Corporate Governance and Risk Management Information Disclosure in Malaysian Listed Banks: Panel Data Analysis

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Corporate governance issue has attracted the researchers, especially the Malaysian researchers due to the 1997-1998 economic crises. Furthermore, it is undeniable that the banking sector is the heart of the economy in any country and it cannot be separated since it is the main source in mobilizing the monetary system. Thus, this study investigates the impact of corporate governance on strategic information disclosure of Malaysian listed banks by using a panel data analysis. Effectiveness and goodness a corporate governance structure is determined by the board leadership structure, board composition, board size, director ownership, institutional ownership and block ownership. The researcher develops strategic information disclosure index and conducts content analysis by cross checking between the risk management disclosure in the annual reports and the disclosure index. Accountants and financial analysts play the important role since the disclosure score used in this study is weighted disclosure score after considering their opinions because they are the group who represent preparers and users of the accounting information respectively. This research finds that higher risk management information disclosure can be achieved if board leadership structure, higher proportion of independent directors, institutional ownership, block ownership, board size and lower director ownership are separated.

Keywords: risk management, corporate governance; generalized least square; panel data; agency theory.

1.0 INTRODUCTION

Corporate governance issue becomes an attractive issue in Asian countries, including Malaysia in late 1990s following the 1997-1998 crises (Cheung & Chan, 2004; Tze, 2003). Agency theory and many corporate guidelines suggest having a good corporate governance system for more transparent disclosing information about the corporation. . In addition, the stability of financial sector and the sustainability of economy rely on the effectiveness of corporate governance of banks. Poor corporate governance of the banks can drive the market to lose confidence in the ability of a bank to properly manage its assets and liabilities, including deposits, which could in turn trigger a liquidity crisis and then it might lead to economic crisis in a country and pose a systemic risk to the society at large (Cebenoyan & Strahan, 2001; Basel Committee on banking supervision, 2005; Alexander, 2006; Garcia-Marco & Robles-Fernandez, 2008). Therefore, it is interested to examine the importance of corporate governance mechanisms in the banking sector.

Moreover, risk is everywhere and it can't be avoided in ant types of business activities, especially in banking. According to Santomero (1995) many commercial banks are

upgrading their risk management and internal control systems since risk management is important in the banking industry. Raghavan (2003) and Pyle (1997) also mention that risk management is necessary because it involve two major process of risk which are risk identification and risk measurement. Then, the bank will choose their risk and take action on it whether it can be reduced or avoided and establish the procedures to monitor the risk.banks should make sufficient risk information disclosure to make sure that market participants can assess the strategies practiced by the banks. Similaryly, Santomero (1995) and Young (n.d.) states that one of the ways to implement a risk management system is to emphasize on risk reporting through financial reports to the regulators and shareholders. Since boards of directors are the ultimate monitors of the banks, they should be fully responsible for risk management disclosure.

Similarly, the importance of the disclosure information in the annual reports has been highlighted as one of the important aspects of the good corporate governance. According to Millstein, Albert, Cadbury, Denham, Feddersen and Tateisi (1998: 40), "disclosure is an important and efficient means of protecting shareholders and is at the heart of corporate governance. They further state that adequate and timely information about corporate performance enables investors to make informed buy-and-sell decisions and thereby helps the market reflect the value of a corporation under present management". In addition, Norman, Takiah and Mohd Mohid (2005) assert in their paper that "directors are responsible to ensure financial statements are prepared according to approved accounting standards". It also stated by Patel, Balic and Bwakira (2002), Utama (2003), Melis (2004), Basel committee on banking supervision (2005) that disclosure is integral to corporate governance, i.e. an important element of corporate governance, since higher disclosure could be able to reduce the information asymmetry, to clarify the conflict of interests between the shareholders and the management, and to make corporate insiders accountable. The different types of information disclosed in the annual reports and disclosure on risk management information are focused in this study because the risk information discloses how banks manage their own risks. Thus, this risk information disclosure provides the investors about the details and to predict the potential risk of the firms and to know how the banks are managing their risks.
It could be summed that the governance seems to be a heart of the corporation, especially in the banking sector and to have an influential power on information disclosure of the annual reports. Hence, the aim of this paper is to investigate the impact of corporate governance on the risk management information disclosure of the banks.

