

## **Factors Influencing Directors' Remuneration Disclosure in Malaysia PLCs**

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### **ABSTRACT**

This study is intended to examine the levels of directors' remuneration disclosure among public-listed companies in Malaysia. It further aims to examine the relationship among total directors' remuneration, directors' education level, size of external auditors, and proportion of managerial ownership and directors' remuneration disclosure. The analysis is conducted based on three models, which are constructed from the Malaysian Code on Corporate Governance (Model 1), Global Practices (Model 2), and a combination of both Malaysian Code on Corporate Governance and Global Practices (Model 3). This study found that the size of external auditors had a positive significant relationship, while the proportion of managerial ownership had a negative significant relationship with the disclosure. This study contributes to the improvement of policymaking and body of knowledge by highlighting the relationship between the selected corporate governance characteristics and directors' remuneration disclosure in the context of Malaysia.

*Keywords:* Audit firm, corporate governance, directors' remuneration, disclosure, Malaysia, managerial ownership

### **INTRODUCTION**

Corporate governance has become a significant issue in the business world since the collapse of Enron, Parmalat, World.Com, and other companies involved in major scandals. This has also become an important paradigm shift of the business environment. Similarly, in Malaysia, the financial crisis in 1997 had an adverse effect on the Malaysian economy, coupled with many corporate frauds and poor

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internal controls, which caused the cessation and insolvency of business operations as well as the loss of billions of dollars (Khadijah et al., 2015; Manan et al., 2013; Nawawi & Salin, 2018; Omar et al., 2016; Rahim et al., 2017; Suhaimi et al., 2016; Zakaria et al., 2016). This has motivated the government to focus more attention on the quality of good corporate management practice and accountability in the private and public sectors (Shariman et al., 2018). For example, authorities have taken initiatives to strengthen the internal situation, particularly by implementing effective corporate governance in the domestic economic sector with the introduction of the Malaysian Code on Corporate Governance in the year 2000 (Hamid et al., 2011; Husnin et al., 2013; Nor et al., 2017).

One of the issues of corporate governance is excessive remuneration paid to top management. Although a company's performance may have deteriorated, the perks and salaries paid to managers keep increasing without justification. Furthermore, there is a lack of information on remuneration disclosed in annual reports, thus worsening the problem (Ahmad et al., 2016; Jaafar et al., 2014; Salin et al., 2017).

A study conducted by Anwar and Tang (2003) and Hashim et al. (2014) claimed that Malaysian companies were lacking in transparency on disclosing information on corporate governance, while Ghazali and Weetman (2006), in their investigation on the corporate governance reform after the 1997 crisis, found that only the directors' ownership was significant enough to explain

the extended level of voluntary disclosure. This is not good because, as a developing country with an emerging capital market, Malaysian companies need to disclose more information to create confidence and attract foreign investors from a broader international market to invest more capital into their operations (Salin, 2017; Mitton, 2002) and gain benefits from the lower cost of financing (Botosan, 1997; Botosan & Plumlee, 2002; Sengupta, 1998). More disclosure of information will also support the efficiency and establish their compliance with regulations (Gibbins et al. 1990) such as reduction of management earnings (Safari et al., 2016).

In addition, more voluntary information disclosed will signal better transparency, which is highly valued by stakeholders. Mitton (2004) posited that companies with better transparency had higher abnormal market returns, as investors place a high premium on firms that opt for higher disclosure quality. Superior transparency practices are able to reduce information asymmetry and, thus, reduce conflicts between owner and manager (Healy & Palepu, 2001), manager and outsiders (Zhou & Lobo, 2001), and different types of shareholders (Allegrini & Greco, 2013) while at the same time reducing stakeholder uncertainty (Hirst et al., 2007).

This is also why merely complying to mandatory disclosure imposed by laws and regulations will typically threaten a company's survival. Disclosing the minimum required information is insufficient because different stakeholders may require different

types of information. For example, certain classes of investors such as institutional investors, pension funds, and financial analysts demand more transparency from a company, so that they can assess the holistic view of a company's performance (Cheng et al., 2014). As mandating too much information is also costly for the companies and regulators itself, voluntary disclosure plays its role to complement the minimum required disclosure, which is specifically designed to fulfil the needs of stakeholders and a company's own characteristics. It also prevents unnecessary costs of information disclosure that outweigh the benefits. For example, a company that operates in an environmentally sensitive area, e.g., mining and gas, needs to disclose more information on environmental reporting, but the same information only adds minimal value for a company that operates in a financial or banking industry.

Therefore, the current study is motivated to investigate the factors influencing corporate disclosure in Malaysia by selecting directors' remuneration as an area to be explored. Specifically, the objective of the study is to examine the relationship between directors' remuneration disclosure with the selected corporate governance variables, namely, the total directors' remuneration, directors' education level, size of external auditors, and proportion of managerial ownership.

