

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

* Dr. Sheila Nu Nu Htay, IIUM Institute of Islamic Banking & Finance, International Islamic University Malaysia. Email: sheilay7@yahoo.ca

** Dr. Hafiz Majdi Ab. Rashid, Department of Accounting, International Islamic University Malaysia. Email: arhafiz@iium.edu.my

***Dr. Muhammad Akhyar Adnan, Department of Accounting, International Islamic University Malaysia. Email: ibnu8adnan@yahoo.com

**** Prof. Dr. Ahamed Kameel Mydin Meera, Department of Finance, International Islamic University Malaysia. Email: akmeel@iium.edu.my

banks. 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-Marco & 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) explain 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 of the shareholders. Finkelstein and D' Aveni (1994), Florackis and Ozkan (2004) 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), Lakhali (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), Langan 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.

Htay, Rashid, Adnan & Meera

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

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

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

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

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

Htay, Rashid, Adnan & Meera

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

	Mean	Std. Dev.	Min	Median	Max	Skewness	Kurtosis
Independent variables							
<i>(a) CG variables</i>							
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
<i>(b) Ownership variables</i>							
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							
<i>(e) Disclosure variable</i>							
WDS ⁱ	40.09	25.40	0	31.48	85.50	0.35	-1.38
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

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

Htay, Rashid, Adnan & Meera

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

	Coefficient	Z_value	P value
<i>Independent variables</i>			
BLS	3.69	0.54	0.59
INE_BZ	87.88	7.35*	0.00
BZ	1.10	1.05	0.29
DOWN	-240.90	-5.58*	0.00
IOWN	6.26	0.6	0.55
BOWN	-9.53	-1	0.32
<i>Control variables</i>			
LNTA	12.34	3.16*	0.00
TD_TE	0.00	-0.22	0.83
CONS	-130.69	-4.2*	0.00
Chi-Sq.	371.41*		
P value	0.00		
Heteroskedastic (LR Test)	LR Chi ²	21.37**	
	P value	0.03	
Autocorrelation (Wooldridge Test)	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 the 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.

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

ⁱ WDS refers to weighted risk management information disclosure score.

References

- Alexander, K 2006, 'Corporate governance and banks: The role of regulation in reducing the principal agent problem', *Journal of Banking Regulation*, vol.2, no. 1/2, pp.17-40.
- Allen, F & Gale, D 2001, *Comparative financial systems: A survey*, viewed 29 April 2008, <<http://www.econ.nyu.edu/user/galed/papers/paper01-04-01.pdf>>.
- Asian Productivity Organization 2007, *The Best practices in Asian corporate governance*, viewed 28 April 2008, <http://www.apo-tokyo.org/00e-books/IS-20_BP_AsianCorpGov/IS-20_BP_AsianCorpGov.pdf>.
- Balkiz, O 2003, 'Testing informational market efficiency on Kuala Lumpur Stock Exchange', paper presented at Malaysian Finance Association 5th Annual Symposium, Cyberjaya, Malaysia, April.
- Ballesta, JPS & Garcia-Meca, E 2005, 'Audit qualifications and corporate governance in Spanish listed firms', *Managerial Auditing Journal*, vol.20, no.7, pp. 725-738.
- Basel committee on banking supervision 2005, *Enhancing corporate governance for banking organizations*, viewed 16 May 2008, <<http://www.bis.org/publ/bcbs117.pdf>>.
- Beekes, W & Brown, P 2006, 'Do better-governed Australian firms make more informative disclosures?' *Journal of Business Finance & Accounting*, vol.33, no.3, pp. 422-450.
- Brickley, JA, Coles, JL & Jarrell, G 1997, 'Leadership structure: Separating the CEO and chairman of the board', *Journal of Corporate Finance*, vol.3, pp. 189-220.
- Byard, D, Li, Y, & Weintrop, J 2006, 'Corporate governance and the quality of financial analysts' information', *Journal of Accounting and Public Policy*, vol.25, pp. 609-625.
- Cebenoyan, S & Strahan, PE 2001, *Risk management, capital structure and lending at banks*, viewed 16 May 2008, <<http://fic.wharton.upenn.edu/fic/papers/02/0209.pdf>>.