2.0 THEORETICAL FRAMEWORK AND EMPIRICAL STUDIES

According to Jensen and Meckling (1976) as quoted by McColgan (2001), due to the separation of ownership and control, agency problems, i.e. moral hazard (hidden action) and adverse selection (hidden information) could occur and the directors might maximize their own interests at the expense of the shareholders. Thus, Williams et al. (2006) said that the main issue from the agency theory is the existence of agency cost. The suggested mechanism to minimize this cost is good corporate governance (Gursoy & Aydogan, 2002; Judge et al., 2003) since it promotes goal congruence among principals and agents (Conyon & Schwalbach, 2000). Short el al. (1999) and Cheung and Chan (2004) also describe that the ultimate goal of corporate governance is to monitor the management decision-making in order to ensure that it is in line with shareholders'

interests, and to motivate managerial behavior towards enhancing the firms' wealth. This study shows that the cost of capital can be reduced and more transparent information provided to shareholders by using information disclosure. As a result, agency conflict can be reduced.

The following discussions provide some explanations of corporate governance mechanisms from the agency theory perspective and most relevant the empirical finds related to this research.

Agency Theory and Separate Leadership Structure

According to Jensen and Meckling (1976), Fama and Jensen (1983) and Jensen (1993) agency theory argues for a clear separation of the responsibilities of the CEO and the chairman of the board and seems to prefer to have separate leadership structure. Brickley et al. (1997) and Weir (1997) explain the reason is that since the day-to-day management of the company is led by the CEO, the chairman of the board, as a leader of a board, needs to monitor the decisions made by the CEO which will be implemented by the management and to oversee the process of hiring, firing, evaluating and compensating the CEO. If the CEO and the chairman of the board is the same person, there would be no other individual to monitor his or her actions and CEO will be very powerful and may maximize his or her own interests at the expense of the shareholders. Finkelstein and D' Aveni (1994), Florackis and Ozkan (2004) formalize that the combination of leadership structure promotes CEO entrenchment by reducing board monitoring effectiveness. Thus, a separate leadership structure is recommended in order to monitor the CEO objectively and effectively. The independence of the board can be achieved by separate leadership. It is necessary in order to ensure the board will be able to give pressure on the management led by CEO in disclosing the more material information about the company, which is in line with the interest of the shareholders. Hence, it could be assumed that better disclosure about the companies can be done by the separation of leadership structure.

There is a positive relationship between separate leadership structure and disclosure since the findings of Ho and Wong (2001), Gul and Leung (2004), Lakhal (2005), Byard, Li and Weintrop (2006) and Huafang and Jianguo (2007) are in line with theoretical expectation. In the case of study by Norita and Shamsul Nahar (2004), the results show that separate leadership structure is not associated with voluntary disclosure.

Agency Theory and Board Composition

According to Choe and Lee (2003), board composition is very important to effectively monitor the managers and reduce the agency cost. Although the executive directors have specialized skills, expertise and valuable knowledge of the firms' operating policies and day-to-day activities, there is a need for the independent directors to contribute the fresh ideas, independence, objectivity and expertise gained from their own fields (Weir, 1997; Firth et al., 2002; Cho, 2003). Due to this, Kiel and Nicholson (2003), Le et al. (2006), Florackis and Ozkan (2004) and Williams et al. (2006) said the agency theory recommends the involvement of independent non-executive directors to monitor any self-interested actions by managers and to minimize agency costs. In addition, agency theory formalizes that higher proportion of the independent non-executive directors on the board

will be result in higher disclosure of the material aspects of the company. It also can increase transparency since independent boards will be able to encourage the management to disclose more information.

The findings of Chen and Jaggi (2000), Gul and Leung (2004), Byard et al. (2006), and Cheng and Courtenay (2006) and Norita and Shamsul Nahar (2004.) are in line with theoretical expectation. Gul and Leung (2004) find that firms with higher proportion of outside directors become weaker when the extent of the negative association between combined leadership structure and voluntary disclosure exist. This highlights the importance of the presence of outside directors on the board. In addition, Leung and Horwitz (2004) study 376 Hong Kong listed companies in 1996 and find that contribution of non-executive directors to enhance voluntary segment disclosure is effective for firms with lower director ownership but not for concentrated ownership firm. Independent directors might be able to put pressure in order to disclose more information because there is nobody can control him to withhold the information since their level of ownership is insignificant and level of director ownership is turn another round. Similarly, when there is concentrated ownership firm, it is difficult for the independent directors to influence the management to disclose more information. It might be due to two reasons. First, independent directors can be removed from the board if they are against with the decisions of major shareholders using voting power of concentrated ownership. Second, most of Hong Kong firms are family-owned firms and they might not want to disclose some of the information to the public.