This study examines whether the criticism of lack of transparency in corporate reporting is still relevant in Malaysia. Arguably, companies that lack transparency

in disclosing voluntary information may tarnish the reputation of the Malaysian economy and, hence, indirectly give a negative signal to existing and potential investors on the competitiveness and sustainability of Malaysian business. As Malaysia aspires to become a developed nation in 2020, transparency and integrity are of the utmost importance to attract investors from overseas to Malaysia.

Moreover, in Malaysia, the directors' remuneration is not a mandatory disclosure. Therefore, the study is intended to examine the companies' annual report to determine whether they have adopted the practices recommended by the Malaysian Code on Corporate Governance. Furthermore, limited studies have been conducted to examine the directors' remuneration disclosure in Malaysia. Mostly, in Malaysia, researchers are more interested to investigate the disclosure and practices in the areas of risk management (Amirudin et al., 2017; Ismail & Rahman, 2011), directors' remuneration and performance (Abdullah, 2006; Hassan et al., 2003), environmental reporting (Saleh et al., 2010; Smith et al., 2007) corporate social responsibility (Ho & Taylor, 2013), intellectual capital (Haji & Ghazali, 2013) and corporate governance (Haniffa & Cooke, 2002).

This study is significant to the extended research on corporate governance literature in a number of ways. First, it will provide important information on the quality of directors' remuneration disclosure because it is not a mandatory disclosure in Malaysia. It may help the relevant

authority and professional accounting bodies in Malaysia such as Bursa Malaysia, Securities Commission of Malaysia (SC), Malaysian Accounting Standard Board (MASB), and audit and accounting firms as well as companies to understand the extended quality of directors' remuneration disclosure in Malaysia. Following that, these relevant authorities can improve and amend the loophole on the existing rules and regulations to enhance the quality of transparency of disclosure among Malaysian public-listed companies.

Second, this research will also facilitate the users of existing and potential investors, legitimate shareholders, and other stakeholders to evaluate and examine the specific characteristic that may impair a company's level of transparency on disclosing the voluntary information disclosure in the annual report. Therefore, a company will be able to make the right investment decision to invest its money in the appropriate companies, which may operate at a high level of transparency.

This paper is organized to include a review of literature in the next section. This is then followed by the hypotheses and its justification in the subsequent section. The third section discusses the sample, data, model, and statistical method used. The results of the statistical analysis and the discussion on the findings are then presented in Section 4. The last section is the overall conclusion drawn from the study.

## LITERATURE REVIEW AND HYPHOTHESES DEVELOPMENT

### Theoretical Framework

The issue of directors' remuneration and corporate governance can be explained via agency theory. According to Jensen and Meckling (1976), the agency relationship exists between the management (agent) and shareholders (principal). The conflict exists when management maximizes its interest at the expense of the shareholders. Management uses its power to retain profit rather than paying the shareholders' dividend to reduce risk. At the same time, management will manipulate financial performance by executing earnings management to gain greater incentives and bonuses. Therefore, at present, the authorities take remedial action to protect the interest of shareholders and other legitimate stakeholders on the remuneration packages paid to directors by recommending management to provide a statement on directors' remuneration disclosure.

### Hypotheses Development

**Directors' Remuneration.** The issues of directors' remuneration are often discussed in many studies, especially in regard to the excessive payment to directors. The best practices of corporate governance suggest that payment should be determined based on a firm's performance (Abdullah, 2006; Cybinski & Windsor, 2013; Jaafar et al., 2014; Rampling et al., 2013) and aligned with the effective risk management (Shlomo et al., 2013). Hasan et al. (2003) investigated directors' remuneration and

firm performance in Malaysia before and during the Asian financial crisis of 1996–1998, and they found that directors' remuneration had a weak relationship with firm performance but still in a positive relation. They also found a significant positive association between directors' remuneration and companies' turnover and size, which represented as firm's internal growth.

Talha et al. (2009) discussed the development of directors' remuneration and corporate governance practiced by Asian countries such as Malaysia, Singapore, Indonesia, Philippines, and Thailand. They suggested that directors' remuneration should be held close to the corporate governance process, and the remuneration should be satisfactory to magnetize the directors' expectations to run the company successfully. This can be accomplished when directors are rewarded with the best compensation packages that encourage them to align the interest of shareholders and managers (Dong & Ozkan, 2008). Director's pay is not only determined by the firm's performance but also other factors such as quality managers, which include managers with the character of integrity and transparency (Dong & Ozkan, 2008).

In the United Kingdom, director's remuneration has become a dominant element in the reformation of corporate governance. Cadbury (1992) report explained that the major issue of the reformation was focused on establishing a more transparent procedure for pay-setting and rewarding success with fair

and competitive perks. Accordingly, the Greenbury (1995) report emphasized greater disclosure on director's remuneration and attractive package offered to directors of UK companies. In addition, many previous studies (Fich & Shivdasani, 2005) found evidence that the stock option plan for directors is related with the performance and value of the company.

