transparency and governance practices among listed companies (Beattie, McInnes, & Fearnley, 2004; Beretta & Bozzolan, 2006; Linsley & Shrives, 2006). The needs to provide quality reporting are much related to satisfy the investors' needs and resolve transparency problems (Mohd Ghazali, 2012). In addition, other incentives may be included to decrease the cost of capital (Botosan & Plumlee, 2002; Francis, Nanda, & Olsson, 2008) and information asymmetry (Amran et al., 2009; Healy & Palepu, 2001) as well as to increase negotiation in employment contracts (Shleifer & Vishny, 1997; Donnelly & Mulcahy, 2008) and improve the assessment of firm value (Gordon, Loeb & Sohail, 2010; Wilcox, Berry, Bryan & Quirin, 2010).

In relation to business risks and uncertainty, the professionals have recently expressed their concerns about how risk information should be appropriately handled to ensure adequate information being delivered and precisely interpreted by the relevant audiences or users (Arnold, 2010; Htay, Rashid, Adnan & Meera, 2011). Thus, quality reporting according to Beretta and Bozzolan (2006, p. 335) has been viewed not only from its quantitative aspect, but also the richness of its content, where the qualitative is being measured by its richness that encompasses both the width and the depth of the disclosure which relates to the company's strategy and future performance. However, Reeves and Bednar (1994, p. 435) contended that there is no universal definition of quality as it can be defined from various perspectives. Thus, they conclude that quality is arguable as value or conformance to specifications that leads a business focusing on efficiency and meeting and/or exceeding the expectations of consumer which requires the management to be well-informed on the changes and uncertainties surrounding their demands.

In relation to this, most prior literature have discussed the role of corporate governance mechanism in influencing the way companies presented their voluntary reports to the public (see Oliveira et al., 2011). Among the important elements of governance mechanisms are the ownership concentration and board independence. The concentrated ownership has been acknowledged as potentially affecting the level of voluntary disclosure made by the company (Akhtaruddin & Haron, 2010). Likewise in developing countries, the ownership concentration of Malaysian companies has been a central focus to be further investigated as it has been empirically proven as significantly influencing the voluntary disclosure decisions of the company (Mohd Ghazali & Weetman, 2006). According to La Porta, Lopez-de-Silanes, Shleifer, and Vishny (2000), possible differences in governance reforms and enforcements may be due to the country of origin; for instance, the Asian countries which are

signified to be a highly secretive community are associated with lower investor protection. Thus, the implication on concentrated ownership is observed in the existence of more family- and management-dominated companies compared to the government-owned companies (Ghazali & Weetman, 2006; Haniffa & Hudaib, 2006).

From the investors' perspectives, different classes of shareholdings among insider and outsider owners would affect the value of firms (Esa & Ghazali, 2012; Jabeen & Shah, 2011; Liu & Zhang, 2008). Given the substantial impacts of governance mechanisms on voluntary disclosure in prior studies, this study intends to examine this issue within a context of insider ownership impacts, namely family and management ownership on the voluntary risk disclosure. The effects of agency problems on the insider ownership can be viewed from two perspectives, which are the Type I and Type II agency problems; the conflicts that arise between ownership and management (Type I) and the controlling and non-controlling shareholding (Type II) (Ali, Chen & Radhakrishnan, 2007). However, Type II agency conflict has been identified as closely related to the insider ownership conflict and thus further explanation will be based on this perspective.

Meanwhile, board independence is evidenced to provide better quality voluntary disclosure as its presence in insider owner-dominated companies would induce better monitoring of business operations that leads to avoiding the opportunistic behaviour of the management team (Fama & Jensen, 1983). As such, the arguments on these two governance mechanisms will be further explained in the following sections.

2.1 Family Ownership

Prior studies have defined family firm as the firm that is managed and controlled by the founding family in which they also serve as the top executives and board of directors of the firm (Anderson & Reeb, 2003; Ali et al., 2007). Because of less separation of ownership and control in the family firm, they might be severed by the effects of Type II agency problems. Compared to nonfamily firms, the family firms might experience more conflicts due to the lower monitoring by minority shareholders. This is probably caused by the arguments that too much monitoring is detrimental to firm performance when they have good track records in managing the firms and able to create shareholders' wealth through internal channels (Chen & Nowland, 2010, p. 15).

