Impact of Ownership Structure on the Level of Voluntary Disclosure: A Study of Listed Family-controlled Companies in Malaysia

Syeliya Md Zaini
UniKL Business School, Universiti Kuala Lumpur, Kuala Lumpur, Malaysia
syeliya@unikl.edu.my
Umesh Sharma*
School of Accounting, Finance and Economics, Waikato Management School, University of Waikato, Hamilton, New Zealand
umesh.sharma@waikato.ac.nz
Grant Samkin
School of Accounting, Finance and Economics, Waikato Management School, University of Waikato, Hamilton, New Zealand
and
Department of Financial Accounting, College of Accounting Sciences, University of South Africa, Pretoria, South Africa

grant.samkin@waikato.ac.nz
Howard Davey
School of Accounting, Finance and Economics, Waikato Management School, University of Waikato, Hamilton, New Zealand
howard.davey@waikato.ac.nz

*Corresponding author

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Abstract

This paper investigates the level of voluntary disclosure in the annual reports of listed companies in Malaysia by examining the impact of ownership structure. A mixed methods approach was adopted to analyse the content and level of information disclosed voluntarily in companies' annual reports. Family-controlled companies tend to voluntarily disclose information in relation to external factors and global conditions. Most family-controlled companies provide financial warnings in their disclosures. Studies that examine a voluntary disclosure practice by family-controlled companies in Malaysia are limited. As such, little is known about the effect of ownership structure on the level of voluntary disclosure.

Keywords: Voluntary disclosure, family-controlled companies, annual report, non-family-controlled companies, Malaysia.

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1. Introduction

Accounting disclosure through annual reports is important to all stakeholders (Campbell and Abdul Rahman, 2010; Momin 2013). The reporting of an organisation's economic activities must be clear and provide useful information to all stakeholders to reduce uncertainties. This approach helps stakeholders make suitable economic and financial decisions. Annual reports published by companies are traditional and mandatory formal communications between reporting organisations and their interested users (Campbell and Abdul Rahman 2010; Sharma and Davey 2013; Momin 2013).

Annual reports consist of both mandatory and voluntary disclosures. A mandatory disclosure is information that is mandated by the Companies Acts and Securities Acts. Any additional information disclosed beyond mandatory disclosure is unregulated and provided voluntarily by the management. In these disclosures, annual reports may include information that can help both preparers (i.e., the company) and users understand the company's performance. In addition, the disclosures can reflect the operational, structural, and financial status of the company to stakeholders (Campbell and Abdul Rahman 2010; Wang et al. 2013).

Recent studies by researchers such as Wang et al. (2013), Sharma and Davey (2013), Sharma et al., (2013) and Uyar and Kılıç (2012) on voluntary disclosure show that various stock exchanges around the world encourage companies to provide voluntary disclosure in their annual reports. Voluntary disclosure aims to provide important stakeholders with additional information about corporate activities that are not covered in financial statements. In this context, Malaysia has begun to implement disclosure practices for companies' corporate reports (Ho and Taylor 2013). The advancement of communication technologies to report business information, as a result of globalisation and cross-border trading, has led Malaysia to adopt positive changes in companies' annual reports (Ho and Taylor 2013; Ahmed Haji 2013; Muniandy and Ali 2012). The government also realises that keeping up with new trends in global corporate reporting is crucial to remaining competitive with other countries (Hashim et al. 2014). This positive adaptation is evident in changes made in the capital market regulatory system in 1996 for disclosure-based regimes (DBRs). Under this system, the public and stakeholders can access information provided by each listed company. The system also emphasises accountability for and transparency of the financial information being communicated to allow stakeholders, particularly investors, to make better evaluations of the risks and merits of their investment (Liew 2007; Rusnah et al. 2009).

Malaysia is relatively weak in law enforcement and investor protection, and most companies tend to have relatively concentrated ownership structures (Muniandy and Ali 2012). These companies also have stronger political connections, particularly among the more substantial shareholders. Since the use of voluntary disclosure practices is the prerogative and decision of the board of directors, the quality and quantity of additional information provided in company annual reports is often insufficient and not readily comprehensible to stakeholders (Belal et al. 2013; Yekini et al. 2015; Comyns et al. 2013). Comyns et al. (2013), for example, contended that quality corporate reporting can lead to the long-term sustainability of an organisation in the market. The variable quality of information and different motivations can affect the level of information disclosed. Hence, it is reasonable to assume that the level of voluntary disclosure practised by family-controlled companies will tend to be lower in some circumstances than that of non-family-controlled companies. This study aims to provide empirical evidence of voluntary disclosure practices by family-controlled companies in an emerging country rather than comparatively studying developed and developing countries.

For this study, a total of 30 companies that had been listed in the top 150 companies in Malaysia between 2009 and 2013 were identified. Due to the limited number of companies that met the family-controlled criteria in this study, we believed a longitudinal analysis, close examination of these companies' annual reports, and interviews with stakeholders were the best way to obtain a comprehensive understanding of the "what" and "how" questions relating to voluntary disclosure. This is consistent with the approach of Kuasirikun and Sherer (2004); Clarkson et al. (2008); Campbell and Abdul Rahman (2010); and Ghazali (2008), who concluded that content analysis and interviews appear to be an appropriate way to investigate and measure the information disclosed in companies' annual reports.

The literature on family-controlled companies' disclosure practices is limited, particularly in Malaysia. Family-controlled companies have been rarely used to study disclosure information because they have been argued to exhibit weak internal governance system because of the entrenchment effect (i.e., owner's opportunism) (Salvato and Moores, 2010). Salvato and Moores (2010) question the differences and ways of accounting information being reported by family-controlled companies since the entrenchment effect exists in the ownership structure. This means the voluntary disclosure practices by family-controlled companies may need to have external stakeholders' pressure and a set of voluntary disclosure framework to reduce the entrenchment effect to be transparent and enhance corporate governance.

The paper addresses two main questions: (a) what is the current trend of voluntary disclosure by family-controlled companies in Malaysia? (b) How do the annual reports users perceive the level of voluntary disclosure by family-controlled companies? These two questions led to two more specific questions: what are the differences in the level of voluntary disclosure practice between family-controlled and non-family-controlled companies? What are the factors that contribute to the differences in the level of voluntary disclosure practice by family-controlled companies?

This study contributes to the relevant body of knowledge in a number of ways. First, it indicates the current practice of voluntary disclosure by family-controlled companies. Such evidence is limited in the extant literature on voluntary disclosure in Malaysia. Second, it provides specific instances of stakeholders' thoughts on the level of voluntary disclosure practices in Malaysia. It clearly shows that such practices are subject to how managers, particularly business owners, perceive the importance of providing additional information and what they see fit to include in the companies' annual reports.

The remainder of this paper is structured as follows: the next two sections provide background information on voluntary disclosure practices. The fourth section describes the theoretical framework for the study. Section 5 details the research methods employed in this study, including the procedures adopted for data collection and analysis. Section 6 presents the results, and section 7 concludes the paper.

2. Prior studies

The ownership structure in an organisation provides a setting where management is in control and is responsible for any decisions executed in its daily business activities, including reporting (Muniandy and Ali 2012; Allegrini and Greco 2013). The management structure represents the corporate governance system. Numerous companies, such as Parmalat and Satyam, have displayed failures in corporate governance that have shaken capital markets in developed countries (Muniandy and Ali 2012; Akhtaruddin et al. 2009b). Thus, restoration of public confidence and establishing and/or maintaining support from society have become priorities for today's business leaders, according to the Organisation for Economic Co-operation and Development (OECD 2003). To gain society's confidence and support, management must demonstrate their accountability and transparency in executing their roles and responsibilities. Voluntarily disclosing more information on a company's values and business operations can be an important step in achieving that goal (Boesso and Kumar 2007; Sartawi et al. 2014; Wang et al. 2013; Aboagye Otchere et al. 2012; Allegrini and Greco 2013).

Since the Asian financial crisis of 1997–1998, both regulators and members of the business community have called for greater corporate transparency. Poor levels of disclosure contributed to the Asian financial crisis and created challenges for the region in securing economic recovery, especially in equity markets (Ghazali and Weetman 2006; Mia and Al Mamun 2011; Wang et al. 2013). Regulators in the United States, the United Kingdom and elsewhere argued that equity markets require better disclosures to function effectively. However, prior studies have shown that disclosure decisions are complex and influenced by a number of national and corporate factors (Archambault and Archambault 2003; Bushman et al. 2004; Khanna et al. 2004).

Voluntary disclosure is an unregulated practice, which often relies on companies' management decisions. Along with the growth of global businesses, some emerging markets are showing a disproportionate increase in voluntary disclosure practices (see, for example, De Zoysa and Rudkin 2010; Islam and Deegan 2008; Rouf 2011; Belal et al. 2013). Most studies in emerging markets argue that corporate factors such as ownership structure and cultural and social beliefs can influence levels of voluntary disclosure (see, for example, Haniffa and Hudaib 2007; Haniffa and Cooke 2005; Jaggi and Low 2000; Allegrini and Greco 2013; Belal et al. 2013).