The agency theory (Jensen & Meckling, 1976) proposed that appropriate remuneration and disclosure are the two actions that can be taken to realign the interests between shareholders and managers. Shareholders need to pay sufficient remuneration to managers. Thus, in return, managers need to run the company successfully within a good governance framework. Because shareholders are not involved in operations, more disclosures are required from directors to update the shareholders on the company. Thus, a satisfactory remuneration will encourage more disclosure from the directors as part of their governance responsibility. Nagar et al. (2003) proposed to link remuneration directly with disclosure activity.

However, some studies were unable to find any positive relationship between directors' remuneration and good governance practices of the company. Conyon and Peck (1998), Ntim et al. (2015), and Vafeas (2000) were unable to find concrete evidence on the influence of directors' remuneration with corporate performance, suggesting poor governance practices. Chee-Wooi and Chwee-Ming (2010) also found that directors' remuneration was

not associated with firm's profitability. Although this study relates directors' remuneration with corporate performance, the same observation can be made because a company that has pay-performance link is a company that is more likely to exercise good governance, including disclosing more voluntary information.

Based on this premise, it is hypothesised that

*H1: There is a positive and significant relationship between directors' remuneration and the level of voluntary disclosure of the directors' remuneration.*

**Directors' Education Level.** Akhtaruddin (2005) suggested that the level of higher education of a CFO and CEO was positively related to the level of voluntary disclosure, based on the sample of Bangladeshi's public-listed companies. As an educated manager, a director's analytical thinking is optimistic with the firm's performance and growth; thus, he or she is able to see things in the future better and broader as well as willing to increase exposure to new ideas. Directors are also more popular, especially to new firms, as they can contribute to many aspects of a company, including good governance practices (Field et al., 2013), and help to obtain a positive market reaction (Defond et al., 2005).

This argument is in line with that of Merchant et al. (1995) who indicated that managers who pursued higher education in Western countries could play a vital role in creating proper disclosure behaviour.

Gray (1998) also found that the level of education was a significant institutional consequence to influence accounting practices. Indeed, education is an important source of normative isomorphism. Managers with good normative isomorphism have a strong level of compliance with regulations (Teodoro, 2014), social obligation, create identical organizational practices, and, hence, disclose more information to the public.

According to Douppnik and Salter (1995), those with a higher education would tend to further use financial statements. Indirectly, the level of corporate disclosure may increase with the level of education. Archambault and Archambault (2003) used education as a measure of a country's culture; they found that such culture had a positive effect on the amount of corporate disclosure by companies.

Besides that, Wallace and Cooke (1990) opined that the increase in the level of education in a country enhanced corporate accountability and governance. Therefore, companies with board members who have a high level of business and accounting education background will tend to disclose more information in order to boost the firms' credibility and reputation. Roberts et al. (2005) in a similar tone argued that education, especially advanced education, was a critical factor for a good nonexecutive to have an independent thinking. Similarly, Korac-Kakabadse et al. (2001) documented that the board members of the Bank of Montreal had high levels of independence as a result of a strong directors' education,

thus impacting good practice of governance. These evidences show that directors' education has good potential in influencing directors' remuneration disclosure. Based on the agency theory, shareholders (principal) will invest more money and pay higher perks to hire more educated directors (agent) with an expectation that these directors are more transparent and willing to disclose more information about a company to outsiders.

While previous arguments showed a positive contribution of education to good governance, Brown and Caylor (2006, 2009) and Bebchuk and Cohen (2005) did not find any definite evidence. Brown and Caylor (2009), for example, found that directors with a higher level of education were unable to drive firm performance, whereas Bebchuk and Cohen (2005) and Brown and Caylor (2006) posited that more educated directors were not an important factor in increasing the superiority of a firm's values.

Based on this premise, it is hypothesized that

*H2: There is a positive and significant relationship between directors' education level and the level of voluntary disclosure of directors' remuneration.*

**Size of Audit Firm.** DeAngelo (1981a) suggested that external auditors play a significant role in influencing a firm's financial reporting and disclosure of information in the annual report. Bigger audit firms are more likely to be competent in handling their jobs to ensure that their companies comply with the statutory requirements and regulations

set by authorities; at the same time, these auditors are more independent to report any misstatements and wrongdoings by the companies (DeAngelo, 1981b) and more able to curb earnings management (Khalil & Ozkan, 2016); this is because they are recognized as having a high reputation on quality audit and are highly independent. A high-quality audit will affect the reliability of the financial report and protect the interest of its reader (Husnin et al., 2016; Jais et al., 2016; Asmuni et al., 2015).