Agency Theory and Board Size

Jensen (1983) and Florackis and Ozkan (2004) mention that boards with more than seven or eight members are unlikely to be effective. They explain that the large number of board can lead to less effective coordination, communication, and decision making, and are more likely controlled by the CEO. Yoshikawa and Phan (2003) also highlight that large number of potential interactions and conflicts among the group members can occur by having large number of boards due to less cohesive and difficulty to coordinate among them. In addition, Yoshikawa and Phan (2003) further state that large boards are often created by CEOs because the large board makes the board members disperse the power in the boardroom and reduce the potential for coordinated action by directors, leaving the CEO as the predominant figure.

In sum, Huther (1997) mention that small number of boards seem to be more conducive to board member participation because it can give positive impact on the monitoring function and the strategic decision-making capability of the board, and independence from the management. It is expected that smaller board size should be able to monitor the decision of the management related to the information disclosure. This expectation is supported by the findings of Byard et al. (2006). They study 1279 firms over the years 2000 to 2002 and find that financial disclosure related to forecast information decreases with board size. However, the finding of Lakhal (2005) show that there is an insignificant and weak association between board size and disclosure.

Agency Theory and Ownership

Agency theory emphasizes the importance of ownership structure and it system in order to improve the corporate governance by looking at these three different perspectives, which are; (a) director ownership, (b) block ownership, and (c) institutional ownership.

(1) Director ownership

According to Jensen and Meckling (1976) the directors can act as the owners and directly instructing and monitoring the management of the companies if they own the shares. Hence, it can reduce agency problems as compared to the situation where the directors, who are not the owners, supervise the management of the company. It also supported by Seifert et al. (2005) who discuss agency conflicts. However, in the case of information disclosure, the effect of director ownership on disclosure might be different from the block holders and institutional investors. Directors who own substantial amount of ownership share probably might not want to disclose the information to the public because they can use their discretionary power to spend firm resources to fulfill their own interest at the expenses of other shareholders. They also might want to conceal any fraud and incompetence. So, negative relationship between director ownership and disclosure could be expected. Theoretical expectation seems to be supported by Chau and Gray (2002), Eng and Mak (2003), and Leung and Horwitz (2004). Chau and Gray (2002) find that the level of information disclosure is likely to be less in insider or family-controlled companies and it supported by Eng and Mak (2003) that show the lower managerial ownership is associated with increased disclosure. According to Leung and Horwitz (2004), when firm performance is very poor the negative relationship between high concentration of board ownership and the voluntary segment disclosure become stronger. Huafang and Jianguo (2007) find that there is no relationship between them. In contrast, Ballesta and Garcia-Meca (2005) find that higher director ownership provides higher quality of financial reporting because when managers act as owners, they act in the interest of the firms and thus result in financial statement are less likely to attract audit qualification. Norita and Shamsul Azhar (2004) prove that executive director ownership has a positive influence to voluntary disclosure level.

(2) Block Ownership

According to Kang and Sorensen (1999), Maher and Anderson (1999), and Kim and Lee (2003) an individual with substantial amount of interest in a company (usually measured at 5%) will be more interested in the company compared to the shareholders who own smaller number of shares due to dispersed ownership may have less incentives to monitor management. In order to have higher disclosure, block holders who have ownership play important role since their voting power can be used as a tool to monitor the agents because agency theory foresees the problems could arise when the ownership and management are separated. Agency theory also concludes that, when block holders have the interest in the firm, they might put pressure on the management to disclosure information. Therefore, a positive relationship between block holders and disclosure can be expected. Chau and Gray (2002), Lou, Courtenay and Hossain (2006), Huafang and Jianguo (2007) and Norita and Shamsul Nahar (2004) find that extent of outside block ownership is positively associated with voluntary disclosures. Hence, their finding is in line with theoretical expectation. In contrast, Eng and Mak (2003) conclude

that there is no relationship between block holders ownership and disclosure. Lakhal (2005) find there is a significant negative association between ownership concentration and voluntary disclosure. He explains that large shareholders tend to retain the information they are able to assess and the French-listed firm are facing insufficient accounting regulation related to earning releases. Therefore, they are other factors can influence companies' reporting practices.