- Centre for Financial Market Integrity 2005, *The corporate governance of listed companies: A manual for investors*, viewed 28 April 2008, <<http://www.cfapubs.org/doi/abs/10.2469/v2005.n6.4003?cookieSet=1>>. /ccb.
- Chau, GK & Gray, SJ 2002, 'Ownership structure and corporate voluntary disclosure in Hong Kong and Singapore', *The International Journal of Accounting*, vol.37, pp. 247-265.
- Chen, CJP & Jaggi, B 2000, 'Association between independent non-executive directors, family control and financial disclosures in Hong Kong', *Journal of Accounting and Public Policy*, vol.19, pp. 285-310.
- Cheng, ECM & Courtenay, SM 2006, 'Board composition, regulatory regime and voluntary disclosure', *The International Journal of Accounting*, vol. 41, pp. 262-289.
- Cheung, SYL & Chan, BY 2004, 'Corporate governance in Asia', *Asia-Pacific Development Journal*, vol. 11, no.2, pp.1-31.
- Cho, DS & Kim, J 2003, 'Determinants in introduction of outside directors in Korean companies', *Journal of International and Area Studies*, vol.10, no.1, pp.1-20.
- Choe, H & Lee, BS 2003, 'Korean bank governance reform after the Asian financial crisis', *Pacific-Basin Finance Journal*, vol.11, pp 483-508.
- Coleman, AK, Adjasi, CKD & Abor, J 2007, 'Corporate governance and firm performance: Evidence from Ghanaian listed companies', *Corporate Ownership and Control*, vol. 4, no. 2, pp.123-132.
- Conyon, MJ & Schwalbach, J 2000, 'Executive compensation: Evidence from the UK and Germany', *Long Range Planning*, vol. 33, pp. 504-526.
- David, HP 1997, 'Bank Risk Management: Theory', paper presented at Conference on Risk Management and Deregulation in Banking, Jerusalem, July.
- David, P & Kochhar 1996, 'Barriers to effective corporate governance by institutional investors: Implications for theory and practice', *European Management Journal*, vol. 14, no. 5, pp. 457-466.
- Eng, LL & Mak, YT 2003, 'Corporate governance and voluntary disclosure', *Journal of Accounting & Public Policy*, vol. 22, pp. 325-345.
- Fama, EF & Jensen, M 1983, 'Separation of ownership and control', *Journal of Law and Economics*, vol.26, pp. 301-325.
- Finance Committee on Corporate Governance 2001, *Malaysian Code on Corporate Governance*, Printmate Sdn. Bhd, Kuala Lumpur.
- Finkelstein, S & D'aveni, RA 1994, 'CEO duality as a double-edged sword: How boards of directors balance entrenchment avoidance and unity of command', *Academy of Management Journal*, vol. 37, no. 5, pp. 1079-1108.
- Firth, M, Fung, PMY & Rui, OM 2002, *Simultaneous relationships among ownership, corporate governance and firm performance*, viewed 20 May 2010, <<http://www.baf.cuhk.edu.hk/acy/staff/orui/AUTHORS.pdf>>
- Florackis, C & Ozkan, A 2004, *Agency costs and corporate governance mechanisms: Evidence for UK firms*, viewed 16 May 2008, http://www.soc.uoc.gr/asset/accepted_papers/paper87.pdf>.