Specifically, family firms have been found as having less transparency and making less voluntary disclosure because of fewer demand of information by nonfamily shareholders as no consensus is required from nonfamily shareholders in business decisions (Ali et al., 2007). Consequently, the monitoring cost can be lowered since there is no necessity to appoint outside directors with qualified competencies as family directors have the ability to monitor and directly access information from the management that indicates why lesser voluntary disclosure is practised by family firms (Chau & Gray, 2002; Chau & Gray, 2010). Although Demsetz and Lehn (1985) have noted the advantage of a combination of ownership and control to mitigate management expropriation, many prior studies evidenced negative associations between family firms and the level of voluntary disclosure (see Ho & Wong, 2001; Ghazali & Weetman, 2006), this study predicts that higher proportion of family ownership in the firm will affect the quality of voluntary risk disclosure. Thus, the following hypothesis is formulated:

H1: High percentage of family members on the board is negatively associated with the quality of voluntary risk disclosure.

2.2 Management Ownership

Prior studies have evidenced mixed results regarding the impact of management ownership on the voluntary disclosure decisions (Chau & Gray, 2002; Ghazali & Weetman, 2006; Huafang & Jianguo, 2007; Akhtaruddin & Haron, 2010). Jensen and Meckling (1976) suggested that the management ownership can be established to align the interests between management and other shareholders, and thus Chau and Gray (2002) evidenced positive impacts of such ownership on the voluntary disclosure. In contrast, Ghazali and Weetman (2006) and Akhtaruddin and Haron (2010) indicated a negative association between higher management shareholdings and voluntary disclosure that implies less information would be disclosed in the firms that are constituted by more manager share-owned. Meanwhile, Huafang and Jianguo (2007) found no statistical evidence that would relate the management ownership to more extensive voluntary disclosure.

However, the entrenchment effects which arise from the management ownership have been observed to create an adverse opportunity that contributes to management expropriation (Htay et al., 2011; Morck, Shleifer, & Vishny, 1988). With higher holdings of the firm's shares, managers are presumed to have a motive of refrain from providing more information to the public in order to achieve their own interests (Eng & Mak, 2003; Leung & Horwitz, 2004). Further, substantial shares held by the managers may indicate more power to limit the interruption of majority shareholders (Akhtaruddin & Haron, 2010). Therefore, the managers will have enormous opportunities to induce lower practices of voluntary disclosure to create conducive conditions to

management entrenchment (Akhtaruddin & Haron, 2010). Therefore, in examining voluntary disclosure in a context of risk information, this study expects negative effect of high management shareholdings on greater voluntary risk disclosure to protect their own interests. Hence, the following hypothesis is expected:

H2: High management ownership is negatively associated with the quality of voluntary risk disclosure.

2.3 Independent Non-executive Director

More independent non-executive directors on the board are viewed as a viable board that could influence the monitoring mechanism of managers' decisions and actions towards interest alignments (Fama & Jensen, 1983) and it could also help in increasing the chances of disclosing more private information (Adawi & Rwegasira, 2011; Samaha et al., 2012). Board independence is often related to the monitoring ability of managers-shareholders' interest alignments through public information disclosure that aims to provide sufficient information to market participants in investment decisions (Li, 2013). Prior research provides mixed evidences on the relationship between high proportion of independent nonexecutive directors and greater voluntary disclosure (Abraham & Cox, 2007; Cheng & Courtenay, 2006; Eng & Mak, 2003; Gul & Leung, 2004). Cheng and Courtenay (2006) and Abraham and Cox (2007) documented positive and significant relationship between independent nonexecutive directors and greater voluntary disclosure. On the other hand, Eng and Mak (2003) and Gul and Leung (2004) provided opposite results that indicate board independency is not related to increased disclosure as they expect the elected board members as a substitute of shareholders and thus could acquire information internally rather than through public disclosure. Besides inconclusive findings in prior empirical voluntary disclosure studies, Anderson and Reeb (2003) contended that the presence of independent nonexecutive directors on the board portrays effective monitoring role being exerted by majority shareholders and thus would influence greater voluntary risk disclosure in the annual report as a mechanism to provide better protection to minority shareholders in emerging markets. Based on these arguments, the following hypothesis is formulated:

H3: High percentage of independent non-executive directors is positively associated with the quality of voluntary risk disclosure.