Lin and Liu (2009) found that companies with the duality of a CEO, smaller supervisory board size, and large controlling shareholders preferred to hire Non-Big 4 auditors because these firms had a less transparent disclosure. In contrast, firms having effective and high-quality internal controls would hire the Big 4 auditors to signal to investors that the companies have good internal controls and effective corporate governance. Adelopo (2011) suggested that Big 4 auditors provided more confidence on the credibility of information disclosed in an annual report, where the information was true and fair. The agency cost of a company is also slightly reduced because the auditors have improved the stakeholders' perception.

Previous studies by Camfferman and Cooke (2002), Han et al. (2012), Mahmood (1999) and Naser et al. (2002) found a positive and significant relationship between the types of audit firms and the level of voluntary disclosure. However, there are studies that show inconclusive evidence of the relationship between auditors and

nonfinancial voluntary disclosure, e.g., Braam and Borghans (2014) and Lee et al. (2003). Dun and Mayhew (2004) also found no association between auditors and disclosure quality.

For the purpose of this study, it is hypothesized that companies audited by Deloitte, KPMG, PricewaterhouseCoopers, and Ernst and Young disclose more information than companies audited by other auditing firms:

*H3: There is a positive and significant relationship between the companies audited by the Big 4 audit firms and the level of voluntary disclosure of directors' remuneration.*

### **Managerial Ownership Proportion.**

Companies with a greater proportion of equity owned by the top management are less likely to disclose more information in their annual financial reports because they have lower agency costs and, hence, have little incentive to monitor the management (Jensen & Meckling, 1976). Owusu-Ansah (2005) found that New Zealand companies held by insider equity had a tendency to disclose less information in their annual reports, while Leung and Horwitz (2004) demonstrated that board ownership oppositely influences the level of voluntary disclosure. Their study supported earlier findings by Wright et al. (1996) who suggested that firms with a significant amount of managerial ownership would disclose less information in an annual report to avoid outside shareholders' controlling and monitoring.

In contrast, Baik et al. (2009) found that firms with low level of managerial ownership would disclose much more discretionary information to make investors happy and to avoid any hostile takeover that would possibly remove them from the current management position. Yeo et al. (2002) also found that informativeness of earnings increases when a firm had a low level of managerial ownership.

Another study, conducted by Eng and Mak (2003), concluded that a low level of managerial ownership would increase agency cost problems. Managers will optimize their own benefit at the expense of shareholders by maximizing their job performance via manipulating earnings because managers will be entitled to a higher compensation if they manage to increase a firm's accounting performance. Managerial entrenchment will also occur as they will pursue their own interests above the others' (Elsayed & Wahba, 2013) and act only from the owners' perspectives (Paek et al., 2013).

To avoid this, shareholders have a greater incentive to increase the monitoring cost to monitor a manager's behaviour by increasing the number of outside shareholders. Unfortunately, this may incur a higher cost. To simplify the cost and monitoring problems, shareholders require managers to disclose more voluntary information as a mechanism to control their behaviour as a substitute to the monitoring activities. All of these arguments lead to the following hypothesis, where

*H4: There is a negative and significant relationship between managerial*



*ownership and the level of voluntary disclosure of directors' remuneration.*

Figure 1 illustrates the conceptual framework of this study. It seeks to investigate determinants affecting directors' remuneration disclosure on a selected

sample of public-listed companies in Malaysia. The independent variables in this study are the total directors' remuneration, directors' education level, size of external auditors, and proportion of managerial ownership.

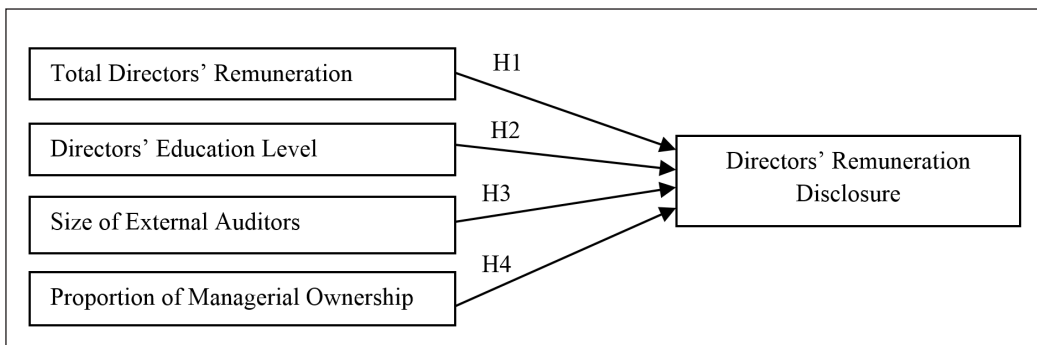


Figure 1. Conceptual framework

## METHOD

### Sample Selection

The focus of this study is on Malaysian public-listed companies (PLC) in the Bursa Malaysia in 2006 because the *Malaysian Code on Corporate Governance (Code)* was first issued in 2000 and subsequently revised in 2007. Although the data are collected for the year 2006, and the code has changed since then, the study is still relevant because no significant changes were required by the code in respect to the variables (directors' remuneration, directors' education, external auditors, managerial ownership, and voluntary disclosure of directors' remuneration). The latest revision of the code in 2012 is more concentrated on enhancing governance practices in board leadership, effectiveness, composition

and independence, and encouragement to disclose corporate disclosure policies and publicize a company's commitment to shareholder rights.

