

Chapter 9

Do Board Educational Background, Occupational Background and Ownership Structure Matter for Directors' Remuneration Disclosure? Some Malaysian Evidence

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ABSTRACT

Following the Asian economic tumult 1997, most of the researchers in Malaysian have been focusing on the issues of disclosure, transparency and boardroom failures. The crisis had led to statements about corporate governance in times of financial crisis and the lessons that can be learnt. A lot of prior literature examined the factors influencing the aspects of disclosure without giving reference to the educational and occupational background of the board of directors and the ownership structure, which influence the decision-making regarding director remuneration disclosure. Thus, the objective of this study is to investigate how the educational and occupational background of the board of directors and ownership structure affect director remuneration disclosure in Malaysian public listed companies. Very limited research has been explored in the issue of directors' remuneration disclosure. The director remuneration checklist is used to measure the director remuneration disclosure among Malaysian public listed companies. The findings of this study revealed that ownership structure is significantly associated with the extent of directors' remuneration disclosure, while the board's educational and occupational background are found to not be associated with the extent of directors' remuneration disclosure.

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INTRODUCTION

A number of high profile corporate collapses have arisen although their annual reports and accounts seemed salubrious. These corporate collapses have had an unpropitious effect, which were linked to the lack of efficacious corporate governance. Corporate governance is an issue that has grown very rapidly in both developed and developing countries, especially after the collapse of Enron, WorldCom and Parmalat. In Asia, extensive reforms of corporate governance practices have taken place after the ASEAN financial crisis. Additionally, most companies have been vigorously invigorating their regulatory frameworks, especially corporate governance mechanisms, particularly on boards and its composition, ethical aspects of remuneration, control and risk as well as higher accentuates on disclosure and transparency. Malaysia was one of the countries that took numerous initiatives in promoting and sustaining a vigorous culture of corporate governance through the issuance of the Malaysian Code on Corporate Governance (MCCG) in year 2000. Since then, the MCCG has perpetually stepped forward with amendment and in 2007, the code was revised to fortify the roles and responsibilities of the board of directors, audit committee and the internal audit function. Furthermore, in 2011, the Corporate Governance Blueprint was relinquished to set out the desired corporate governance landscape in moving forward. In 2012, to deliver the objectives of the Blueprint 2011, MCCG 2012 was relinquished with the focus to elucidate the role of the board in providing leadership, enhancing the board efficacy through invigorating its composition and reinforcing its independence.

Corporate governance can be defined as the process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholders value, whilst taking into account the intrigues of other stakeholders (MCCG, 2012). In simple word, corporate governance is ‘the system by which companies are directed and controlled’ (Cadbury Report, 1992). Additionally, the problem in corporate governance arises from separating ownership and control (agency relationship) within business organizations. An agency theory identifies the agency relationship where one party, the principal i.e. the shareholders, delegates work to another party, the agent i.e. the directors. Generally, the self-interest of agents and information asymmetry, whereby the principal and the agent have access to different levels of information, are the consecutions of the agency relationship problem. Thus, disclosure and transparency is one of the best solutions to cure agency relation problems.

Malaysia government has initiated major corporate governance reforms to promote disclosure and transparency in MCCG (2000), (Revised, 2007). As crucial elements of good corporate governance framework, disclosure and transparency provides the basis for apprised decision-making by directors, shareholders, stakeholders and potential investors with veneration to capital allocation, financial performance and directors’ emolument (Esa and Zahari, 2014). In fact, these elements are aimed to increase the confidence of investors, fortify capital market, amend the accountability and credibility of financial information provided by listed companies and additionally avails the public’s meeting of minds on company’s activities, policies and performance with regard to environmental and ethical standards.

Prior literatures (e.g. Esa and Mohd Ghazali, 2012; Mohd Ghazali, 2010; Akhtaruddin *et al.* 2009; Mohd Ghazali and Weetman, 2006; and Haniffa and Cooke, 2005) have examined corporate governance transparency and corporate disclosure in Malaysia. In addition, Mohd Ghazali, (2007), Tam *et al.*, (2007), Mohd Ghazali and Weetman, (2006) and Jaafar *et al.*, (2012) have also examined the association of ownership structure with the firm performance and corporate disclosure. However, none of these studies

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