Several scholarly articles have investigated the impact of corporate governance characteristics on corporate reporting among listed companies in developed and developing countries (see, for example, Alhazaimeh et al. 2014; Wang and Hussainey 2013; Siregar and Siagian 2013). However, little is known about the influence of ownership structure on the level of voluntary disclosure practice. More specifically, there is a dearth of research on the trend and level of voluntary disclosure practice of family-controlled businesses in many developing and emerging countries (Al-Akra and Hutchinson 2013; Chau and Gray 2010; Hashim 2011). Prior research in corporate reporting often examined the practice of voluntary disclosure in developed countries such as the United States, United Kingdom, and New Zealand, where strong enforcement mechanisms exist (Al-Akra and Hutchinson 2013; Yuen et al. 2009). Companies in developed countries were found to have a high tendency to reveal additional information to the public on a voluntary basis. By contrast, developing and emerging countries were found to have the highest number of family-controlled companies and long-established capital markets, but the level of voluntary disclosure remains low. One reason for this circumstance is that the family ownership structure can directly affect the amount of voluntarily disclosed information (Chau and Gray 2010; Eng and Mak 2003; Wang and Claiborne 2008). Moreover, family owners have longer investment horizons and hold large shareholdings in managing the companies, suggesting that additional information reflects little benefit to family owners (Al-Akra and Hutchinson 2013).

3. Ownership and control

Ownership can be identified in three generic forms — managerial, alliance and entrepreneurial/familial — which represent significant forms of ownership and control (i.e., governance systems) in companies (Carney 2005; Solomon et al. 2003). Managerial ownership is characterised by the separation of ownership and control, thereby dividing management and risk-bearing functions. In alliance systems, ownership and management control are also separated, but professional managers in this context are not subject to the same capital markets as those operating under managerial ownership. This type of ownership often has professional managers adopt a longer-term orientation towards the development of relationships or any business venture. While these two systems separate ownership and control, familial ownership is distinguished by the unification of ownership and control (Solomon et al. 2003).

As noted, a small number of empirical studies confirm that a large proportion of listed companies are still under family control in a number of countries in East Asia, including Malaysia (Ibrahim and Abdul Samad 2011). More than two-thirds of listed companies in East Asian countries are controlled by a single shareholder, and 60% of managers in these companies are members of the family of the controlling shareholder. Corporate control in East Asia is largely dependent on a pyramidal ownership structure with equity cross-holding between associated companies, making the separation of ownership and control unlikely (Claessens et al. 2000). The pyramidal structure refers to the use of dual-class shares rather than an absolute majority of voting stock. These dual-class shares enable a family member to have effective control with significantly less than an absolute majority of the voting stock. This model of governance is not only prevalent in small and medium-sized companies but is also replicated in large-scale publicly listed companies (Hashim 2011; Solomon et al. 2003).

The degree and nature of ownership required to establish effective control will depend upon the institutional context in which the company is located. In East Asian countries, Claessens et al. (2000) contended that controlling families generally use pyramidal ownership structures to ensure a disproportionately high level of controlling rights as well as cash flow rights. Research from the US, such as that of Wolfenzon and Morck (2005) and Shleifer and Vishny (1997), provides evidence of the negative implications of a controlling family on companies' strategic decisions. In addition, these family-controlled companies were identified as being altruistic in the relationship between parents and children (Kowalewski et al. 2010; Ali et al. 2007; Anderson and Reeb 2003), which may have an impact on effective succession processes and strategic decision making. This familial relationship can also lead to conflicts of interest, where family interests may dominate the interests of non-family shareholders, since the concentration of personal and family wealth in owner-managed companies often creates a preference for income and wealth preservation over the long term. Coupled with these characteristics, family-controlled companies also tend to protect themselves from the disciplinary pressures of the market in terms of corporate control, since concentrated share ownership tends to moderate the probability of hostile take-overs (Gomez-Mejia et al. 2001, 82). According to Mallin et al. (2013), in many countries, including European, Asian and South American countries, legal protection of minority shareholders is still either non-existent or ineffective, so families often retain control of companies because non-family investors will not find such businesses an attractive investment when their rights are unprotected.

The unification of ownership is often associated with dominant propensities that highlight the effect of family governance on incentives, authority and relative freedom from accountability to third parties (Gómez-Mejía et al. 2007). As an example, family companies tend to make strategic decisions with an emphasis on the family's personal wealth. In this context, a family company may exert influence over other shareholders' interests, which means that, to some extent, the family members are not prudent with other shareholders' money or other stakeholders' interests. The dominant influence of family control in an organisation can impact the way managers establish and run the companies' internal routines, processes and systems.

Family governance is associated with the use of dual-class[1] shares to obtain effective control with significantly less than an absolute majority[2] of equity ownership. Furthermore, strategic control of a company's assets can also be attained with low ownership levels through the establishment of pyramids and cross-holdings (Claessens et al. 2000) or by the existence of covenants that allow family members to be appointed as chief executive officers (CEOs) or board members. However, family ownership criteria are subjected to various institutional complexities, such as tax, legal, political, and social imperatives, which have given rise to numerous adaptations in the formal ownership structures of family companies.

Effective control refers to the controlling owner's ability and right to add, direct, or dispose of a company's assets without recourse to a third party (for example, bank, business partner or institutional investors). This description stems from classical notions of property rights, which are often used to describe personal wealth, either in civil or common-law countries (Carney 2005). However, the effective control of family ownership can be leveraged through other means, such as cash-flow rights. According to La Porta and Shleifer (1999), members of a family company may exert influence beyond their fractional share ownership in certain circumstances, such as financial constraint, and thus create the potential for large-scale family influence on the company's functioning. Such circumstances show that authority lies in the hands of the entrepreneur and related family members.

4. Theoretical framework

This study uses legitimacy theory as a framework to investigate the voluntary disclosure practices between family-controlled companies and non-family-controlled companies. Suchman (1995, 574) defined legitimacy as a "generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, and beliefs, and

[1] Dual class shares refer to a process of dilution of control through the issue of different classes of shares that confer different voting rights on the shareholders.
[2] A majority shareholder is a person or entity that owns more than 50% of a company's outstanding equity.

definition”. This definition refers to a circumstance in which a particular legitimacy subject, such as an organisation or organisational practice, gains collective approval that is created subjectively in the processes of social construction, thus resulting in a “social judgement” (Bitektine 2011). In the context of organisations, legitimacy plays a vital role in their survival, and legitimacy status is seen as a strategy and/or precondition to obtain resources and/or for securing sustained support for the organisation’s existence. Meyer and Rowan (1977) contended that institutional theorists regard the quest for legitimacy as a driving force that motivates organisations to adopt formal policies, including self-regulatory ones. This argument shows that examining the antecedents, processes, and consequences of legitimacy is imperative when determining organisational growth and survival. For this reason, legitimacy occupies a dominant position in institutional thought (Deephouse and Suchman 2008).

Previous studies, such as those of Bitektine (2011), and Scherer et al. (2013), posit that legitimacy is related to the consolidation of individual judgements and the behavioural and discursive reactions that follow these judgements. In this study, researchers seek to advance research on legitimacy at the micro-level by exploring legitimacy and legitimation in the context of family-controlled companies. In the context of organisations, business firms are considered legitimate when their organisational practices are perceived to satisfy their external stakeholders’ expectations. However, the practices of family-controlled companies can arguably be explained by the entrenchment effect, i.e., ownership opportunism, in making decisions relating to business practices.

Disclosure studies show variation in the nature and extent of voluntary disclosure across companies, industries and countries. Some companies disclose a great deal of information, while others do not disclose much (Al-Akra and Hutchinson 2013). As noted, in family-controlled companies, the managers are frequently family members. Families are also represented on the company’s board and are often the major providers of capital (Memili et al. 2012; Brennan and Solomon 2008). Consequently, these structural arrangements imply that family wealth, personal authority and professionalism are key factors when making decisions about business strategies and practices, which result in reciprocal relationships between the family and company for disclosing additional information to the public to gain legitimacy. The extant literature commonly discusses the effect of ownership and control on the information disclosed, particularly with regard to voluntary disclosure. Prior studies have suggested that owner opportunism and/or the entrenchment effect may result in less transparency in information shared with other stakeholders (Sansone et al. 2010; Amran and Ahmad 2011; Hashim 2011; Brennan and Solomon 2008). Family-controlled companies are also believed to have incentives to conceal unfavourable information and to manipulate information provided in their annual reports. Thus, family-controlled companies can tilt information disclosed towards their preferences and interests.

Only a few previous studies have examined the impact of family ownership structures on the extent of voluntary disclosure in Malaysia (see, for example, Ibrahim and Abdul Samad 2011; Hashim 2011; Akhtaruddin et al. 2009). Legitimacy theory has been adapted for this paper because it is traditionally seen as a theory of social judgements of organisations (Bitektine 2011). Constant social interactions between organisations and external stakeholders can generate pressure and tensions that may shape consciousness and action to change. According to Bitektine (2011), legitimacy is an evaluation that is conferred to an organisation by its audiences; thus, the evaluation plays a critical role in the legitimation process. Scherer et al. (2013) contended that organisations tend to respond by providing more information to fulfil society's expectations to continue their operations in the capital market. However, earning a positive social evaluation may conflict with organisations' interests, particularly those of listed family-controlled companies that are used to support the organisations and owners/family interest privilege, which results in differences on voluntary disclosure compared to non-family firms. In the legitimacy theory, variation in the voluntary disclosure provided by family-controlled companies can represent an organisation's strategy to establish legitimacy by aligning the family owners' interests and stakeholders' expectations. Hence, this study aims to investigate the voluntary disclosure practices by family-controlled companies compared to non-family-controlled companies. This study also aims to contribute to a better understanding of factors that contribute to the levels of voluntary disclosure practices in listed, family-controlled companies.