2.4 Board Commitment and Support

Leaders of the firms are required to perform their duties and responsibilities towards business changes and uncertainties especially in current dynamic environments, where the top leaders such as CEOs and directors are challenged to show their commitment and support explicitly through the management reports, particularly in managing risky and uncertain business activities (Mackay & Sweeting, 2000). These necessary characteristics of the leaders can be further enhanced with the involvement of 'reflective abilities' possessed by the leaders such as competence in thinking in a systematic manner, embracing diversity and managing risks, balancing global and local perspectives, developing meaningful dialogue and engaging with emotional awareness (Hind, Wilson, & Lenssen, 2009). The CEO, who is the most influential person in the firm, could exert his power to influence the board's decisions on the amount of voluntary risk information to be reported. He may decide to provide greater voluntary disclosure depending on several incentives such as to show their full support and commitment towards the interest alignments of shareholders, maximising the wealth of shareholders as well as to protect their job security and benefits (Laksmana, 2008). Reporting quality information to stakeholders parallel with good financial reports proves that managers are committed towards achieving corporate objective. Thus, these could be seen as efforts to reduce risk events and enhance business value (Maclean & Rebernak, 2007). From the reasoning, the hypothesis is formulated as follows:

H4: The presence of committed CEO or Director on corporate strategic decisions is positively associated with the quality of voluntary risk disclosure.

2.5 Insider Ownership, Independent Nonexecutive Director and the Quality of Voluntary Risk Disclosure

Ho and Wong (2001) noticed that the voluntary disclosure had been present in lower level in terms of its quality aspect by companies controlled by family members. The possible reason would be due to close monitoring by manager-owners (Anderson & Reeb, 2003) and easy accessibility of private information; both financial and nonfinancial gathered by direct requests to the manager-owners who are also the board members of the firms (Patelli & Prencipe, 2007). This probably would turn into the worst scenario where the manager-owners have the opportunity to create an opportunistic behaviour that benefits themselves at the expense of minority shareholders (Chau & Gray, 2010; Wan-Hussin, 2009).

Further, prior literature have observed the influence of independent nonexecutive directors (INEDs) on the board would likely reduce the resistance of family firms in disclosing more voluntary risk information (Cheng &

Courtenay, 2006; Oliveira et al., 2011). The presence of INEDs often links to nonfamily shareholders' functions of monitoring or overseeing roles. Thus, their involvement in the board is expected to strengthen the relationship between family firms and the quality of voluntary disclosure of risk information (Forker, 1992; Patelli & Prencipe, 2007). The usefulness of INEDs in reducing agency conflicts through voluntary disclosure has evidenced in the linkage of firms that have high proportion of INEDs and the high level of voluntary disclosures (Cheng & Courtenay, 2006; Patelli & Prencipe, 2007; Oliveira, Rodrigues, & Craig, 2011). Based on the arguments, it is hypothesised that:

H5a: The high proportion of independent nonexecutive directors on the board will weaken the negative relationship between family members on the board and the quality of voluntary risk disclosure.

The power gained from the holding of shares corroborates the behavioural of managers in deciding certain issues that tend to be more narrow to pursue the managers' own interests (Cho & Kim, 2007). Jensen and Meckling (1976) modelled that the high managerial ownership would create a lower level of board monitoring since the managers are more likely to accomplish the shareholders' interests for maximising their own interests. However, other researchers argued that the earlier model will not always be true since the entrenched manager at certain level of shareholdings may engage in expropriation of resources due to the nonaligned interests of shareholders (Morck et al., 1988; Leung & Horwitz, 2004). This conflict can be mitigated by increasing the involvement of independent outside directors in the firm board. Nevertheless, the independency level is found negatively associated with the management ownership (Lasfer, 2006), which enlightens why firms with more shares owned by the managers disclose less quality information (Ghazali & Weetman, 2006). This argument leads to the following hypothesis:

H5b: The high proportion of independent nonexecutive directors on the board will weaken the negative relationship between the management ownership and the quality of voluntary risk disclosure.