There were 1027 companies listed on Bursa Malaysia on December 31, 2006. A sample of 494 of the largest listed companies by market capitalization was selected based on the method suggested by Sekaran (2003) and ranked by their market capitalization. Market capitalization with respect to the 2006 data was retrieved from the Osiris database system. This database stores various corporate information of companies around the world.

In this study, the dependent variables (level of directors' remuneration disclosure) were derived from previous research done by the Accounting Research Institute (ARI)

of Universiti Teknologi MARA (UiTM), based on the data from 2006. Table 1 provides the sector representation of the sample companies in this study. Industrial products and trading services make up almost half of the companies investigated in this study. Consumer, finance, and property are represented in a further one-third of the sample size. The annual reports of the sample companies for the financial year 2006 were downloaded from the Bursa Malaysia website.

**Variables, Measurement, and Sources of Data**

A summary of the dependent and independent variables, their measurements, and sources of data are as per Table 2.

Table 1  
*Distribution of the final sample by sector*

Sector	Sample	
	No. of Companies	%
Trading and Services	116	23.5
Industrial Products	108	21.8
Property	61	12.3
Consumer Product	57	11.5
Finance	47	9.5
Plantation	35	7.1
Construction	28	5.7
Technology	25	5.1
Infrastructure Project	8	1.6
Hotel	4	0.8
REITs	2	0.5
Closed-end Fund	2	0.4
Mining	1	0.2
Total	494	100

Table 2  
*Summary of the variables, their measurement, and data sources*

Variables	Measurement	Sources of Data
<b>Dependent Variable</b>		
Level of directors' remuneration disclosure	Disclosure index on directors' remuneration	Annual reports
<b>Independence Variables</b>		
Total directors' remuneration	Value of directors' remuneration	Annual Reports
Directors' education level	Percentage of the directors' education with degree and above	Annual Reports
Size of external auditors Big 4 auditors	If the firms are audited by Deloitte, Ernst & Young, KPMG or Price Waterhouse Coopers, coded dummy variable of 1	Osiris database
Non-Big 4 auditors	If the firms are not audited by the above audit firms, coded a dummy variable of 0	
Proportion of managerial ownership	Proportion of outstanding equity shares owned by the executive directors directly or indirectly when the financial year ended.	Osiris database

The directors' remuneration disclosure index is basically a scorecard that is based on 32 distinct items taken from the report

of the Directors' Remuneration Survey conducted by the Minority Shareholders Watchdog Group (2007), categorized

in three sections, namely, Principle of Corporate Governance (Malaysian Code on Corporate Governance), Best Practices (Malaysian Code on Corporate Governance), and other Global Practices. There are three (3) checklists on the principle of corporate governance, which are the level and makeup of remuneration (policy), procedures on directors' remuneration, and the disclosure remuneration. Under the section of best practices of the Malaysian Code on Corporate Governance, there is only one (1) checklist, i.e., principle on examining the remuneration committee, whereas the last section on global practices also consists of three (3) general principles, which are the level and makeup of remuneration (policy), procedures on directors' remuneration, and the disclosure remuneration. When the items satisfy the disclosure, it will be awarded 1 point, otherwise, 0 points. Therefore, the maximum possible disclosure is 32 points if a firm meets all the disclosed items, and its minimum level of score is 0 in the cases where a firm fails to fulfil all the disclosure criteria.

### Regression Model

The data were analysed based on the three models of the disclosure index of directors' remuneration. Model 1-MCCG is based on the Malaysian Code on Corporate Governance and Malaysian Best practices (MCCG), Model 2-GLOBE is based on global practices (GLOB), and the Model 3-D\_SCORE is based on the total disclosure of Model 1 and Model 2.

## RESULTS

### Descriptive Statistics for the Dependent and Independent Variables

Table 3 reports the descriptive statistics for all the dependent and independent variables. The dependent variables refer to the disclosure of directors' remuneration described by the companies. For Model 1-MCCG, the mean value of 0.64 indicated that, on average, Malaysian companies tend to comply with 64% of the total items as required by the MCCG. However, for Model 2-GLOB, on average, the companies tend to comply with only 21% (mean value of 0.21) of global practices, indicating poor

Table 3  
Summary statistics of the nonstandardized independent variables

Variables	Minimum	Maximum	Mean	Std. Deviation
<b>Dependent</b>				
Model 1 - MCCG	0.13	0.94	0.64	0.164
Model 2 - GLOB	0.00	0.64	0.21	0.124
Model 3 - D_SCORE	0.10	0.80	0.44	0.116
<b>Independent</b>				
DIR_REM	75.87	79058.00	3231.62	5310.51
EDU	0.00	100.00	81.75	19.67
AUD	0.00	1.00	0.73	0.44
I_HOLD	0.00	41.50	0.85	3.62

initiatives by Malaysian companies to meet international requirements and practices. Furthermore, there were companies that did not disclose any information based on this requirement, as indicated by the value 0 for the minimum statistics. The final model of Model 3-D\_SCORE showed overall moderate information disclosed by the companies. The mean value of 0.44 was slightly below the 50% par value, with the highest of 80%, while the minimum at 10% disclosure level.