5. Research Method

Drawing upon Roberts and Scapens' (1985) assumptions on the nature of accounting systems and organisational culture, a mixed methods approach was chosen, with evidence collected from annual reports and semi-structured interviews. The mixed methods approach has gained popularity in various areas of social science research, including accounting and management accounting (Grafton et al. 2011; Modell 2010). The mixed methods approach enables researchers to use quantitative and qualitative approaches in a complementary manner. According to Grafton et al. (2011), the mixed methods approach allows researchers to extend their findings beyond those evidenced using a single method. The use of mixed methods may also identify empirical flaws that might otherwise be overlooked and may establish confidence in quantifying findings from different perspectives of the research (De Silva 2011; Modell 2010). Given that this study is situated within the accounting discipline, it is important to gather information from external perspectives. Knowledge gained from different perspectives can lead to a better understanding of the information analysed.

To find answers to the research questions, evidence was gathered from two sources:

(a) companies' annual reports from 2009-2013; and

(b) semi-structured interviews.

The research employed a sequential explanatory design of inquiry in which quantitative data were collected and analysed to identify the level of the voluntary disclosure. Annual reports were collected from 2009 until 2013, providing an extended longitudinal content analysis. Qualitative interviews were then conducted to provide further insights into the findings (Qu & Dumay, 2011; Sharma et al., 2010). The interviews were useful to explain the driving factors and provide insights into the preparers' attitudes towards voluntary disclosure in the annual reports.

5.1 Sample selection

To select the sample of companies, the ownership structure and control of a company were identified based on the individual/institutional controlling interest and rights in a company. Consistent with Malaysian financial reporting standards and the Malaysian Companies Act 1965, the controlling interest and rights are represented by the fraction of shares and equity ownership. The shareholding proportion can be identified by calculating the direct and indirect shareholdings of the family members. These proportions can be extracted from the annual reports and can be found under the shareholders' statistics or substantial shareholders section in the reports, as required by Malaysian corporate governance best practices. The Malaysian Code on Corporate Governance requires all Malaysian publicly listed companies to disclose (a) significant or substantial shareholders owning more than 5% of issued shares; (b) the top 30 shareholders and the respective sizes of their shareholdings; and (c) the family relationships between major shareholders, directors and/or top executives.

A two-tier analysis was adopted for this study. In the first analysis, 30 companies listed on the Main Board of the Bursa Malaysia stock exchange from 2009 to 2013 were selected. This specific period was chosen because during sampling, the 2013 annual report was the latest source of information available before Malaysia's convergence to International Financial Reporting Standards (IFRS). A set of 61 voluntary disclosure indices, obtained from a Delphi process, was applied to these listed companies' annual reports. This process involved two procedures: first, a selection of companies that included family-controlled and non-family-controlled businesses in Malaysia (15 companies each); and second, a content analysis of those companies' annual reports.

Listed family-controlled companies were chosen as the focus of this study because such companies make up the largest proportion of the share market, particularly in an emerging country such as Malaysia. Fifteen companies were identified from the top 150 listed companies based on family-controlled company characteristics.

For the purposes of this study, a family-controlled company needed to satisfy the following three requirements:

a. in the Malaysian context, the family has a minimum of 30% voting rights (via direct and indirect shareholdings) in the company; 20% voting rights is sufficient for effective control (Hashim 2011; La Porta and Shleifer 1999; Ibrahim et al. 2008);
b. the family must be a substantial shareholder (Hashim and Devi 2009); and
c. at least two family members on the board must have executive authority (Ali et al. 2007; Hashim 2011; Hashim and Devi 2009; Ibrahim and Samad 2010).

Among the 150 listed companies, only fifteen companies met the criteria that they were among the top family-controlled companies that contribute to Malaysia's gross domestic product (GDP). These families also owned more than 50% of controlling shareholdings in other companies listed on Bursa Malaysia. Therefore, these fifteen companies were used as the research sample. Since the aim of this research was to identify the differences in the level of voluntary disclosure in listed companies using a longitudinal analysis, an additional fifteen non-family-controlled companies were selected and paired with the sample of family-controlled companies for comparative purposes. The selection of these companies was based on the number of years they had been listed on the Bursa Malaysia (i.e., must have been listed for more than 10 years). The other criteria were that the companies operated in a similar type of industry and that each company's market capitalisation was within the range of the selected sample of family-controlled companies as of 31 December 2013. The annual reports of these 30 companies were manually collected.

Some public companies were excluded from the sample. These were financial firms in sectors such as banking and insurance and companies in sectors such as oil and gas, marine hull, and leasing companies because they use sector-specific accounting principles. Their financial statements are, therefore, not comparable with those of other economic sectors. For example, the activities of the insurance and banking industries, oil and gas companies, marine hull and leasing companies are heavily influenced by additional industry-specific regulatory requirements.

5.2 Interview participants

For this study, semi-structured, face-to-face interviews were carried out because this technique was seen as the most appropriate way to obtain accurate and detailed information from those involved in preparing companies' annual reports. The semi-structured interview method not only reveals and answers the 'what' and 'how' questions but also places emphasis on exploring the 'why' questions. The interview respondents for this study were identified in three different ways: (a) identified by the researcher based on personal relationships and contacts; (b) introduced by key respondents; and (c) through snowballing —

that is, one respondent leading to another potential respondent. This approach resulted in 41 top management personnel members involved in preparing annual reports agreeing to be interviewed. Thirty-one interviews were conducted, along with two focus group sessions. These focus groups comprised 4 and 5 people, respectively.

5.3 The development of a voluntary disclosure index

The development of a voluntary disclosure index involved three major stages. Both quantitative and qualitative methods were employed. The process began with the selection of preliminary voluntary disclosure items and involved a review of previous national and international disclosure studies (Akhtaruddin, Hossain, Hossain, & Yao, 2009; Al-Akra & Hutchinson, 2013; Coy & Dixon, 2004; Elsayed & Hoque, 2010). This approach was adopted following work undertaken by Coy and Dixon (2004), who contended that a researcher may have little choice when constructing an index and thus may need to draw on the literature sources for potential items or even for theories from which to deduce potential items. Therefore, this approach has the advantage that reporting users' opinions can be considered without the risk of influencing those opinions by preparing an initial list or using some other similar process (see also Sumiani et al. 2007; Elsayed and Hoque 2010). However, a brief list of disclosure items was prepared to seek opinions from experts. Because changes occur in society's expectations and the issues of concern vary, arguments exist for modifying voluntary disclosure items purporting to contribute to corporate reports from a usefulness and quality perspective.

The second stage entailed an examination of Malaysian companies' annual reports to identify items that may not have been considered in previous studies. This search produced 54 items. These items were then used in a pre-consultative procedure with 12 stakeholders to refine the items included in the voluntary disclosure list. The aim of a pre-consultative process is to confirm the items that were selected in the list. Therefore, the 12 stakeholders were selected based on their professional comprehension of voluntary disclosure information in companies' annual reports. This process included participants from various areas, such as accountants, investment/wealth consultants, equity investors, regulators, risk managers, academics, and professional bodies. This process produced 67 items. Marston and Shrives (1991) acknowledge that in the process of selecting voluntary disclosure items:

> The validity of disclosure indices as a measure of information disclosure cannot be accepted without question. However, no other method for measuring disclosure has been developed …
>
> The fact that no one particular index has gained favour with researchers illustrates another facet of the validity problem. Most researchers adapt and tailor existing indices to meet their own perceived needs. This is an attempt to

create an index that is valid in the particular research environment being investigated. (p. 198)

The 67 items obtained were then categorised into five main groups: general corporate and strategic information; information about management and shareholders; financial information; corporate social responsibility (CSR) [including environmental, societal, and employees]; and forward-looking and risk information. CSR was included in the voluntary disclosure items because pursuant to item 29 of Part A, in the Bursa Malaysia listing requirements, the securities agency does not prescribe the contents of what the listed issuers should disclose for such items, and the practice and/or reporting of CSR is on a completely voluntary basis[3]. During the period of this study, sustainability reporting was not applicable to listed companies, and companies were encouraged to issue a separate report as part of best practices. The CSR statement, activities or practices were replaced by a 'Sustainability statement' on 31 December 2016.

Tables 1 and 2 illustrate the list of items obtained from the processes outlined.