2.6 Insider Ownership, Board Commitment and Support and the Quality of Voluntary Risk Disclosure

In relation to the board's support and commitment, it has been argued to be vitally important and definitely needed when dealing with non-routine decisions that are faced by the board of directors in complex and dynamics environment (D'Amato & Roome, 2009; Elzahar & Hussainey, 2012; McGaw, 2005). Further, the existence of support and commitment from the leaders is also needed to ensure smooth execution of earlier decisions made by the board members (Funtowicz & Strand, 2011). In general, leaders should obtain their abilities through formal and informal knowledge as well as the competencies to establish a trust from the board members that they are able to direct and formulate competitive strategic plan to ensure the success of the firm (D'Amato & Roome, 2009). The leaders who believed on the impacts of risk information on the firms should be able to convince the family-board members on the serious effects of risks and uncertain information and encourage them to take appropriate actions in lessening the companies' resistance to change towards greater voluntary disclosure (McGaw, 2005). Thus, this might be an incentive to force the family firms towards better changes in the voluntary disclosure policy with the presence of support and commitment by the CEO. Hence, it can be hypothesised as follows:

H6a: The presence of CEO support and commitment in the firms will weaken the negative relationship between the family members on the board and the quality of voluntary risk disclosure.

H6b: The presence of CEO support and commitment in the firm will weaken the negative relationship between the management ownership and the quality voluntary of risk disclosure.

3. Data Methodology

3.1 Sample

This study includes 328 companies listed on the main board of Bursa Malaysia as of 31 December 2008 and 2009 from the following industries: consumer, construction, trading and services, technology, plantations, properties, industrial, hotel and infrastructure. Of the selected companies, several companies with missing data related to variables of the study are dropped from the sample. Finance companies are excluded due to different regulatory requirements and material difference in their types of operations (Meek, Roberts & Gray, 1995; Ahmed & Courtis, 1999; Cheng & Courtenay, 2006).

3.2 Dependent Variable

Content analysis is employed to capture in-depth narrative of nonfinancial risk information in published annual reports. This approach has been widely used in disclosure studies such as Milne and Adler (1999), Linsley and Shrives (2006) and Wang, O, and Claiborne (2008). The specific measurement of quality disclosure is

formulated based on quality dimensions used by Beattie et al. (2004). The three quality dimensions are Time Orientation (TIME), Type of Measurement (TOM) and Economic Sign (ES). These measurements are used to capture sentences containing narratives of nonfinancial risk information based on categories used by Linsley and Shrives (2006). Each dimension is given a score, which finally will be totalled to derive the total score for each firm. The quality measure for each firm *j* is constructed as follows:

$$QL(DIM)_i = \sum_{i=1}^{d_i} id_i \, n_i$$

where $QL(DIM)_i$ = quality index depending on the specific dimensions either time orientation, type of measurements and economic signs for the company *i*

id_i = the number of risk information that may disclosed by company *i*

n_{ij} = value of disclosure score depending on the scoring schemes.

3.3 Independent and Control Variables

All independent and control variables are extracted from the annual reports and electronic database, namely DataStream. Table 1 provides the operationalised definitions of independent and control variables together with the signs predicted based on the agency theory.

Table 1. Operationalisation of variables

Variables	Acronym	Operationalised Definition	Signs
Independent			
Managerial Ownership	MAN	Percentage of shares owned by the board directors to total number of shares issued	-
Family Members on Board	FAM	Percentage of family members on board to total number of directors on the board	-
Independent Non-Executive Directors	INED	Percentage of independent non-executive directors on the board to total number of directors	+
Leaders Support Commitment	LCOM	Dichotomous score of 1 if there is additional Risk Management section being reported; 0 if otherwise	+
Control			
Firm Size	SIZE	Total assets	+
Industry Affiliation	IND	Environmental sensitive industry such as industrial, construction, plantation and properties. Score 1 if a firm belongs to environmental sensitive industry; 0 if otherwise.	+

3.4 Research Models and Empirical Schema

This model will examine the direct effects between independent variables of governance structures and quality of nonfinancial risk disclosure.

$$QLVRD = \beta_0 + \beta_1 FAM + \beta_2 MAN + \beta_3 INED + \beta_4 LCOM + \beta_5 SIZE + \beta_6 IND + \varepsilon. \quad (1)$$

where:

QLNRD is the aggregate score of quality measures of nonfinancial risk disclosure.

