



# **THE IMPACT OF CHANGES IN MALAYSIAN REGULATORY FRAMEWORK ON THE DISCLOSURES OF EXECUTIVE DIRECTORS' REMUNERATION**

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**SITI SERI DELIMA ABDUL MALAK**

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*“I can no other answer make, but, thanks, and thanks.”*

*William Shakespeare, Twelfth Night*

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## ABSTRACT

The first objective of this study is to analyse the level of disclosure of executive directors' remuneration before and after introduction of the Malaysian Code on Corporate Governance in 2001, the changes in accounting standards FRS 2 '*Share based payments*' in 2005 and FRS 124 '*Related party disclosure*' in 2006 and the changes to the Bursa Malaysia Listing Rule. The study seeks to examine the effectiveness of these reforms in improving the level of disclosure of executive directors' remuneration. The second objective is to fill the gaps in prior study by empirically testing the determinants of the level of disclosure of executive directors' remuneration based on agency theory, legitimacy theory, signaling theory and proprietary costs. These theories are represented by several ownership variables, corporate governance variables and firm characteristics.

Using an un-weighted disclosure index, this study scored the level of disclosure of executive directors' remuneration of 200 publicly listed Malaysian companies over the period of 2000 to 2008. The period captured the revolving nature of the Malaysian regulatory framework on disclosure of executive directors' remuneration. The disclosure index is based on prior studies and the regulatory framework. The dataset is in the form of a panel data and consisted of 1788 company-years. The study employed non-parametric tests and multivariate analysis to examine any significant changes in the level of disclosure of executive directors' remuneration and the determinants of the level of disclosure.

The results showed that there were significant improvements in the level of disclosure of executive directors' remuneration after the reforms. However, Malaysian companies

appeared to take advantage of weaknesses in the reforms to fall back on the practice of disclosing minimum of the mandatory requirements. A significant number of Malaysian companies continued not to disclose on their individual executive directors' remuneration. The inconsistencies between the mandatory Listing Rule and the voluntary MCG made it easier for companies not to do so. These implied that the 'hybrid' approach adopted by the regulators in implementing in the reforms was not sufficient in ensuring comprehensive disclosure of executive directors' remuneration.

Hypothesis tests on the determinants of the level of disclosure of executive directors' remuneration found that traditional dominance by family shareholders was significant and limit the extent of disclosure of executive directors' remuneration. Other agency players (regulators, foreign investors and creditors) roles appeared to be dwarfed by the presence of controlling family shareholders. However, government shareholdings alleviated to a certain extent, this dominance by significantly pushing for compliance with the reforms. Corporate governance mechanisms of independent directors and level of audit quality were shown to work differently in different disclosure environments in improving the level of disclosure of executive directors' remuneration. The findings also supported the notions of legitimacy theory and signaling theory that company size, industry differences and profitability were significantly associated with the level of disclosure. This study also showed that contrary to expectations of proprietary costs, companies with higher growth were more likely to disclose the remuneration of individual executive directors.

## **Thesis Declaration**

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