Table 1: Initial voluntary disclosure items used for the pre-consultative process

	General corporate and strategic information
1	Financial highlights ─ 3 years
2	Brief history of the firm and nature of the business
3	Discussion of company's major products/services/projects
4	Images of major types of product
5	Information on new product development
6	Discussion of industry trends (past)
7	Information on acquisition and expansion of business activities
8	Statement of ways to improve product and service quality
9	General statement of corporate strategy
10	Organisation structure/group chart
11	Information relating to the general outlook of the economy
12	Discussion of the competitive environment
13	Information on disposal and cessation
14	A statement of corporate goal(s)
15	Vision and mission statement
16	Description of marketing and distribution networks for products/services
17	Generating value for stakeholders
18	Statement of ways to improve customer service or satisfaction
19	Actions taken during the year to achieve the corporate goal
20	Reasons for acquisition and expansion (including planned capital expenditure)
21	Impact of strategy on current results
22	Discussion of major regional economic development
23	Reasons for disposal and cessation
24	Description of research and development projects
25	Impact of competition on the current market
26	Firm's contribution to the national economy

[3] http://customer.bursamalaysia.com:8080/MainLR/Pages/FAQ%209.51.aspx

27	Corporate milestones
	Information about management and shareholders
28	Background of the directors and management team (academic, professional qualifications, and positions held)
29	Senior management responsibilities, experience, and academic backgrounds
30	Brief details about the senior management team
31	Analysis of distribution of shareholdings by type of shareholders
32	Domestic and foreign shareholdings breakdown
	Financial Information
33	Review of financial highlights related to financial statement
34	High-level operating data and performance measurement that management uses to manage the business and decision making
35	Share price and volume information (trend)
36	Share price and volume information (year-end)
37	Market capitalisation (year-end)
	Corporate social responsibility (CSR) [including environmental, societal, and employees]
38	CSR policy, statement of compliance, and graphic images
39	Discussion of participation in government social campaigns
40	Discussion of community programmes carried out (including health/education/charity)
41	Discussion of environmental protection programme(s) implemented
42	Discussion of support rendered for public/private action designed to protect the environment
43	Corporate policy on employees' benefits and training
44	Discussion of employees' benefits and training
45	Breakdown of workforce by line of business distribution or categories of employees by level of qualifications
46	Amount spent on employees' benefits and training
47	Retrenchment/redundancy information
48	Information about employees' workplace safety
49	Discussion of health and safety standards
50	Cost – average compensation per employee
	Forward-looking and risk information
51	Discussion of opportunities (firm's prospects in general and business strategy or future performance in general)
52	Discussion of specific external factors affecting firm's prospects (economy, politics, technology)
53	Discussion of future products/services research and development activities with planned research and development (R&D) expenditure
54	Planned advertising and publicity expenditure

Eight additional types of voluntary information were suggested by the participants during the pre-consultative process. These are listed in Table 2.

Table 2: Additional information suggested by the pre-consultative participants

1	Halal status of the product
2	Details of Shariah oversight board
3	Number of Muslim shareholders and their shareholdings
4	Riba/gharar/maysir activities
5	Zakat
6	Sadaqa/donation
7	Waqf
8	Qard Hassan

Since the information suggested was general, further modifications based on previous studies were made to each information item. Table 3 shows the refined additional voluntary disclosure items in line with the participants' suggestions.

Table 3: Modified additional voluntary disclosure items resulting from the pre-consultative process and previous works.

1	Business activities related to Shariah matters (if applicable)
2	Halal status of the product (if applicable)
3	Declaration of activities that involve alcohol and gambling (if applicable)
4	Analysis of the distribution of shareholdings (by type of shareholders and number of Muslim shareholders and their shareholdings)
5	Details of Shariah oversight board (if applicable)
6	Any form of financing/investment or funding that contradicts Islamic law (interest/gambling/uncertainties activities) (if applicable)
7	Zakat: method used/amount/beneficiaries (if applicable)
8	Sadaqa/donation (description of the recipients and purpose) (if applicable)
9	Waqf (description of the policy and amount spent) (if applicable)
10	Qard Hassan - borrowing without profit and interest (details of the policy, accounting treatment, and recipients) (if applicable)
11	Nature and cause of risks
12	Identification of major differences between actual business performance and previously disclosed opportunities, risks, and management plans
13	Effects of opportunities and risks on future core earnings and cash flows

The Delphi[4] technique was then used to validate the list of voluntary disclosure items obtained from the pre-consultative procedure. To validate the disclosure items, 40 panel members were approached. The panellists included annual report users, among whom were company directors, managing directors, audit directors, senior research analysts, assistant vice presidents, risk managers, finance managers and researchers. Prior to their participation in the study, all panellists had confirmed their knowledge and

[4] The Delphi technique was developed in the 1950s. It is a systematic and iterative process by which the opinions of a group of experts are obtained, reconsidered and modified with the purpose of reaching a consensus view among experts (Ponte et al. 2009).

experience with regard to the use of annual reports in their employment. All panellists were required to rate the importance of each voluntary disclosure item as presented in a questionnaire. A 5-point Likert rating scale (1–5) was used, in which 1 indicated least importance; 2 indicated slight importance; 3 indicated intermediate importance; 4 indicated importance; and 5 indicated the item was important. In this research, respondents also had the option of choosing 0, which indicated 'not applicable' (N/A) if they had no opinion about the item. All rating points given for each item were summed and divided by 40 (the total number of panel members) to obtain a mean scale of importance for each item.

This Delphi approach took two rounds for confirmation. In the first round, face-to-face meetings were carried out. During this first meeting, an interview and discussion session were also conducted. The procedure allowed the panellists to explain their reason/s for giving a particular rating to an item. The researcher was also able obtain the panellists' views and perceptions on the current practices of voluntary disclosure in companies' annual reports. The second round involved email and telephone conversations to confirm the ratings given for each item so that the voluntary disclosure items could be finalised.

Within the Delphi process, multiple opinions and comments were received to construct the final voluntary disclosure index. Many of the panel members contended that a number of factors related to risk mitigation in Malaysian organisations were lacking, while others argued that stakeholders' concerns with regards to organisations' sustainability development, transparency of product information and quality remained insufficient. Overall, the panel members believed that actual organisation risks were still lacking; thus, the information reported did not encompass the standard criteria for quality and accountability disclosure. The Delphi process resulted in a final range of 61 items after taking into account the panel members' opinions and comments in addition to the confirmations.

Table 4: Finalised voluntary disclosure items

	General corporate and strategic information
1	Financial highlights – at least 5 years
2	Discussion of company's new major products/services/projects
3	Information on new product development
4	Discussion of recent industry trends
5	Statement and/or information on ways to improve product and service quality
6	General statement of corporate strategy
7	Information relating to the general outlook for the economy
8	Discussion of the competitive environment
9	A statement of corporate goals
10	Vision and mission statement
11	Description of marketing and distribution networks for products/services
12	Awareness of responsibilities to the stakeholders
13	Discussions on specific actions taken during the year to achieve the corporate goals

14	Impact of the strategy on current results
15	Discussion about major regional economic development pertaining to product and business
16	Impact of competition on the current market
17	Firm's contribution to the national economy
18	Corporate achievements
19	Business activities related to Shariah matters (if applicable)
20	Halal status of the product (if applicable)
21	Declaration of activities that involve alcohol and gambling as part of the business (if applicable)
22	Industry-specialised operational statistics
23	Adoption/supporting mechanisms to enhance ethical and productive practices
	Information about management and shareholders
24	Senior management responsibilities, experience, and backgrounds
25	Details of senior management team
26	Details of Shariah oversight board (if applicable)
27	Domestic and foreign shareholdings breakdown
	Financial information
28	Review of financial highlights related to the financial statements
29	High-level operating data and performance measurements used by management
30	Share price information (trend)
31	Share price information (year-end)
32	Market share in the industry
33	Market capitalisation in the share market (year-end)
34	Any form of financing/investment or funding related to Shariah law (if applicable)
35	Zakat: method used/amount/beneficiaries (if applicable)
	Corporate social responsibility
36	CSR policy; statement of compliance
37	Discussion of involvement in community programmes (health/education/charity)
38	Discussion of environmental protection programmes implemented
39	Discussion of involvement in public/private action designed to protect the environment
40	Corporate policy on employees' benefits
41	Corporate policy on employees' training
42	Discussion of employees' benefits
43	Discussion of employees' training
44	Breakdown of workforce by line of business distribution or categories of employees by level of qualifications
45	Amount spent on employees' benefits and training
46	Retrenchment/redundancy information
47	Information about employee workplace safety
48	Discussion of health and safety standards
49	Sadaqa/donation (description of the recipients and purpose) (if applicable)
50	Waqf (description of the policy and amount spent) (if applicable)
51	Retirement scheme through foundation or other means
	Forward-looking and risk review information
52	Discussion of opportunities (firm's prospects in general and business strategy

	for future performance in general)
53	Discussion of specific external factors affecting firm's prospects (economy, politics, technology)
54	Discussion of future products/services research and development activities with planned research and development expenditure
55	Planned advertising and publicity expenditure
56	Nature and cause of risks
57	Identification of major differences between actual business performance and previously disclosed opportunities, risks, and management plans
58	Environmental incidents - implementation of procedures for managing materials containing environmentally sensitive substances - convert the sensitive substances into production processes
59	High degree of government regulation - discussion of approaches to appropriate investment decisions
60	Technical failure - discussion on hiring and retaining highly trained and experienced staff / developing control quality systems and equipment maintenance/implementing software that allows better design and manufacturing processes
61	Natural disasters (e.g., earthquakes, flood) - Discussion on engineering, administrative and operating staff to identify and develop a control programme

5.4 Coding and content analysis.

A number of steps were taken to ensure the validity and reliability of the coding process. Validity relates to how well the results of a study mirror reality and comprises a two-step process. First is the development of a coding scheme that guides coders in the analysis of content. This coding scheme should detail the variables, their definitions, their values, and rules for recognising these variables in the content being coded. The coding scheme for this paper was developed from prior national and international voluntary disclosure studies (Akhtaruddin, Hossain, Hossain & Yao, 2009; Al-Akra & Hutchinson, 2013; Coy & Dixon, 2004; Elsayed & Hoque, 2010). To be considered valid, a coding scheme should measure what it claims to measure — that is, possessing face or internal validity (Weber, 1990).