Model Two shows the effects of interaction variables between board structures and insider ownerships on the quality of nonfinancial risk disclosure.

$$QLVRD = \beta_0+\beta_1FAM+\beta_2MAN + \beta_3INED + \beta_4LCOM +\beta_5FAM*INED +\beta_6MAN*INED + \beta_7FAM*LCOM + \beta_8MAN*LCOM + \beta_9SIZE + \beta_{10} IND + \varepsilon \quad (2)$$

where:

FAM*INED represents the interaction of family members on the board and independent nonexecutive directors

MAN*INED represents the interaction of managerial ownership and independent nonexecutive directors

FAM*LCOM represents the interaction of family members on the board and leader commitment and support

MAN*LCOM represents the interaction of managerial ownership and leader commitment and support.

The expected relationships in the hypotheses are shown in empirical schema in Figure 1.

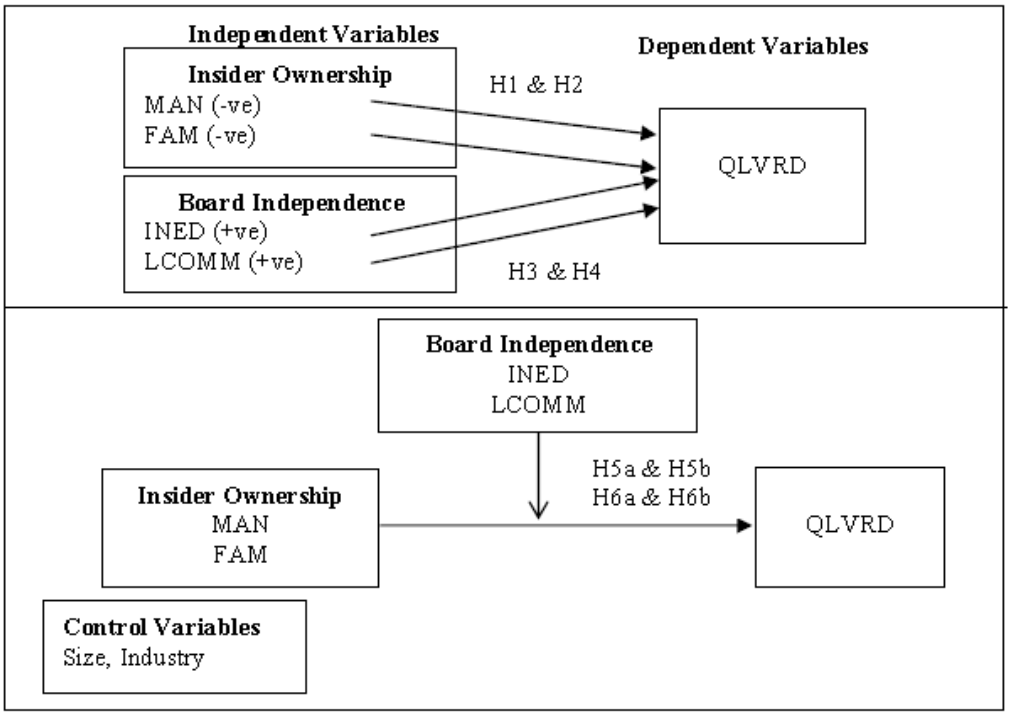

Figure 1. Empirical schema

4. Analysis of Results and Discussion

4.1 Descriptive Analysis

This study analyses the quality reporting of companies' annual reports through its chairman statements, review of operations and other related narrative sections that contain nonfinancial risk information. The aggregate score of three quality attributes is computed to indicate the level of reporting quality. The overall results shown in Table 2 reveal that the level of quality disclosure in 2008 and 2009 gradually increased by about 5.39%. This might indicate that the regulator's recommendations for corporate disclosure's best practices in 2004 has shifted the companies' disclosure strategy towards providing accurate, clear, timely, and complete voluntary disclosures as indicated in later years.

Descriptive statistics of independent variables that are shown in Table 2 noted a slight increment of total management ownership from 74.81% to 76.21%. The results of other independent variables such as FAM shows a constant value around 18% in both years that indicates the average family-owned companies have been presented by not more than half of its family members on the board of directors. The average results of INED is shown slightly decreased from 37.39% to 36.59%, which reveals the independency issue that is yet to be resolved by the majority of the companies in such a way to explicitly show the support for the transparency initiative.