(3) Institutional Investors

Hussain and Mallin (2002), Kim and Nofsinger (2004), Leng (2004), Solomon and Solomon (2004), Seifert et al. (2005), Le et al. (2006), Langnan, Steven and Weibin (2007) and Ramzi (2008) collectively agree on the important role of institutional shareholders in monitoring firm based on the these reasons; (a) institutional shareholders own huge number of shares, (b) the potential benefits from shareholders activism is large enough to be worth their effort, (c) the ability to liquidate the shares without affecting the share price is less compared to the individual shareholders, (d) substantial influence on the management, (e) they have a fiduciary responsibility towards the ultimate owners, (f) they have ability to monitor executives because of their professionalism. David and Kochhar (1996) explain that institutional ownership can become an important player to have higher disclosure since their voting power can be used as a tool to monitor agents. Therefore, it can be concluded that positive relationship between institutional investors and disclosure is exist since the ownership by the institutional shareholders enable them to monitor compared to shareholders with small amount of ownership. The findings of Eng and Mak (2003), and Lakhal (2005) are in line with theoretical expectation since Eng and Mak (2003) use government ownership as a proxy for institutional shareholder and Lakhal (2005) use the foreign institutional investor's ownership as the proxy. However, Huafang and Jianguo (2007) find that state and legal ownership not related to disclosure. So, they suggest that the Chinese regulators should gradually encourage multi-ownership.

3.0 DEVELOPMENT OF HYPOTHESES AND RESEARCH DESIGN

3.1 Development of Hypotheses

Disclosing the material information of the firms reduces the information asymmetry between the management and the owners, and it will also reduce the agency conflicts between them. According to Patel et al. (2002) and United Nation (2003), disclosure is an important part and necessary in corporate governance because it shows the extent of how good corporate governance is. Leong (2005) also mentions that disclosure and transparency are partners of good corporate governance. Moreover, Beekes and Brown (2006) study 250 Australian firms rated in the 2002 Horwath Corporate Governance Report and find that better-governed firms do make more informative disclosure. Hence, the researcher is interested to examine whether corporate governance variables could affect the risk management information disclosure and the following hypotheses are developed.

H_{a1}: Risk management disclosure is positively related to separate leadership structure.

H_{a2}: Risk management disclosure is positively related to proportion of independent non-executive directors on the board.

H_{a3}: Risk management disclosure is negatively related to board size.
H_{a4}: Risk management disclosure is negatively related to director ownership.
H_{a5}: Risk management disclosure is negatively related to block ownership.
H_{a6}: Risk management disclosure is positively related to institutional ownership.

3.2 Research Design

Dependent Variable

Weighted strategic information disclosure score is used as a dependent variable, questionnaire is developed to obtain views on the importance of each disclosure item from financial analysts and accountants. The index of disclosure items can be refereed to Table 1.

Table 1: Index of Risk Management Information Disclosure

B. RISK MANAGEMENT
I. Overall market risk exposure 1. Brief definition of market risk
2. Methodology (procedure) used to measure market price risk
3. Quantitative analysis of market risk
4. Explanations supported by graphs and tables
II. Interest rate risk exposure 5. Brief definition of interest rate risk
6. Methodology (procedure) used to measure interest rate risk
7. Analysis by reference to category of assets and liabilities
8. Analysis based on maturity structure
9. Explanations supported by graphs and tables
III. Currency exposure of net assets 10. Brief definition of foreign exchange risk
11. Key procedures to manage foreign exchange risk
12. Major exchange rates used in the accounts
13. Quantitative analysis of currency risk
14. Explanations supported by graphs and tables
IV. Liquidity risk 15. Brief definition of liquidity risk
16. Key procedures to manage liquidity risk
17. Quantitative analysis of liquidity risk
18. Explanation supported by graphs and tables
V. Credit risk 19. Brief definition of credit risk
20. Key procedures to manage credit risk
21. Quantitative analysis of credit risk
22. Explanation supported by graphs and tables
VI. Operational risk 23. Brief definition of operational risk
24. Key procedures to manage operational risk