The next step was to create the scoring criteria for the coding scheme to assess the reliability and validity of the disclosure index. This process involved two pilot tests. First, the index was tested on six companies listed on the Bursa Malaysia main board. Two assessors were involved in this process. To ensure the criterion accuracy in this study, these pilot tests were guided by several decision rules, also known as coding schemes. Each paragraph was read carefully and was understood to identify a suitable category for it, because each sentence may represent different ideas and meanings. The use of a Delphi panel and two pilot tests ensured face validity. Several amendments to the technical guidelines were made after the first pilot test, but no major changes were required for the disclosure index. The second pilot test was carried out to test the coding scheme and disclosure index again and ensure that no further amendments to the coding scheme would be necessary. Construct validity was ensured by drawing on the extensive empirical research in the development of the coding instrument developed and used in this study.

The second step in the two-step process in ensuring validity is to confirm that the decisions made by coders can be assessed against some standard. To achieve consistency in the process, a coder should decide whether the paragraph in the report sections contain voluntary items within the five main categories. Next, the coder decides whether the sentences in each paragraph fall under or contain items relating to a particular category. Finally, the sentence(s) or voluntary items are coded in the form of their presentation in accordance with the disclosure coding matrix. These steps were performed for every paragraph in the document. As noted earlier, to ensure the coders were properly guided, all categories and items were clearly defined. A set of rules for the coding scheme was established to provide more guidance and clearer justification. During the pilot test, the coding scheme was explained, and the coders were trained in coding. The process took 7 days to complete. These notes were later transferred and recorded on separate initial coding sheets labelled coder A and B (i.e., the assessors). The initial coding sheets were combined and compared to measure the degree of agreement and to identify the level of deviation between coders.

Data from both assessors were compared using the Krippendorff alpha to establish the reliability of the disclosure index. The reliability of the coding tested using Krippendorff's alpha provided a result of 0.8967, which exceeds the threshold of α_{min} =0.800 (Krippendorff, 2004). For reliability purposes, a test-retest procedure was conducted to ensure that the coding scheme was ready for use (Krippendorff, 2004; Guthrie et al. 2004).

Using a quantitative content analysis, the 30 companies' annual reports were evaluated to determine levels of voluntary disclosure practice. The 'text unit' of analysis used in the current study was at the phrase, clause, and theme levels (Campbell and Abdul Rahman 2010). Sentences based on text from the annual reports were coded thematically with several subcategories of information (Samkin et al. 2014). A coder[5] assessed the annual reports' content based on the meaning of sentences in relation to the voluntary disclosure index using a coding scheme. The coding scheme was based on a 5-point scale (developed and tested earlier in phase 1). The data were recorded in Excel spreadsheets. The companies' annual reports were examined, and the information provided in the reports was ranked into five scoring scales: trivial information (1); information descriptive in nature (2); intermediate level of detail (3); detailed description

[5] A small number of units were chosen (i.e., in a pilot test) to informally assess reliability during coder training to ensure that the instrument and coding instructions were adequate to obtain an acceptable level of agreement. The coding was tested using Krippendorff's alpha, which proved that the disclosure coding scheme and guidelines were viable instruments for quantitative content analysis and were thus ready for use in the actual content analysis.

(4); and highly detailed disclosure (5). It is important to note that Likert-type scales are often used to measure concepts in business and/or accounting research such as importance or intentions (Hair et al. 2007). For evaluation purposes, a detailed Excel spreadsheet was created for each sampled company. All voluntary disclosure indices were inserted, and formulae were developed and added into the spreadsheets. In addition, all examined data in each annual report were carefully coded to ensure credibility and consistency. The completion of the annual report examination was preceded by the data analysis.

In the second analysis, voluntary disclosure practices were investigated using interviews with annual report users. This analysis aimed to identify factors that shaped differences in levels of voluntary disclosure between non-family-controlled and family-controlled companies. In this phase, 41 interviews were undertaken. They included business owners, senior executives, analysts, regulators, and financiers. The interviews were first recorded and then transcribed. The information from all participants was deciphered based on their explanations and examples provided during the interviews.

6. Results

6.1 Overall comparative results of level of voluntary disclosure categories from 2009 to 2013

Table 5 shows an overview of the average voluntary disclosure scores (AVDS)[6] for five categories from 2009 to 2013.

Table 5: An overview of AVDS trends for five categories from 2009 to 2013.

Year of annual report Voluntary disclosure categories	2009 AVDS	2010 AVDS	2011 AVDS	2012 AVDS	2013 AVDS	TOTAL AVDS
General corporate and strategic information	1.19	1.20	1.21	1.21	1.26	1.21
Information about management and shareholders	1.21	1.24	1.25	1.25	1.25	1.24
Financial information	1.23	1.23	1.25	1.28	1.28	1.25
Corporate social responsibility	1.16	1.17	1.19	1.19	1.22	1.19
Forward-looking and risk review information	1.10	1.12	1.13	1.11	1.15	1.12

In general, an increasing trend in the level of voluntary disclosures was noted, particularly after 2011 (Table 5). Nevertheless, in 2012, the forward-looking and risk review information section showed a slight

6 The AVDS were calculated using a normal average method: (frequency of a voluntary disclosure item X's content analysis score) / (∑frequency of a voluntary disclosure item X 5 years X maximum score).

decrease in AVDS. Although the results show an overall low AVDS for each category, there were substantial changes in the overall level of voluntary disclosures (i.e., items provided by the sample companies in this study). A number of items showed large changes between 2009 and 2013. Among the items from the general corporate and strategic section in Table 4 were *Impact of competition on current market* (14); *Vision and mission statement* (10); and *Discussion of company's new major products/services/projects* (2). In addition, the items *High level operating data and performance measurements that management uses* (29) and *Discussion of future products/services research and development activities with planned research and development expenditure* (54) also showed a large change. On average, between 2009 and 2013, the change in the level of voluntary disclosure for the five categories used in this research was 4.4%[7]. In contrast, several items within these voluntary disclosure categories underwent a negative change (i.e., lower disclosure). These included *discussion of recent industry trends* (4) and *discussion of specific actions taken during the year to achieve the corporate goal* (13). The items *Market capitalisation in the share market (year-end)* (33) and *Environmental incidents – implementation of procedures for managing materials containing environmentally sensitive substances – converting production processes* (58) also recorded a negative change.

6.2 Comparative analysis of voluntary disclosure practices based on information categories and ownership

Further tests were conducted to investigate the level of voluntary disclosure in annual reports in family-controlled and non-family-controlled companies based on ownership.

[7] Changes in % for each category between 2009 and 2013: general corporate and strategic information (5.40%) + information about management and shareholders (2.89%) + financial information (3.75%) + corporate social responsibility (CSR) (4.75%) + forward-looking and risk review information (5.24%).

Figure 1: Comparative analysis of voluntary disclosure based on information categories and ownership.

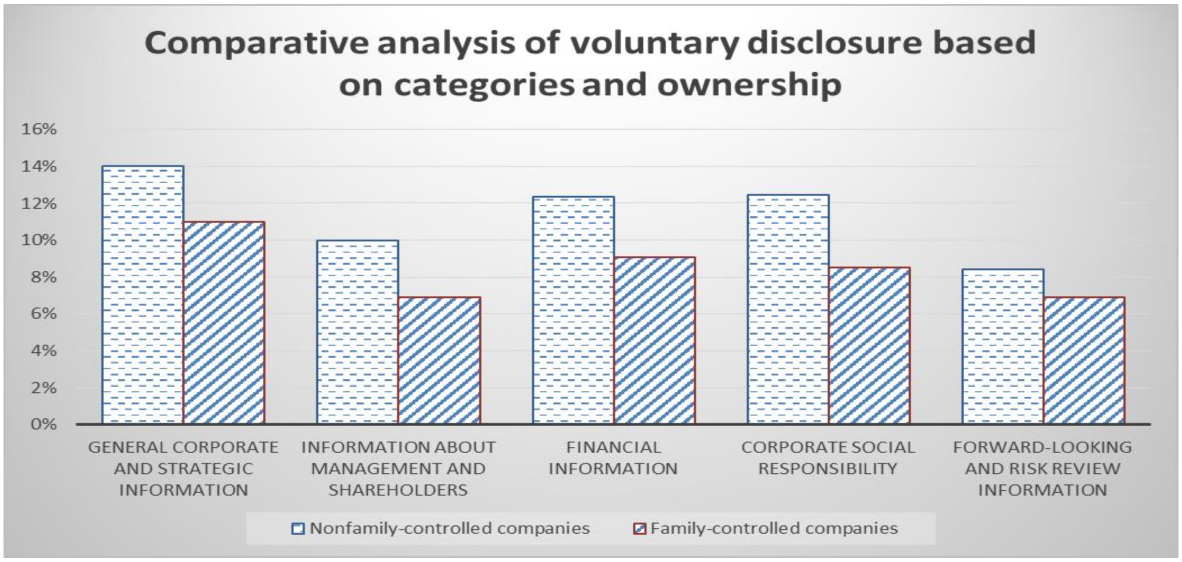

Figure 1 presents levels of voluntary disclosure using a cross-tabulation analysis. The results show that disclosure levels between non-family-controlled and family-controlled companies differed by 21%. The levels were different for two categories. The first is *General corporate and strategic information*, and the second is *Information about management and shareholders*. In the categories *Financial information* and *Corporate social responsibility*, disclosure by non-family-controlled companies exceeded that of family-controlled companies by 8%.