Table 2. Descriptive statistics for 2008

Year 2008	N	Minimum	Maximum	Mean	Std. Dev.
QLVNRD	163	25	1075	213.15	185.258
MAN (%)	163	.00	74.81	17.7359	22.38563
FAM (%)	163	.00	75.00	18.8463	22.68575
INED (%)	163	.00	66.67	37.3877	12.26629
LCOMM	163	.00	1.00	.0675	.25163
SIZE (RM)	163	87 638.00	34 316 969.00	2 012 888.28	4 499 909.66
IND	163	.00	1.00	.5460	.49941

Year 2009	N	Minimum	Maximum	Mean	Std. Dev.
QLVNRD	163	38	1133	219.77	190.196
MAN (%)	163	.00	76.21	17.6286	22.83707
FAM (%)	163	.00	75.00	18.2892	23.75206
INED (%)	163	.00	66.67	36.5940	13.77194
LCOMM	163	.00	1.00	.0798	.27175
SIZE (RM)	163	81 228.00	43 407 000.00	2 176 872.93	5 216 226.22
IND	163	.00	1.00	.5460	.49941

4.2 Normality Test, Correlation Analysis and Multicollinearity

The normality test using skewness and kurtosis values show that most variables are normally distributed with statistical values between -1.0 to +1.0. Any variables assessed with not normal distribution are all normalised using Van der Waerden formula. Pearson correlation test reveals that there is no multicollinearity problem between variables of Models 1 and 2. The variance inflation factor and tolerance levels indicate low correlations between observed variables. This implies that each of the observed variables has either moderate to strong correlation between each other and could explain others very well.

4.3 Multivariate Analysis

This section provides the results and discussion of multiple regressions analysis for the testing of Models 1 and 2. Model 1 examines the causal effects influencing the quality of voluntary risk disclosure in terms of governance mechanisms of the insider concentrated ownership and the board independence. Model 2 further examines the interaction effects between these two governance mechanisms on voluntary risk disclosure.

Tables 3 and 4 exhibit both models for 2008 and 2009 respectively. The results of control variables are presented in the columns marked 'Model 0' in both years. Specifically, Model 1 shows the effects of control and independent variables on the quality of voluntary risk disclosure and Model 2 shows the inclusion of all control, independent and interaction variables and its effects on the quality of voluntary risk disclosure.

Model 0 in both years indicates significant effects of control variables of SIZE and INDUSTRY on the dependent variable-Quality Voluntary Risk Disclosure. This model reports a sig. F changes ($p < 0.0001$) for both years with the adjusted R^2 reported at 39% and 36.1% for 2008 and 2009 respectively. Further, the control variables are reported as follows: SIZE is shown in positive significance with voluntary risk disclosure which implies that large companies have the incentives to disclose more voluntary risk information in the annual reports in terms of its quality (Linsley & Shrives, 2006; Lopes & Rodrigues, 2007; Amran et al., 2009; Hassan, 2009). However, INDUSTRY is exhibited in negative relationship with voluntary risk disclosure indicating that companies which belong to the low risk industry are willing to disclose more information regarding risks and uncertainty as compared to companies of the high risk industry. This is consistent with prior studies on environmental disclosure that indicate firms which fall in the environmentally sensitive industry are expected to disclose less voluntary information to avoid imitation by the firms in other industries or to prevent legal lawsuit from regulators (Ahmad, Hassan, & Mohammad, 2003).

Model 1

Model 1 is developed to examine H1 to H4 that predict the significant effects between the independent variables of FAM, MAN, INED and LCOMM and the quality of voluntary risk disclosure (QLVRD). In particular, Table 3 shows the results of 2008. The results in Table 3 shows the Model 1 of 2008 is explained by independent variables at 43.5% with the significant F change and significant *p* value less than 1% reflects that the inclusion of governance variables into this model are significantly useful in the prediction of the possible effects on the voluntary risk disclosure.

Model 1a reveals that in addition to control variables, FAM and LCOMM significantly influences the QLVRD. Specifically, FAM is found negatively and significantly related to QLVRD at significance level $p < 0.05$, while, LCOMM is found positively and significantly related to QLVRD at significance level $p < 0.10$.