25. Quantitative analysis of operational risk
26. Explanation supported by graphs and tables
VII. Derivatives 27. Fair value of derivatives
28. Fair value analysis, classified by types of derivatives (e.g. options, swaps)
29. Maturity analysis of notional principal amount of derivatives
30. Maturity analysis, classified by types of derivatives
VIII. Hedging strategy 31. Discussion of the extent to which market risks are hedged (Qualitative)
32. Discussion of contracts undertaken in hedging (Qualitative)
33. Net gains (losses) on the contracts for hedging (Quantitative)

Pilot test has been conducted before the actual questionnaire is sent, and the findings show that alpha value is 0.94 and so it has been concluded that the questionnaire is reliable. In addition, pilot test results show that the overall mean score for comprehensiveness of the questionnaire is 4.05, for understandability of the questions are 4.10 and for understandability of the instruction is 4.62. Therefore, it can be concluded that the pilot test questionnaire is good enough to be used as an actual questionnaire.

The opinions of one hundred and thirty one accountants and fifty one financial analysts are being taken to weigh risk management information disclosure score. There is no non-response bias from the questionnaire received from the accountants and financial analysts based on T statistics and Mann-Whitney U test. The reliability test results show that the alpha value is 0.9 and so the weighted disclosure score used in this study is reliable. The annual reports of the sample companies are checked against disclosure index developed by the researcher. The researcher uses dichotomous score, i.e. one is given if the company discloses the information, and zero for otherwise. However, some of the disclosures in the annual reports are not clear for the researcher to decide whether some parts of annual report disclosure represent the items from the disclosure index since the annual reports are checked against the disclosure index. Hence, for these confusing items, questionnaire is constructed and ten accountants and six financial analysts are required to complete this task in order to seek their opinions on whether these confusing disclosures in the annual reports represent the items in the disclosure check list. It is found out that there is no significant difference between the score provided by the researcher and the answers provided by the selected accountants and financial analysts. Finally, the weight for each disclosure item is calculated by the mean score of each disclosure item provided by the accountants and financial analysts.

Independent Variables

There are six independent variables which comprise of three structural measures of corporate governance (i.e. board leadership structure, board composition and board size) and three measures of ownership structure (i.e. director ownership, institutional ownership, and block ownership). Finally, the empirical model of the study also includes

two control variables related to firm-specific characteristics (i.e. firm size and leverage). The complete empirical model is as follow.

$$Y_{it} = \beta_o + \beta_1 x_{1it} + \beta_2 x_{2it} - \beta_3 x_{3it} - \beta_4 x_{4it} + \beta_5 x_{5it} + \beta_6 x_{6it} + \beta_7 x_{7it} + \beta_8 x_{8it} + \mu_{it}$$

Where,

i = 1,2,3,4,5,6,7,8,9,10,11,12

t=1, 2, 3, 4, 5,6,7,8,9,10

Y= Weighted risk management information disclosure score

x_1= Board leadership structure (BLS)

x_2= Proportion of independent non-executive directors on the board (INE_BZ)

x_3= Board size (BZ)

x_4= Proportion of director ownership (DOWN)

x_5= Proportion of institutional ownership (IOWN)

x_6= Proportion of block ownership (BOWN)

x_7= Log of total assets (TA)

x_8= Leverage (TD_TE)

μ= Error term

Sample selection and Statistical Methods

Samples includes the twelve listed companies whose main activity is banking from 1996 until 2005. The total number of observations is 120 observations. However, some of the observations need to be dropped due to unavailability of data and some companies were not classified as banks in all the ten years' period. It left the final observations to 108 observations. Data were collected either from the annual reports of the companies or from Bloomberg. The main statistical method used in this study is panel data analysis (generalized least square method). Generalized least square method is used because the sample data are not normally distributed and the data have either heteroskedasticity problem, autocorrelation problem or both. According to Gujarati (2003), using generalized least square method will overcome all these problems.