It is important to note that there is a similar trend of difference (12.5%) in the level of forward-looking and risk review information provided by non-family-controlled and family-controlled companies. This finding suggests that both family-controlled and non-family-controlled companies have relatively similar behaviour regarding providing such information. Furthermore, it suggests that voluntary disclosure for forward-looking and risk review is still lacking (see, for example, Amran and Ahmad 2009; Keasey et al. 2009).

Figure 1 also shows that *General corporate and strategic information* showed the highest percentage difference (13%), followed by *Financial information* and *Corporate social responsibility* (12%). This finding tends to support the findings on levels of voluntary disclosure in developing or emerging markets reported by Uyar and Kılıç (2012) in Turkey, and Ferguson et al. (2002) in Hong Kong. Uyar and Kılıç (2012) found that general information, corporate strategy and social responsibility were among the items most commonly disclosed by Turkish firms. In the Hong Kong study, Ferguson et al. (2002) found that strategic information was the most frequently voluntarily disclosed item. In addition, similarities between the trend shown in general corporate and strategic information and financial information can be found in

Ho and Taylor's (2013) Malaysian study. Ho and Taylor (2013) found corporate and strategic information and financial and capital markets information to be the most frequently voluntarily disclosed items.

When comparing companies' ownership and level of voluntary disclosure, family-controlled companies provided less information than non-family-controlled companies. However, there were a number of voluntary disclosure items that showed higher scores for family-controlled companies. Among them were *Discussion of recent industry trends* (4); *General statement of corporate strategy* (6); *Review of financial highlights related to financial statements* (28), and *Discussion of employees' benefits* (42). In addition, *Retirement scheme through foundation or other means* (51) and *Discussion of opportunities (firm's prospects in general and business strategy on future performance in general)* also scored high marks. These results suggest that family-controlled companies are likely to highlight information that can emphasise the company's strength in a particular industry and its potential to remain in the capital market.

6.3 Descriptive statistics

The descriptive statistics items are presented in three quartiles. The percentile and quartiles ranks were used as indicators of the frequency of voluntary disclosure levels. First, the items that appeared most frequently were classified as the highest group. These accounted for more than 15% of the items found in the companies' annual reports. Next were items that were found to have an average frequency of less than 15% but more than 10% of the observations. Finally, the least frequently disclosed items found in the observations appeared in less than 10% of the observations. Data from cross-tabulation, which are displayed as a percentage frequency for each company, were used to calculate the interquartile group. The minimum value is 0, which is also equivalent to 0%. The interquartile groups are classified as follows. The first quartile (Q1) is the 25^{th} percentile – Group 1, which is at 5.1%. For the 50^{th} percentile, the median is at 9.8% – Group 2. The 75^{th} percentile (Q3) is at 14.6% – Group 3. The maximum value is 33.2%, as shown in Table 6. Descriptive statistics on levels of voluntary disclosure practice during the five sampled years are presented in Table 6.

Table 6. Group 3 – Items occurring in companies' annual reports at the 75th percentile.

		Frequency of items disclosed by companies (%)	Total frequency of items	Average voluntary disclosure	Changes between 2009

Group 1	Voluntary disclosure items	Non-family-controlled companies	Family-controlled companies	disclosed by companies (%)	score (Mean)	and 2013 (%)
1	Financial highlights – at least 5 years	12.7	12.4	25.1	1.77	8.29
2	Discussions of recent industry trends	9.5	6.9	16.4	1.23	-8.23
3	Information relating to the general outlook for the economy	6.2	8.7	14.9	1.21	2.07
4	A statement of corporate goals	9.8	5.1	14.9	1.21	-0.71
5	Vision and mission statement	13.2	7.1	20.3	1.26	16.67
6	Discussions on specific actions taken during the year to achieve the corporate goals	10.4	8.2	18.6	1.32	-3.64
7	Impact of strategy on current results	7.1	7.5	14.6	1.21	6.29
8	Adoption/supporting mechanism to enhance ethical and productive practices	13.9	8.1	22	1.37	7.88
9	Senior management responsibilities, experience, and backgrounds	12.4	12.3	24.7	1.74	6
10	Review of financial highlights related to the financial statements	16.5	13.2	29.7	1.74	7.32
11	High level operating data and performance measurements that management uses	13.6	13.4	27	1.74	14.95
12	CSR policy, a statement of compliance	16.8	16.4	33.2	1.49	12.35
13	Discussion of involvement in community programmes (health/education/charity)	16	12	28	1.66	13.4
14	Discussion in involvement in public/private action designed to protect the environment	7.8	7.5	15.3	1.27	8.9
15	Corporate policy on employees' training	10.2	5.8	16	1.23	1.31
16	Discussion of opportunities (firm's prospects in general and business strategy on future performance in general)	7.8	7.7	15.5	1.26	6.94

Table 6 shows the voluntary disclosure items that are commonly disclosed in companies' annual reports. From the 61 voluntary items examined, only 16 items had a disclosure frequency of more than 14.6% in the sample reports. These voluntary disclosure items showed some degree of economic implication and its importance in defining growth and potential areas for future development. Additionally, these results suggest that the influence of external factors on the industry's raw material supply and demand, as well as industry growth in the capital market, became the main focus for the companies' long-term economic decisions. Thus, it appears that these voluntary disclosure items help companies gain investors' confidence and structure the companies' operations in relation to the resources used. As suggested by Ho and Taylor (2013), information on financial and capital market data are used to review a company's performance, wealth creation, and the reasons for its performance and future growth. However, a large variation still exists between non-family-controlled and family-controlled companies with regard to vision and mission statements, the adoption of mechanisms to enhance ethical and productive practices, discussion of involvement in community programmes (health/education/charity), and corporate policy on employee training. These items varied from 4% to 6.1%. It was established that the family-controlled companies did not perceive the need to conform to external norms and perceived that minimal information disclosure would suffice.

Table 7. Group 2 – Items occurring in companies' annual reports at the 50th percentile

Group 2	Voluntary disclosure items	Frequency of items disclosed by companies (%)		Total frequency of items disclosed by companies (%)	Average voluntary disclosure score (Mean)	Changes between 2009 and 2013 (%)
		Non-family-controlled companies	Family-controlled companies			
1	Information on new product development	8.7	4.1	12.8	1.23	5.52
2	Statement and/or information on ways to improve product and service quality	9.2	4	13.2	1.23	11.51
3	General statement of corporate strategy	5.1	6.8	11.9	1.15	12.21
4	Description of marketing and distribution networks for products/services	8.5	5.8	14.3	1.29	4.46
5	Awareness of responsibilities to the stakeholders	5.7	6.2	11.9	1.16	8.03
6	Discussion of major regional economic development pertaining to products and business	6.1	7.5	13.6	1.2	1.42
7	Impact of competition on current market	6.2	5.2	11.4	1.18	17.42
8	Corporate achievement	8.5	5.2	13.7	1.2	12.5
9	Industry-specialised operational statistics	5.5	5.3	10.8	1.28	2.68
10	Share price information (year-end)	6.7	3.8	10.5	1.23	1.4
11	Discussion of environmental protection programme implemented	7.1	5.6	12.7	1.22	8.45
12	Corporate policy on employees' benefits	7	6.4	13.4	1.19	9.85
13	Information about employee workplace safety	8.5	3.9	12.4	1.23	6.99
14	Discussion of specific external factors affecting firm's prospects (economy, politics, technology)	2.7	8.1	10.8	1.16	8.09

As Table 7 shows, only 14 voluntary disclosure items in Group 2 (i.e., greater than the median but less than the 3rd quartile) were found in the companies' annual reports. While 12 items were from the general corporate and strategic information category, only one item came from the *Financial information* category, and one came from the *Forward-looking and risk review information* category. These findings suggest that companies tend to disclose information that represents their strengths, achievements, and their position in the current economic environment. Bhojraj et al. (2004) noted that companies tend to offset the influence of voluntary disclosure that has a positive influence on the company's performance and values. They do so to gain a strategic advantage and legitimacy from the information disclosed.

The frequency level of voluntary disclosure items in this group was dominated by the *General corporate and strategic information* category (9 out of 14 items). One possible explanation for this finding is a company's industry characteristics, particularly when a company is concerned about asset acquisition investment for a business project. As Ferreira and Rezende (2007) suggested, information about strategy-specific investment disclosures is often provided by companies that require or are concerned about investment, particularly in an unpredictable environment.

Table 8. Group 1 – Items occurring in companies' annual reports at the 25th percentile.