Model 1b for 2009 reveals that additional independent variable of INED significantly influences the QLVRD, despite the significant influences of FAM and LCOMM at significance level $p < 0.05$. Therefore, H2 and H4 are supported for both 2008 and 2009, while H3 is only supported for 2009.

Overall, the findings are consistent with prior studies which indicate less voluntary disclosure in companies that are controlled by more family members as they are less motivated to expand their business and prefer to circulate business information among themselves using separate confidential reports (Al-Shammari & Al-Sultan, 2010). Further, this might cause less intention to engage with external fund providers that requires greater disclosure through intense monitoring of the business performance (Al-Shammari & Al-Sultan, 2010; Chau & Gray, 2010). In relation to the CEO support and commitment, the positive results in both years indicate that the decision to provide greater voluntary risk disclosure can be influenced by the CEO who shows full support and commitment towards the interest alignments of shareholders, maximising the wealth of shareholders as well as to protect their job security and benefits (Laksmana, 2008).

Meanwhile, the significant result of INED in 2009 compared to 2008 indicates that the presence of INED among the board members is important to facilitate management efforts toward higher corporate transparency (Adawi & Rwegasira, 2011). The companies observed with an awareness of the revised corporate governance guidelines or MCCG attempt to portray that they are in the midst of adjusting the company policy towards adopting revised MCCG through practising greater voluntary disclosure (Cheng & Courtenay, 2006; Abraham & Cox, 2007).

Table 3. Hierarchical regression models for testing the direct and interaction effects between inside ownership and board structure for 2008

DV : Quality Voluntary Risk Disclosure									
	Model 0			Model 1a			Model 2a		
R^2	.397			.456			.467		
Change in R^2	.397			.059			.010		
Adjusted R^2	.390			.435			.432		
Sig. F change	.000			.003			.562		
F	52.700			21.817			13.304		
Model Sig.	.000***			.000***			.000***		
	B	t	Sig.	B	t	Sig.	B	t	Sig.
Constant	.182	2.055	.042**	.136	1.562	.120	.366	2.258	.025**
Control									
SIZE	.599	9.716	.000***	.528	8.332	.000***	.530	8.162	.000***
IND	-.335	-2.788	.006***	-.243	-2.016	.046**	-.241	-1.971	.051*
MAN				-.048	-.649	.517	.079	.493	.623
FAM				-.198	-2.497	.014**	.018	.089	.929
INED				.090	1.489	.138	.175	2.225	.028**
LCOM				.246	1.850	.066*	.216	1.382	.169

Interaction			
MANxINED	.000	-.886	.377
FAMxINED	.004	.343	.732
MANxLCOM	.000	-1.176	.241
FAMxLCOM	-.006	-.292	.770

* significant at 10% (2-tailed)

** significant at 5% (2-tailed)

*** significant at 1% (2-tailed)

Model 2

Model 2 is the extended version of Model 1 that exhibits the inclusion effects of control, independent and interaction variables on the quality of voluntary risk disclosure.

The result of regression analysis of Model 2a for 2008 is shown in Table 3 and Model 2b for 2009 is shown in Table 4. The R^2 of the Model 2a indicates 46.7% (Adj-R^2 = 43.2%) and significance at F (10,152) = 13.304, p value < 0.001. For Model 2b, R^2 indicates 47.2% (Adj-R^2 = 43.8%) and significance at F (10,152) = 13.610, p value < 0.001. This indicates that 46.7% and 47.2% of the independent variables and inclusion of interaction between these variables explain the variation in quality voluntary risk disclosure of the companies in 2008 and 2009 respectively. In model 2a, the result reported a consistent explanatory power from 43.5% of Model 1 to 43.2%. Meanwhile, Model 2 reported a slight improvement in explanatory power from 43.1% the 43.8%. Both models are registered with significance of F changes ($p < 0.001$) indicating high strength of interaction effects on the quality of voluntary risk disclosure.

The interaction results of Model 2a show that when there is an inclusion of interaction variables into the model, FAM and LCOM become insignificant; while INED is the only variable with positive and significance reported at a level of 5%. Further, all interaction results between the governance variables are reported as insignificant. This indicates that the inclusion of INED and LCOM as interaction variables has not provided any affect on the relationship between insider ownership and the quality of voluntary risk disclosure. This implies that in 2008, the presence of independent nonexecutive directors is important to encourage the high quality of voluntary risk disclosure regardless of different ownership concentration (Anderson & Reeb, 2003). However, due to insignificant results of interaction variables, H5 and H6 cannot be accepted for 2008.