- Garcia-Marco, T & Robles-Fernandez, MD 2008, 'Risk-taking behaviour and ownership in the banking industry: The Spanish evidence', *Journal of Economics and Business*, vol.60, pp. 332-354.
- Gul, FA & Leung, S 2004, 'Board leadership, outside directors' expertise and voluntary corporate disclosure', *Journal of Accounting and Public Policy*, vol.23, pp. 351-379.
- Gursoy, G & Aydogan, K 2002, 'Equity ownership structure, risk taking, and performance', *Emerging Markets Finance and Trade*, vol.38, no.6, pp. 6-25.
- Haniffa, RM & Cooke, TE 2002, 'Culture, corporate governance and disclosure in Malaysian corporations', *ABACUS*, vol.38, no.3, pp. 317-349.
- Ho, SSM & Wong, KS 2001, 'A study of the relationship between corporate governance structures and the extent of voluntary disclosure', *Journal of International Accounting*, vol.10, pp. 139-156.
- Huafang, X & Jianguo, Y 2007, 'Ownership structure, board composition and corporate voluntary disclosure: Evidence from listed companies in China', *Managerial Auditing Journal*, vol.22, no. 6, pp. 604-619.
- Huther, J 1997, 'An empirical test of the effect of board size on firm efficiency', *Economics Letter*, vol. 54, pp. 259-264.
- Jensen, MC & Meckling, WH 1976, 'Theory of the firm: Managerial behavior, agency costs and ownership structure', *Journal of Financial Economics*, vol.3, no. 4, pp. 305-360.
- Jensen, MC & Ruback, R 1983, 'The market for corporate control: The scientific evidence', *Journal of Financial Economics*, vol.11, pp. 5-50.
- Jensen, MC 1993, 'Presidential address: The modern industrial evolution, exit and the failure of internal control system', *Journal of Finance*, vol.48, pp. 831-880.
- Judge, WQ, Naumova, I & Koutzevol, N 2003, 'Corporate governance and firm performance in Russia: an empirical study', *Journal of World Business*, vol.38, pp. 385-396.
- Kang, DL & Sorensen, AB 1999, 'Ownership organization and firm performance', *Annual Review*, vol.25, pp. 121-44.
- Kiel, GC & Nicholson, GJ 2003, 'Board composition and corporate performance: How an Australian experience informs contrasting theories of corporate governance', *Corporate Governance: An International Review*, vol.1, pp. 189-205.
- Kim, B & Lee, I 2003, 'Agency problems and performance of Korean companies during the Asian financial crisis: Chaebol vs. non-chaebol firms', *Pacific-Basin Finance Journal*, vol.11, pp. 327-348.
- Kim, KA & Nofsinger, JR 2004, *Corporate governance*, Pearson Prentice Hall, New Jersey.
- Lakhal, F 2005, 'Voluntary earnings disclosures and corporate governance: Evidence from France', *Review of Accounting & Finance*, vol. 4, no. 3, pp. 64-85.
- Langnan Chen, Steven Li & Weibin Lin 2007, 'Corporate governance and corporate performance: some evidence from newly listed firms on Chinese stock markets', *International Journal of Accounting, Auditing and Performance Evaluation*, vol. 4, no.2, pp. 183 - 197.