Group 3	Voluntary disclosure items	Frequency of items disclosed by		Total frequency of items disclosed by companies (%)	Average voluntary disclosure score (Mean)	Changes between 2009 and 2013 (%)
		Nonfamily-controlled companies	Family-controlled companies			
1	Discussion of company's new major products/services/projects	4.70	3.00	7.70	1.16	12.59
2	Discussion of competitive environment	3.70	4.00	7.70	1.11	2.24
3	Firm's contribution to the national economy	4.10	1.00	5.10	1.07	6.45
4	Business activities related to Shariah matters (if applicable)	1.30	0.40	1.70	1.03	3.31
5	Halal status of the product (if applicable)	1.70	0.20	1.90	1.05	-3.85
6	Declaration of activities that involve alcohol and gambling as part of business (if applicable)	1.00	0.00	1.00	1.00	-0.83
7	Details of senior management team	6.80	1.30	8.10	1.20	1.41
8	Details of Shariah oversight board (if applicable)	0.00	0.00	0.00	1.00	0.00
9	Domestic and foreign shareholdings breakdown	0.80	0.20	1.00	1.02	4.17
10	Share price information (trend)	5.90	2.20	8.10	1.15	7.46
11	Market share in the industry	0.90	0.90	1.80	1.03	4.13
12	Market capitalisation in the share market (year-end)	4.60	2.20	6.80	1.13	-3.62
13	Any form of financing/investment or funding related to Shariah law (if applicable)	0.30	0.50	0.80	1.01	0.00
14	Zakat: method used/amount/beneficiaries (if applicable)	0.90	0.00	0.90	1.02	-1.61
15	Discussion of employees' benefits	1.70	2.90	4.60	1.07	0.80
16	Discussion of employees' training	5.90	1.70	7.60	1.15	5.93
17	Breakdown of workforce by line of business distribution or categories of employees by level of qualifications	4.70	1.20	5.90	1.15	3.76
18	Amount spent on employees' benefits and training	6.20	0.50	6.70	1.13	-0.74
19	Retrenchment/redundancy information	0.00	0.00	0.00	1.00	0.00
20	Discussion of health and safety standards	6.50	3.20	9.70	1.17	5.04
21	Sadaqa/donation (description on the recipients and purpose) (if applicable)	0.00	0.50	0.50	1.01	-0.83
22	Waqf (description on the policy and amount spent) (if applicable)	1.00	0.20	1.20	1.02	0.83
23	Retirement scheme through foundation or other means	0.20	0.00	0.20	1.00	0.00
24	Discussion of future products/services research and development activities with planned research and development expenditure	5.30	4.00	9.30	1.15	12.12
25	Planned advertising and publicity expenditure	0.50	0.70	1.20	1.02	4.13
26	Nature and cause of risks	3.20	3.80	7.00	1.10	6.20
27	Identification of major differences between actual business performance and previously disclosed opportunities, risks, and management plans	5.60	3.90	9.50	1.15	1.46
28	Environmental incidents - Implementation of procedures for managing materials containing environmentally sensitive substances - convert the production processes	7.00	2.80	9.80	1.19	-2.74
29	High degree of government regulation - dicussion on the ways for appropriate investment decision	3.70	1.90	5.60	1.09	7.26
30	Technical failure - discussion on hiring and retaining highly trained and experienced staff / developing control quality system and equipment maintenance/implementing software that allows better design and manufacturing process	5.70	1.30	7.00	1.10	3.91
31	Natural disasters (e.g., earthquakes, flood) - Discussion on engineering, administrative and operating staff to identify and develop control program	0.60	0.50	1.10	1.02	5.00

Thirty-one voluntary disclosure items fell within Group 1 (see Table 8). This finding was unexpected and suggests that the level of voluntary disclosure in Malaysia remains low. There are two noteworthy observations in this table. The first is that 9 out of 16 (56%) voluntary disclosure items in the *Corporate social and responsibility* category and 8 out of 10 (80%) voluntary disclosure items in the *Forward-looking and risk review information* category fell into this group. This result implies that forward-looking and risk review voluntary disclosure items were the main items disclosed by the sample companies in this category.

The unexpected results for Group 1 can be explained in two ways. First, voluntary disclosure on CSR may be perceived as less important by the preparers. In other words, the minimal level of CSR information merely underpins the intention of the preparers to maintain its brand to acquire and retain the business partners and customers' loyalty. Second, predictive voluntary disclosure in companies' annual reports can lead to stakeholder reactions. Amran et al. (2009) confirmed that companies in Malaysia tend to disclose less information about the status of risk. The authors suggest that predictive or forecasted information can result in adverse stakeholder reactions, litigation costs and a reduced sense of legitimacy to external stakeholders. These authors contended that preparers appear to follow the mandatory requirements relating to forward-looking and risk review information (see also Abdullah et al. 2015). These reasons could explain the level of forward-looking and risk review disclosure provided voluntarily by the sample companies.

It is worth noting that a company's ownership type has an important bearing on the level of voluntary disclosure. This study found supporting evidence for a relationship between family-controlled companies' ownership and the level of information disclosed voluntarily (see Table 9).This result is consistent with previous studies, particularly in China; for example, Chau and Gray (2010), Eng and Mak (2003), and Huafang and Jianguo (2007) suggest that a company's ownership plays an important role in the level of voluntary disclosure.

However, as stated earlier, family-controlled companies provide certain voluntary disclosure items more than non-family-controlled companies do. This study is also consistent with Al-Akra and Hutchinson's (2013) study in Jordan. They found that family-controlled companies exhibit higher levels of voluntary disclosure on certain information, such as on management and shareholders, compared to non-family-controlled companies. The authors suggest that regulatory reforms resulting from the globalisation of the capital market have implications on the level of voluntary disclosure by family-controlled companies.

Table 9. Mean differences between companies' ownership and the level of voluntary disclosure – result from post hoc analysis.

Ownership type	General corporate and strategic information	Information about management and	Financial information	Corporate social responsibility	Forward-looking and risk review information

				shareholders						(CSR)					
	Mean	Mean Diff.	Sig.	Mean	Mean Diff.	Sig.	Mean	Mean Diff.	Sig.	Mean	Mean Diff.	Sig.	Mean	Mean Diff.	Sig.
Non-family-controlled	1.25	19.96	0.000***	1.320	16.969	0.000***	1.300	11.669	0.000***	1.240	18.715	0.000***	1.140	6.221	0.013**
Family-controlled	1.17			1.160			1.210			1.130			1.100		

***The mean difference is highly significant at the 0.01 level.
** The mean difference is significant at the 0.05 level.
*The mean difference is moderately significant at the 0.1 level.
Note: Mean is the level of the average disclosure score for each category. The mean difference shows the differences across companies' ownership type, and the Sig. value shows the significance level of the mean difference. The higher the mean difference value is, the more significant the difference between companies in the population is. For example, the mean difference between non-family-controlled and family-controlled companies is 0.000, which is $p < 0.01$. This result shows that voluntary disclosure for general corporate and strategic information provided by non-family-controlled companies is different from that provided by family-controlled companies.

6.4 Interview results

6.4.1 The level of voluntary disclosure by family-controlled listed Malaysian companies.

This section reports the interviewees' responses to questions about the voluntary disclosure practices of family-controlled listed Malaysian companies. Most participants in this study believed that the overall level of voluntary disclosure is improving but remains at a low level. Some participants expressed their frustration with the amount of information disclosed in companies' annual reports.

One possible reason for this frustration is the intention behind the information disclosed by preparers, which impacts its quality, nature, and usefulness. As one respondent stated: 'Companies are free to provide other relevant additional information that is useful and provides a clearer explanation to the users' (regulator).

Furthermore, a lack of voluntary CSR disclosures was evident from interview evidence. For example, an analyst commented on the minimal level of CSR information in the companies' annual reports:

> *All public listed companies in Malaysia disclosed CSR even though the information is not mandatory. It has become a norm or self-practice to disclose it. However, this information could be used as communication information to show they are good … when a company does that, the others will follow too because it is a good technique for the image and reputation of the company.*

Another analyst commented:

They prefer not to disclose the information, probably because they anticipate that more information reported will result in more perceptions and judgements made by stakeholders and lead to trouble, not only for the competitors but also the regulators, so more voluntary disclosure can be used against the company.

The information supplied may also be inappropriate or difficult for stakeholders to understand. For example, one interviewee commented:

… some of them make a voluntary disclosure that is not relevant and has no impact on the companies' value overall. (Services provider)

Several factors may account for the low level of voluntary disclosure practice in Malaysia. The results from this study revealed that these include (a) preparers' fear of disclosing information that can be used against their companies; (b) a third party (vendor) being the preparer of annual reports; and (c) companies' ownership.