The independent variables refer to the total directors' remuneration, directors' education level, size of external auditors, and proportion of managerial ownership. The mean score of the total directors' remuneration was RM 3,231,620. Almost 80% (81.75%) of directors possessed a degree qualification and above. For the size of the external auditors, 73% of the companies were audited by the Big 4 audit firms. Because the samples were from large companies, this is an expected situation. The mean score of the proportion of managerial ownership was 0.85%, which was considered low because it did not achieve 50% holding of the shares.

**Correlation Analysis of the Independent Variables**

Table 4 presents the Pearson correlation matrix of unstandardized variables between the independent variables. It provides the indication that all correlation values were less than 0.8 in magnitude. Therefore, there was no problem with multicollinearity, as Gujarati (1995) suggested that a harmful level of multicollinearity incurred when the bivariate correlation magnitude reached 0.8.

**Results of Multiple Regression Analysis for Model 1-MCCG**

Table 5 summarizes the multiple linear regression results by providing the coefficient of each independent variable, which represents its degree of contribution and its relationship with the dependent variables.

Based on the table, the hypothesis on the directors' specific characteristics such as the total directors' remuneration (H1) ( $\beta=1.583, p=0.453, p>0.05$ ) and directors' education level (H2) ( $\beta=0.001, p=0.860, p>0.05$ ) were not supported. The empirical data also did not support the hypothesis on the size of external auditors (H3) ( $\beta=0.034, p=0.180, p>0.05$ ) and proportion of managerial

Table 4  
*Pearson correlation matrix of standardized variables*

VARIABLES	DIR_REM	EDU	AUD	I_HOLD
DIR_REM	1			
EDU	0.048	1		
AUD	0.018	0.070	1	
I_HOLD	0.150*	0.085	0.088	1

\*\* . Correlation is significant at the 0.01 level (2-tailed)

\* . Correlation is significant at the 0.05 level (2-tailed)

Table 5  
Relationship between the independent variables and directors' remuneration disclosure, i.e., Model 1-MCCG

Model	Unstandardized Coefficient		Standardized Beta	t	Sig.	Collinearity Statistics	
	Beta	Std. Error				Tolerance	VIF
(Constant)	1.107	0.199		5.570	0.000		
DIR_REM	1.583E-6	0.000	0.065	0.752	0.453	0.719	1.391
EDU	0.000	0.001	0.014	0.176	0.860	0.896	1.116
AUD	0.034	0.025	0.104	1.348	0.180	0.888	1.126
I_HOLD	0.008	0.004	0.187	1.900	0.059	0.549	1.823

a. Dependent Variable: MCCG

ownership (H4) ( $\beta=0.008$ ,  $p=0.059$ ,  $p>0.05$ ). Therefore, the results rejected all the hypotheses. As a result of VIF values below 4 and the tolerance statistics above 0.2, it can be concluded that there was no multicollinearity problem.

### Result of Multiple Regression Analysis for Model 2-GLOB

As opposed to the statistical results for Model 1-MCCG, it was found that the size of external auditors (H3) had a significant and positive relationship with the level of directors' remuneration disclosure ( $\beta=0.043$ ,  $p=0.023$ ,  $p<0.05$ ) (Table 6). Therefore, the result failed to

reject H3. Furthermore, as hypothesized, the proportion of managerial ownership (H4) was also found to have a significant and positive relationship with the extent level of directors' remuneration disclosure from global practices ( $\beta=0.008$ ,  $p=0.011$ ,  $p<0.05$ ). However, the result rejected H4 due to the inverse relationship. The empirical data also did not support the hypothesis on total directors' remuneration (H1) ( $\beta=5.81$ ,  $p=0.711$ ,  $p>0.05$ ), and directors' education level (H2) ( $\beta=-7.268E-5$ ,  $p=0.867$ ,  $p>0.05$ ). Hence, only H3 was accepted. There was no collinearity problem on the data, as the resulting tolerance statistics were above 0.2 and the VIF values were below 4.