- Le, SA, Walters, B & Kroll, M 2006, 'The moderating effects of external monitors on the relationship between R&D spending and firm performance', *Journal of Business Research*, vol. 59, pp. 278-287.
- Leng, ACA 2004, 'The impact of corporate governance practices on firms' financial performance: Evidence from Malaysian companies', *ASEAN Economic Bulletin*, vol. 21, no.3, pp. 308-318.
- Leng, ACA & Shazaili, AM 2005, 'Can good corporate governance practices contribute to firms' financial performance?-Evidence from Malaysian companies', *Int. J. Business Governance and Ethics*, vol 1, no. 4, pp. 350-362.
- Leong, J 2005, 'Corporate risk disclosure and transparency: What risks should organization disclosure and how?' paper presented at Asia Corporate Governance Conference 2005: Managing Corporate Responsibility and Crisis through Fairness, Transparency and Accountability, Kuala Lumpur, Malaysia, February.
- Leung, S & Horwitz, B 2004, 'Director ownership and voluntary segment disclosure: Hong Kong experience', *Journal of International Financial Management and Accounting*, vol.15, no. 3, pp. 235-260.
- Liew, PK 2006, *The perceived roles of corporate governance reform in Malaysia: The views of corporate practitioners*, viewed 25 April 2008, <http://www.essex.ac.uk/AFM/Research/working_papers/WP06-02.doc>.
- Lu, C, Liao, GM & Yang, YC 2007, 'Ownership structure, information disclosure and corporate value: An empirical analysis of Taiwan companies', paper presented at the 13th Asia Pacific Management Conference, Monash University, Melbourne, viewed 29 April 2008, <http://210.70.175.208/dr_bonus/adminpage/paperfile/20071207082044.pdf>
- Luo, S, Courtenay, SM & Hossain, M 2006, 'The effect of voluntary disclosure, ownership structure and proprietary cost on the return-future earnings relation', *Pacific-Basin Finance Journal*, vol. 14, pp. 501-521.
- Maher, M & Andersson, T 1999, *Corporate governance: Effects on firm performance and economic growth*, viewed 16 May 2008, <<http://www.oecd.org/dataoecd/10/34/2090569.pdf>>
- Mccarthy, DJ & Puffer, SM 2008, 'Interpreting the ethicality of corporate governance decisions in Russia: Utilizing integrative social contracts theory to evaluate the relevance of agency theory norms', *Academy of Management Review*, vol. 33, no.1, pp. 11-31.
- McColgan, P 2001, *Agency theory and corporate governance: A review of the literature from a UK perspective*, viewed 16 May 2008, <<http://accfinweb.account.strath.ac.uk/wps/journal.pdf>>.
- Millstein, Albert, Cadbury, Denham, Feddersen and Tateisi 1998, *Corporate governance: improving competitiveness and access to capital in global market*, A report to the OECD, The Business Sector Advisory Group on Corporate Governance.
- Mohammad Rizal, S 2006, 'Legal transplantation and local knowledge: Corporate governance in Malaysia', *Australian Journal of Corporate Law*, vol. 20, no.10, pp. 1-29.

-
- Muth, MM & Donaldson, L 1998, 'Stewardship theory and board structure: A contingency approach', *Scholarly Research and Theory Papers*, vol.6, no.1, pp. 5-28.
- Norita, MN & Shamsul Nahar, A 2004, 'Voluntary disclosure and corporate governance among financially distressed firms in Malaysia', *The Electronic Journal of the Accounting Standards Interest Group of AFAANZ*, vol. 3, no.1, viewed 16 May 2008, <<http://www.cbs.curtin.edu.au/files/nasir-abdullah.pdf>>.
- Norman, MS, Takiah, MI & Mohd Mohid, R 2005, 'Avoidance of reported earnings decreases and losses: Evidence from Malaysia', *Malaysian Accounting Review*, vol. 4, no.1, pp. 25-37.
- Norman, MS, Takiah, MI & Mohd Mohid, R 2005, 'Earnings management and board characteristics: Evidence from Malaysia', *Jurnal Pengurusan*, vol. 24, no. 4, pp. 77-103.
- Patel, SA, Balic, A & Bwakira, L 2002, 'Measuring transparency and disclosure at firm level in emerging market', *Emerging Markets Review*, vol. 3, pp. 325-337.
- Patibandla, M 2006, 'Equity pattern, corporate governance and performance: A study of India's corporate sector', *Journal of Economic Behavior & Organization*, vol. 59, pp. 29-44.
- Ponnu, CH & Ramthandin 2008, 'Governance and performance: Publicly listed companies in Malaysia', *Journal of Business Systems, Governance and Ethics*, vol. 3, no. 1, pp. 35-53.
- Raghavan, RS 2003, *Risk Management In Banks*, viewed by 23 February 2010, <http://www.ica.org/resource_file/11490p841-851.pdf>
- Ramzi Benkraiem 2008, 'The influence of institutional investors on opportunistic earnings management', *International Journal of Accounting, Auditing and Performance Evaluation*, vol. 5, no. 1, pp. 89-106.
- Rashidah, AR & Fazilah, T 2006, 'The effectiveness of corporate governance mechanisms on capital structure decisions in Malaysia', paper presented at the World Congress of Accounting Educators, Istanbul, Turkey, November.
- Salim, C 2007, 'Block-holder ownership, family control and post-listing performance of French IPOs', *Managerial Finance*, vol. 33, no. 6, pp. 388-400.
- Salleh, HH & Mallin, C 2002, 'Corporate governance in Bahrain', *Corporate Governance*, vol. 10, no. 3, pp. 197-210.
- Santema, S, Hoekert, M, Rijdt, JVD & Oijen, AV 2005, 'Strategy disclosure in annual reports across Europe: A study on differences between five countries', *European Business Review*, vol. 17, no. 4, pp. 352-366.
- Santomero, MA 2007, *Commercial Bank Risk Management: an Analysis of the Process*, viewed by 11 January 2010, <<http://fic.wharton.upenn.edu/fic/papers/95/9511.pdf>>.
- Seifert, B, Gonenc, H & Wright, J 2005, 'The international evidence on performance and equity ownership by insiders, blockholders, and institutions', *Journal of Multinational Financial Management*, vol.15, pp. 171-191.