Managers tend to limit information disclosure due to fear of their competitors and the reactions of external stakeholders, especially in relation to the legitimacy of their companies. Voluntary disclosures, particularly negative ones, are withheld by companies because of the concern that these disclosures will demonstrate to stakeholders that the companies are not good 'corporate citizens'. In expressing his disappointment with the current levels of voluntary disclosure, an interviewee noted that organisations were concerned about stakeholders' reactions, particularly the reactions of investors, since they dislike negative or bad news. He further commented:

… that they [companies] prefer not to disclose or disclose less is probably because they anticipate that information would reflect the societal interest at large…. Although it [voluntary disclosure] creates an opportunity for them [the company], the information may create emotional resentment on the part of the public at large. (Researcher)

The above comments suggest that the legitimacy of the company in the eyes of external stakeholders may be lost by disclosing more voluntary information. These comments appear to imply that stakeholders' attitudes and responses to the type of information released can shape voluntary disclosure practices by family-controlled companies. This finding is consistent with that of Marsden et al. (2011), who argue that stakeholders' reactions, particularly those of investors, play an important role in the amount and type of information disclosed (see also Mistry et al. 2014). This shows that external factors, such as stakeholders and the business environment, influence the extent to which companies disclose information. In addition, Ho and Taylor (2013) argue that stakeholders play an important role in promoting transparent and accountable behaviour in managers, particularly in encouraging family-controlled companies to disclose more information. However, it is the prerogative of family-controlled companies to decide how much information should be disclosed, especially with regard to information related to earnings (Ho and Taylor 2013; Abdullah et al. 2015; Belal et al. 2013).

6.4.2 Differences in voluntary disclosure practices between family-controlled and non-family-controlled companies

Differences exist in the levels of voluntary disclosure between family-controlled and non-family-controlled companies. Family-controlled companies tend to disclose less information than non-family-controlled companies. Voluntary disclosure practices are controlled by the management (i.e., family members) and they limit their information to the mandatory requirements. When asked about the differences in disclosure practices, the interviewees noted that family companies are oriented towards long-term continuity of the business. One participant, an analyst, expressed his view as follows:

> *However, for a family-controlled company, which also shares the company with other investors, they [family owners] have this fiduciary obligation to ensure that the company can truly be a going concern, so they need to be careful in choosing what they plan to disclose. (Analyst)*

The above statement reveals that sharing information with non-family members is perceived to have a detrimental impact on a company's survival and a family's ability or rights to control the company. A company's wealth and information can be safeguarded if family members determine and control important business decisions. The participant observations therefore are consistent with the findings of Villalonga and Amit (2006, 140) and Abdullah et al. (2015), who suggested that, in relation to voluntary disclosure, a company's value depends on its corporate governance structure. Furthermore, Villalonga and Amit (2006) suggested that the combination of family ownership, control and management can shape the board of directors' decisions on voluntary disclosure, which will have an influence on the company's value. Thus, Villalonga and Amit (2006) contended that family-controlled companies are more likely to be selective about disclosure to counter any reverse causality interpretation on the part of stakeholders. In this way, they appear legitimate to stakeholders. In a similar vein, Abdullah et al. (2015) argued that family-controlled companies tend to provide information to meet the requirements of corporate governance best practices and listing purposes.

Some interviewees argued that within the context of ownership and control, some family-controlled companies are unwilling to provide additional disclosures. However, other interviewees commented on the voluntary disclosure efforts made by some Malaysian family-controlled companies. These interviewees contended that some family-controlled companies have made an effort to voluntarily disclose additional information and are progressing towards internationalisation (i.e., globalisation) of processes and markets. Such disclosures allow family firms to remain legitimate in the eyes of external stakeholders.

> *They [family businesses] are at the global standards. They [family businesses] are aware of what needs to be disclosed and how disclosing this information has [an] impact ... The trend of voluntary disclosure – it is developing and in fashion. (Corporate finance advisor)*

Along with the voluntary disclosure practices of family businesses, it is important to note that these companies can be willing to share information. However, sharing can be subject to the extent of a particular family's business relationship with stakeholders. An equity investor commented:

> *Those [family-controlled companies] who have a strong link with the shareholders are more inclined to disclose more, to maintain market share, competency, trust, and support to expand their market share, but this is not true for those who are slightly distant from the shareholders, so they do not feel that they are under pressure to meet the needs of the stakeholders. (Equity investor)*

This notion and the comments from interview participants demonstrate the link between the willingness of family-controlled companies to share information and the interplay between stakeholders' demands and the amount of information these companies disclose so that both parties mutually benefit. This also helps family companies protect their legitimacy. As Chen et al. (2008) suggest, family-controlled companies often act in their own best interests. However, voluntary disclosure does not necessarily show that the level of information asymmetry is low in family-controlled companies because companies may want to gain legitimacy in the eyes of external stakeholders by indicating that they are good corporate citizens. These findings support those of Chen et al. (2008), who found that family-controlled companies are similar to other types of ownership, which tend to use disclosure as a mechanism to control the extent of information shared with external stakeholders.

7.0 Discussion/conclusions

Voluntary disclosure is important in allowing annual report users to make economic decisions. In general, the significance of voluntary disclosure in annual reports has been extensively studied (Mistry et al. 2014). However, little attention has been given to this issue in emerging countries, particularly with a focus on family-controlled companies. Therefore, to enrich knowledge in the disclosure field, this study focused on the impact of ownership structure in family-controlled and non-family-controlled companies on voluntary disclosure in their annual reports. In Malaysia, family-owned businesses have been reported to control approximately 34% of the country's market capitalisation (Ibrahim and Samad 2010).

This study aimed to shed light on the level of voluntary disclosure in Malaysian listed family-controlled companies from 2009 to 2013. The findings revealed that the level of voluntary disclosure in annual reports is low. Furthermore, family-controlled companies were shown to provide voluntary disclosure on different types of information within the studied categories. However, family-controlled and non-family-controlled companies have similar trends and behaviours over time for forward-looking and risk review information.

Legitimacy theory was used in this study. Family-controlled companies react by increasing the level of voluntary disclosure if they believe that the legitimacy of their organisation is threatened by external stakeholders. Hence, they maintain a 'social contract' with external stakeholders; thus, there is an incentive for family-controlled companies to disclose information on a voluntary disclosure basis when required to exercise professional judgement. The content analysis findings show that family-controlled companies tend to provide additional voluntary information. The differences in the voluntary disclosure practices within family-controlled companies indicate that an entrenchment effect is present.

Content analysis and interviews revealed that there are differences in decision-making relating to voluntary disclosure practices, which depend on the influence of ownership structures. However, it was clear that there are differences in disclosure practices between family-controlled companies. For example, the previous literature reveals relationships between voluntary disclosure levels and governance structure, such as in Turkey and Hong Kong, yet the interviews showed that a family-controlled company's background can influence its managers' decisions to provide additional information voluntarily. Therefore, managers' cultural background and educational knowledge and the number of family members on the board can be important factors in deciding the amount of information to be revealed in the annual reports of family-controlled companies. Since disclosure practices tend to change over time, management's intentions in the current environment may be perceived as an evolution based on contextual circumstances.

This study highlights some useful evidence related to the association of corporate governance mechanisms and the level of voluntary disclosure in companies' annual reports. For example, the presence of independent directors on a company board plays an essential role in corporate reporting and transparency, particularly in family-controlled companies (Akhtaruddin et al. 2009b; Aboagye Otchere et al. 2012; Miller and Le Breton-Miller 2006; Yekini et al. 2015; Brennan and Solomon 2008). Board composition is influenced by outside directors or non-executive directors who constitute most other stakeholders' interests in an organisation. Accordingly, Yekini et al. (2015) argued that it is the directors' responsibility to represent other stakeholders' interests by ensuring the level and quality of voluntary disclosure provided and thus maintaining relationships between the organisation and its stakeholders.

Stakeholders' expectations and reactions can shape voluntary disclosure practices by companies. In terms of the type of additional information disclosed in companies' annual reports, the results of this study showed that voluntary disclosure acts as a mechanism to gain legitimacy in the eyes of external stakeholders. This means that incorporating voluntary disclosure in their annual reports increases firms' value and image to conform to stakeholders' expectations. According to Brennan and Solomon (2008):

> Accountability to shareholders can no longer represent the sole aim and objective… Stakeholder accountability and social responsibility are now acknowledged both … as key ingredients for business success (p. 25).

This study also supports Momin's (2013) study in Bangladesh, which argued that stakeholders' knowledge and awareness are important to enhance the quality of the information. In particular, the author argued that secondary stakeholders such as non-government organisations (NGOs), trade unions and consumer groups can influence voluntary disclosure practices. On the other hand, managers also tend to be selective in disclosing additional information when they believe that the information may lead to negative implications for the company. The decision to disclose information may also be influenced by the barriers and problems associated with voluntary disclosure practice. On average, the interviewees believed the main barriers were fear of competitors and stakeholders' misinterpretation of the information disclosed. The interviews revealed that it is managers' or owners' prerogative to disclose information, where the additional disclosure is not important for stakeholders' economic decision making or to increase the firm's value. The interviewees' perceptions indicated that most family-controlled companies attempt to remain in a 'safe zone' when disclosing additional information.

The implication of the study is that further investigation is needed regarding the costs and benefits to the managers of family-controlled firms in making voluntary disclosures and how the information is presented in annual reports. This study has practical implications because it helps managers in family-controlled companies and allows regulators to advance the level of voluntary disclosure practices by exploring the issues that constrain such practices. This study was limited to 30 companies listed on the Main Board in Bursa Malaysia and 41 corporate managers in various industries. Therefore, the findings from this study cannot be generalised to other markets since this study was conducted in the multi-ethnic context of Malaysia. Future studies may address this limitation as the business environment in Malaysia develops greater diversity in ownership and control. The research could be extended to compare Malaysian companies with neighbouring countries in the Asia Pacific region. Religion could be a factor that binds family and organisational shared values in the voluntary disclosure context and could be an avenue for future research.

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