Table 6  
Relationship between the independent variables and directors' remuneration disclosure, i.e., Model 2-GLOB

Model	Unstandardized Coefficient		Standardized Beta	t	Sig.	Collinearity Statistics	
	Beta	Std. Error				Tolerance	VIF
(Constant)	0.313	0.148		2.111	0.036		
DIR_REM	5.814E-7	0.000	0.031	0.371	0.711	0.719	1.391
EDU	-7.268E-5	0.000	-0.013	-0.168	0.867	0.896	1.116
AUD	0.043	0.019	0.172	2.286	0.023	0.888	1.126
I_HOLD	0.008	0.003	0.246	2.569	0.011	0.549	1.823

a. Dependent Variable: GLOB

**Result of Multiple Regression Analysis for Model 3-D\_SCORE**

In the Model 3-D\_SCORE, the dependent variable was a combination of Model 1-MCCG and Model 2-GLOB. Table 7 summarizes the coefficient of each independent variable with its significance to the dependent variable.

For this model, it was found that two (2) variables were significant enough to explain the variation changes in the directors' remuneration disclosure. The hypothesis on the size of external auditors (H3) was supported, as it was found that the extent level of directors' remuneration disclosure was associated with the size of the external auditors ( $\beta=0.038, p=0.024, p<0.05$ ); hence, it failed to reject H3. The proportion of managerial ownership (H4) was also found to have a significant and positive relationship with the extent level of directors' remuneration disclosure ( $\beta=0.008, p=0.006, p<0.05$ ). The result, however, rejected H4 due to the inverse relationship. Contrary to our hypothesis with respect to the total directors' remuneration (H1), there was an insignificant relationship with the extent level of directors' remuneration

disclosure ( $\beta=1.084, p=0.443, p>0.05$ ) and also an insignificant relationship of director education (H2) ( $\beta=1.17, p=0.976, p>0.05$ ) with their outcome.

Similar to the previous models, the result of the VIF values, which were below 4, and the tolerance statistics well above 0.2, showed that the data presented did not violate the assumption of multicollinearity.

**DISCUSSION**

This study used three (3) models to test the variables of the level of directors' remuneration. None of the variables was significant in Model 1. The sizes of the external auditors and proportion of managerial ownership were significant variables for both Model 2 and Model 3. Below are the detailed discussions on these results.

**Size of External Auditors**

As hypothesized, there was a positive and significant relationship between the size of external auditors and the level of directors' remuneration disclosure in both Model 2-GLOB and Model 3-D\_SCORE but not in Model 1-MCCG.

Table 7  
*Relationship between the independent variables and directors' remuneration disclosure, i.e., Model 3-D\_SCORE*

Model	Unstandardized Coefficient		Standardized	t	Sig.	Collinearity Statistics	
	Beta	Std. Error	Beta			Tolerance	VIF
(Constant)	0.734	0.133		5.517	0.000		
DIR_REM	1.084E-6	0.000	0.064	0.769	0.443	0.719	1.391
EDU	1.178E-5	0.000	0.002	0.030	0.976	0.896	1.116
AUD	0.038	0.017	0.169	2.270	0.024	0.888	1.126
I_HOLD	0.008	0.003	0.266	2.799	0.006	0.549	1.823

a. Dependent Variable: D\_SCORE

This also signified that Malaysian public-listed companies audited by Big 4 auditors had more motivation to disclose more information on the directors' remuneration disclosure than the companies audited by Non-Big 4 audit firms. This was consistent with the prior researches done by Camfferman and Cooke (2002), Hasan et al. (2013), Mahmood (1999), and Naser et al. (2002), which found a positive and significant relationship between the size of external auditors and the level of disclosure.

In this context, the auditors will use their competencies in helping companies to comply with the statutory requirements and best practices of corporate governance. Based on Chung et al. (2003), an external audit can be an effective control mechanism to monitor the managers and guarantee the integrity of financial reports. A larger size of auditor will also influence clients to voluntarily disclose more information in annual reports (Braam & Borghans, 2014) enhance audit quality, and differentiate themselves from the other type of firms in fulfilling clients requirements (Dunn & Mayhew, 2004; Han et al., 2012; Lee et al., 2003).

Even though the directors' remuneration disclosure is not mandatory in Malaysia, the companies are willing to disclose this information to portray their good commitment and cooperation on promoting and recognizing the fairness and accountability of a business. At the same time, they believe in the credibility of the Big 4 auditors in providing good services and subsequently manage to detect any

material misstatement and error of the disclosure. This will also give extra credits to all stakeholders on the company's image and integrity, which are audited by the Big 4 audit firms. Therefore, companies are more motivated to disclose more information, specifically on directors' remuneration, as the shareholders and investors believe that the companies are trustworthy, have good track records, and are highly transparent.

### **Proportion of Managerial Ownership**

As hypothesized, the proportion of managerial ownership had a significant and negative relationship to the extended level of directors' remuneration disclosure for Model 2-GLOB and Model 3-D\_SCORE. However, the empirical result rejected H4 due to the inverse relationship. This contravened with the statistical result derived from Model 1-MCCG, which found that the proportion of managerial ownership was an insignificant variable to explain the visibility of directors' remuneration.