-
- Shamsul Nahar, A 2004, 'Board composition, CEO duality and performance among Malaysian listed companies', *Corporate Governance*, vol.4, no.4, pp. 47-61.
- Short, H, Keasey, K, Wright, M & Hull, A 1999, 'Corporate governance: From accountability to enterprise', *Accounting & Business Research*, vol. 29, no. 4, pp. 337-352.
- Singam, K 2003, 'Corporate governance in Malaysia', *Bond Law Review*, vol. 15, no.1, pp. 313-344.
- Solomon, J & Solomon, A 2004, *Corporate governance and accountability*, John Wiley & Sons Ltd, West Sussex, England:
- Talha, M, Sallehuddin, A & Mohammad, J 2006, 'Changing pattern of competitive disadvantage from disclosing financial information', *Managerial Auditing Journal*, vol. 21, no.3, pp. 265-274.
- Tze, WKL 2003, *Corporate governance in Malaysia and the recent reform*, viewed 20 December 2004, <http://www.maicsa.org.my/technical_essay.htm>.
- United Nations 2003, Selected issues in corporate governance: Regional and country experience, paper presented at United Nations Conference on Trade and Development, viewed 30 April 2008, <http://www.unctad.org/en/docs/iteteb20033_en.pdf>.
- Utama, S 2003, *Corporate governance, disclosure and its evidence in Indonesia*, viewed 16 May 2008, <<http://www.lmfeui.com/uploads/file25-XXXII-Mei-2003.PDF>>.
- Weir, C 1997, 'Corporate governance, performance and take-overs: An empirical analysis of UK merges', *Applied Economics*, vol. 29, pp.1465-1475.
- Williams, DR, Duncan, WJ, Ginter, PM & Shewchuk, RM 2006, 'Do governance, equity characteristics, and venture capital involvement affect long-term wealth creation in US health care and biotechnology IPOs?' *Journal of Health Care Finance*, vol. 33, no.1, pp. 54-71.
- Xu, X & Wang, Y 1999, 'Ownership structure and corporate governance in Chinese Stock Companies', *China Economics Review*, vol. 10, pp. 75-98.
- Yoshikawa, T & Phan, PH 2003, 'The performance implications of ownership-driven governance reform', *European Management Journal*, vol. 21, no. 6, pp. 698-706.
- Zulkarnain, MS 2007, 'Towards better corporate governance and transparency', paper presented at Conference on Managing Knowledge in the Borderless World, Selangor, Malaysia, February.