4.0 PROFILE OF THE RESPONDENTS

Table 2 describes the background information about the respondents. The information includes gender, educational background, employment category, age and working experience of the respondents. This experiment will use forty nine percent male respondents and fifty one percent female. So, it seems to be equally distributed. Regarding educational background, the majority of them are bachelor degree holders, and the rest are professional certificate holders. Since fifty seven percent of the respondents are from the audit firms and forty three percent of them are from the non-audit firms, the opinion seems not to be too much influenced by one particular group although majority of the respondents are accountants. The age range of the majority is between twenty and twenty nine, followed by the age range between thirty and thirty nine. In terms of working experience, majority of the respondents, i.e. forty three percent, are below three years in the current profession and twenty three percent of them have working experience between three to seven years.

Table 2: Profile of Respondents

	Accountants		Financial analysts		Overall	
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
Gender						
Male	52	39.69	37.00	72.55	89.00	48.90
Female	79	60.31	14.00	27.45	93.00	51.10
Total	131	100.00	51.00	100.00	182.00	100.00
Educational background						
Bachelor degree	74	56.92	25.00	50.00	99.00	55.00
Master	6	4.62	19.00	38.00	25.00	13.89
Ph.D			1.00	2.00	1.00	0.56
Professional qualification (ACCA, CIMA, CFA, etc)	50	38.46	5.00	10.00	55.00	30.56
Total	130	100.00	50.00	100.00	180.00	100.00
Employment category						
Audit firm	103	78.63	1.00	1.96	104.00	57.14
Non-audit firm	28	21.37	50.00	98.04	78.00	42.86
Total	131	100.00	51.00	100.00	182.00	100.00
Age range						
Below 20						
20 – 29	63	48.09	11.00	21.57	74.00	40.66
30-39	35	26.72	22.00	43.14	57.00	31.32
40-49	27	20.61	14.00	27.45	41.00	22.53
50-59	4	3.05	4.00	7.84	8.00	4.40
60 and above	2	1.53			2.00	1.10
Total	131	100.00	51.00	100.00	182.00	100.00
Working experience with current profession						
Below 3 years	63.00	48.09	15.00	29.41	78.00	42.86
3 – 7	29.00	22.14	13.00	25.49	42.00	23.08
8 – 12	16.00	12.21	10.00	19.61	26.00	14.29
13 – 17	15.00	11.45	7.00	13.73	22.00	12.09
18 – 22	2.00	1.53	3.00	5.88	5.00	2.75
23 – 27	2.00	1.53	3.00	5.88	5.00	2.75
Above 27	4.00	3.05			4.00	2.20
Total	131.00	100.00	51.00	100.00	182.00	100.00
Additional information						
Masters			1.00	1.96	1.00	0.55
Professional qualifications (ACCA, CIMA, CFA, etc)	15.00	11.45	7.00	13.73	22.00	12.09

5.0 DISCUSSION ON THE RESULTS

Table 3 shows the descriptive statistics of the variables used in the study. In case of board leadership structure, its mean value (0.81) shows that a majority of the companies have separate leadership structure although the minimum value (zero) shows that there are companies which have combined leadership structure. Similar to the recommendation of the MCCG (2001), the sample mean value (0.36) shows that ratio of independent directors is slightly more than one third of the total number of the directors. The mean value (8.23) of board size shows existence of a quite a reasonable board size, e.g. Jensen and Ruback (1983) suggest that a board size of not more than 7 or 8 members is considered reasonable in ensuring effectiveness. For ownership, the mean values of director ownership and institutional ownership are 0.02 and 0.17 respectively. The ownership of shares by directors can be considered very low where, on average, only 2 percent of shares owned by the directors. On the other hand, institutional investors, on average, owned 17 percent of shares which could still be considered low although it is significantly higher than the ownership by the directors. In the case of block ownership, its mean value (0.53) shows that the significant portion of the shares is owned by large shareholders. The mean value of weighted disclosure score is 90.45.