The positive relationship implied that directors who owned outstanding shares and controlled the firms were more willing to disclose their remuneration in annual reports. The empirical result contradicted prior research conducted on the same study on directors' remuneration disclosure. For example, Jensen and Meckling (1976) found that directors who owned a greater proportion of outstanding shares on firms were less likely to disclose more information on directors' remuneration due to the less or no agency cost bonding to monitor the managers' behaviour.

However, the result was consistent with that of Baek et al. (2009) who found that having less than 12% of the proportion of managerial ownership was more inclined to disclose more voluntary information to avoid risk of takeover. Therefore, based on this study, the positive relationship between the proportion of managerial ownership and level of directors' remuneration disclosure came from the low level of proportion of managerial ownership reported. The descriptive statistic revealed that the average proportion of managerial ownership was only 0.85%, and almost half the sample companies did not have the proportion of shares held by directors directly or indirectly. Subsequently, this factor may impair the empirical results of the outcome.

#### **Discussion on Rejected Hypothesis: Total Directors' Remuneration and Directors' Remuneration Disclosure**

The result revealed that total directors' remuneration had no direct significant relationship with the extended levels of directors' remuneration disclosure. This result is due to several possible reasons. First, Dong and Ozkan (2008) suggested that companies must provide high-quality directors' pay, including the best compensation packages such as share options, bonuses, and other incentives to encourage directors to align with the shareholders' interest and solve agency costs, including transparency issues. This was, however, difficult to become a reality, especially in this context of the study. Second, Malaysia is still far

away in practicing the best remuneration disclosure practices, as compared with other developed countries. Less encouragement and guidance given by the regulator, e.g., the latest Malaysian Code on Corporate Governance under Recommendation 2.3, only highlighted two aspects to be disclosed in the annual report, i.e., remuneration policies and procedures. This low incentive somehow did not motivate companies to disclose more information.

#### **Discussion on Rejected Hypothesis: Directors' Education Level and Directors' Remuneration Disclosure**

This study found that the directors' education level did not have a significant relationship with the directors' remuneration disclosure. The empirical finding of this study did not support the research conducted by Haniffa and Cooke (2002) and Akhtaruddin (2005), which found that the level of education had a positive and significant relationship with the extended level of voluntarily disclosure. Based on their study, educational background can be an important determinant of disclosure practice with better educated managers being more likely to adopt innovative activities. These findings, however, were similar to a few other findings. Brown and Caylor (2009) found that directors' education was not significant to a firm's performance. Similar evidence was also shown by Bebcuk and Cohen (2005) and Brown and Caylor (2006) who concluded that directors' education had no link to the firm valuation. Other researchers also found that director's education was



not an important factor in determining the capital structure of a firm (Jiraporn et al., 2011) and did not contribute to enhance the corporate social responsibility performance (Zahm, 1989).

## CONCLUSIONS

Based on Model 1, the statistical result revealed that all the variables were insignificant to explain the variation changes on directors' remuneration disclosure. Based on Models 2 and 3, only the size of external auditors was found to have a positive and significant relationship with the outcome. The proportion of managerial ownership had a significant relationship with the outcomes, but the result was rejected due to the inverse relationship.

The results implicated that companies hiring the Big 4 audit firms were more likely to disclose their directors' remuneration because they believe it is a strategic tactic to impress stakeholders on their credibility, trustworthiness, accountability, and fairness. For example, hiring the Big 4 audit firms will signal the investors and shareholders that the company has a good prospect to success in the future because the Big 4 have a higher reputation, as these firms are incorporated overseas and well established with good track records across the world. Thus, these types of companies are ready to compete internationally and are prepared to voluntarily disclose more information, especially the information that complies with and is recommended by international best practices.

Theoretically, this result also showed that directors' ownership on a company could influence a company's decision to disclose more information on its remuneration in an annual report. The different findings on the positive relationship in this study showed that companies in Malaysia prefer to disclose more information on directors' remuneration when the directors hold outstanding shares of the firms.

Practically, the present study provided a clearer understanding to the stakeholders on the achievement of Malaysian public-listed companies in disclosing information on directors' remuneration. Inclusive actions by regulatory and professional bodies, e.g., Securities Commission, Bursa Malaysia, and Malaysian Institute of Accountants, can be taken to promote greater transparency among the companies such as to provide awareness to the directors and provide comprehensive transformation road maps to modify the current practice on disclosure. At the same time, these bodies may study the particular significant variables that could influence the directors' remuneration disclosure in determining the strategies to amend and improve the future guidelines and principles on disclosure.

The limitation of this study was that it was only conducted in Malaysia and limited only to one year, i.e., 2006, based on the Malaysian Code on Corporate Governance in 2000. However, the Malaysian Code on Corporate Governance had been revised in 2007 and 2012. It is recommended that future research should conduct a

longitudinal study to obtain more conclusive and generalized results on the variables tested in this study.

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