Meanwhile, Model 3b exhibits that the INED and LCOM still maintain its significant effects at a 1% level, indicating indifferent results before or after the inclusion of interaction variables. However, the effects of interaction variables could be seen through significant results of MAN and LCOM, suggesting the strengths of these variables are departing once the interaction variables are introduced into the model. This suggests that there is an incentive among management ownership to improve the quality of voluntary risk disclosure when a committed and supported leader is present on the board of directors. The fact that INED is important to strengthen the governance mechanisms can be observed in its positive effect on more quality voluntary risk disclosure regardless of whether the companies are in high or low concentrated ownership. This can be supported with the argument that committed leaders are able to convince the shareholders on the serious effects of risks and uncertain information, and encourage them to take appropriate actions in lessening the companies' resistance to change towards greater voluntary disclosure (McGaw, 2005). Thus, only H6b is supported for 2009.

Table 4. Hierarchical regression models for testing the direct and interaction effects between inside ownership and board structure for 2009

DV : Quality Voluntary Risk Disclosure									
		Model 0			Model 1b			Model 2b	
R^2		.369			.452			.472	
Change in R^2		.369			.084			.020	
Adjusted R^2		.361			.431			.438	
Sig. F change		.000			.003			.562	
F		46.710			21.466			13.610	
Model Sig.		.000***			.000***			.000***	
	B	t	Sig.	B	t	Sig.	B	t	Sig.
Constant	.120	1.325	.187	.059	.674	.501	.326	2.218	.028**
SIZE	.593	9.406	.000***	.503	7.900	.000***	.502	7.791	.000***
IND	-.221	-1.797	.074*	-.117	-.963	.337	-.104	-.854	.395
MAN				-.048	-.654	.514	.061	.397	.692
FAM				-.167	-2.107	.037**	.172	.834	.406
INED				.168	2.760	.006**	.271	3.584	.000***
LCOM				.370	2.795	.006**	.400	2.854	.005***
MANxINED							.000	-.926	.356
FAMxINED							-.002	-.151	.880
MANxLCOM							.000	-1.791	.075*
FAMxLCOM							.020	.701	.484

* significant at 10% (2-tailed)

** significant at 5% (2-tailed)

*** significant at 1% (2-tailed)

5. Conclusions and Limitation

This study aims to examine the influences of insider ownership and board independence on the quality of voluntary risk disclosure among the Malaysian companies. This study extends in examining the influence of interaction effects of these governance variables to further conclude on the influential factors of voluntary disclosure practice among various concentrated ownership of the Malaysian companies.

The descriptive findings reveal that the level of voluntary risk disclosure in terms of its quality is at the average level for 2008 and 2009 with a slight increment in risk information disclosure. The average level of disclosure also might be possibly explained due to less exposure to the importance of such disclosure for shareholders' investment assessment needs. It can also be observed as less encouragement by the regulatory bodies on practising the best approach to disseminate the information through voluntary disclosure practices. However, this is consistent with most prior research that documented significant effects of governance mechanisms on voluntary risk disclosure decisions such as the influence of concentrated ownership and the presence of independent nonexecutive directors on the board.

In summary, the overall results have indicated that the family ownership, independent nonexecutive directors and CEOs with commitments and support are the influential factors that would determine the quality of voluntary risk disclosure. The interaction between insider ownership and board independence are further examined to observe the effects of these variables on the quality of voluntary risk disclosure. The independence of directors is vital for the Malaysian companies to survive in the global financial crisis. Numerous governance mechanisms have been suggested by regulators all over the world to avoid more corporate failures that would impact the efficiency and stability of the capital market. Thus, it can be deduced that the ownership concentration and the strengthened roles of the board as the elements of corporate governance mechanisms are very influential factors

in the context of voluntary risk information disclosure in Malaysia. However, due to limited number of variables under study in only a two-year period, further research should aim to look into more years of study rather than only two years as the discovery is not sufficient to draw inferences of the relationship between governance mechanisms and the quality of voluntary risk disclosure.

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