Table 3
Descriptive statistics: Independent, dependent and control variables

	Mean	Std. Dev.	Min	Median	Max	Skewness	Kurtosis
Independent variables							
(a) CG variables							
BLS	0.81	0.40	0.00	1.00	1.00	-1.57	0.46
INE_BZ	0.36	0.18	0.10	0.33	0.83	0.68	-0.49
BZ	8.23	2.34	4.00	8.00	14.00	0.33	-0.62
(b) Ownership variables							
DOWN	0.02	0.05	0.00	0.00	0.25	3.26	10.40
IOWN	0.17	0.18	0.00	0.09	0.64	1.00	-0.53
BOWN	0.53	0.21	0.00	0.58	1.00	-0.81	0.04
Dependent variable							
(e) Disclosure variable							
WDS[1]	40.09	25.40	0	31.48	85.50	0.35	-1.38
Control variables							
TA	45992.19	40245.92	1120.36	33326.95	191895.30	1.54	2.28
TD_TE	344.73	331.14	14.03	223.80	1442.26	1.60	1.89

The mean value of weighted risk information disclosure score is 40.09. As for the firm-specific characteristics, the sample companies have the means values of RM45992.19 millions for total assets and 344.73 for the ratio of total debt to total equity.

Table 4 shows the results on disclosure of risk management. BLS, INE_BZ (at 1% Sig. level), DOWN (at 1% Sig. level), IOWN and BOWN are in line with hypothesis but only BZ is not. Thus, it can be generally concluded that separate board leadership structure, higher proportion of independent directors, institutional ownership, block ownership, board size and lower director ownership and block ownership are desirable to have higher risk management information disclosure.

[1] WDS refers to weighted risk management information disclosure score.

Table 4
GLS results of disclosure: Risk management

	Coefficient	Z_value	P value
Independent variables			
BLS	3.69	0.54	0.59
INE_BZ	**87.88**	**7.35***	**0.00**
BZ	1.10	1.05	0.29
DOWN	**-240.90**	**-5.58***	**0.00**
IOWN	6.26	0.6	0.55
BOWN	-9.53	-1	0.32
Control variables			
LNTA	**12.34**	**3.16***	**0.00**
TD_TE	0.00	-0.22	0.83
CONS	**-130.69**	**-4.2***	**0.00**
Chi-Sq. P value			**371.41*** **0.00**
Heteroskedastic (LR Test)	LR Chi^2 P value		**21.37**** **0.03**
Autocorrelation (Wooldridge Test)	F statistics P value		**41.97*** **0.00**
* Significant at 1% ** Significant at 5%			

Based on the above findings, only board size is not in line with what is hypothesized. Descriptively, the board size of the sample companies are relatively small compared to the average board size in UK and US. According to Allen and Gale (2001), in U.S. and U.K., the BZ is around 10 to 15 people. Furthermore, Jensen (1993) in Rashidah and Fazilah (2006) mentions that any greater number of board size (more than eight) will interfere with group dynamics and inhibit board performance. Coleman et al. (2007) highlight that eight to eleven optimal board size is feasible for good performance. The descriptive statistics results of this study show that on the average, the board size of the sample companies is around 8. Based on the average board size of the sample companies, it could be summed that in general, over than eight in the board can cause some difficulty to examine the significant and consistent impact of board size on the dependent variables. Apart from that, Muth and Donaldson (1998) whose depend on the resource dependence theory said larger board size seems to be better since a large number of overall connections with organizations and directors outside the firm provide more sources of information for the director and a level of environmental awareness not readily available to the management. Hence, in the Malaysian context, the implication of resource dependence theory should be considered since the companies involved in the banking sectors might need more directors due to the risky nature of business activities.

6.0 CONCLUSION

This study conducts based on content analysis from the annuals reports of Malaysian public listed banks from 1996 to 2005. Panel data analysis finds that separate board leadership structure, higher proportion of independent directors, institutional ownership, block ownership, board size and lower director ownership and block ownership are desirable to have higher risk management information disclosure. It seems that all the findings expect for board size are in line with expectation derived from the agency theory. Thus, the concept of agency theory is applicable in the developing countries like Malaysia although it has been founded on the Anglo-American situations.

7.0 LIMITATION AND AREA FOR FUTURE RESEARCH

The limitation of this study is unlisted local and foreign banks are not included in the sample due to the unavailability of data. Thus, for future research, the researchers should try to include unlisted banks in their research and extend this research by interviewing the board to directors regarding risk management strategies that they adopt for the betterment of the firms to investigate the actual operations of risk management process in the banks.

8.0 REFERENCES

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