SIMULTANEOUS RELATIONSHIP AMONG MARKET PERFORMANCE, RISK AND DISCLOSURE QUALITY: EMPIRICAL EVIDENCE FROM MALAYSIAN LISTED BANKS

Sheila Nu NuHtay,
Institute of Islamic Banking and Finance
International Islamic University Malaysia, Gombak, Malaysia

Syed Ahmed Salman,
Institute of Islamic Banking and Finance
International Islamic University Malaysia, Gombak, Malaysia

FadzlanSufian
Institute of Islamic Banking and Finance
International Islamic University Malaysia, Gombak, Malaysia

Corresponding Author:
Syed Ahmed Salman
No. 11, Jalan Bullion Mewah 12, Taman Bullion Mewah
Batu Caves, Selangor, 68100, Malaysia.
H/P: 006 0102486456
E-mail:salmaniium@gmail.com

Abstract
Without doubt, higher performance is the ultimate objective of any business entity while minimizing the risk and informing the investors the transparent information of the business. In this paper we show a new way of thinking that willfulfill the ultimate interests of the banks due to the efforts of management such as being higher market value of the firms, taking less risk and providing higher level of disclosure for the stakeholders in general and the shareholders, in particular. We use simultaneous relationship among market performance, risk and disclosure quality of twelve Malaysian listed banks over a period of ten years from 1996 until 2005. Tobin'Q, standard deviation of monthly stock return and weighted disclosure score are analyzed. Three theories, namely, signaling theory, risk and return theory and market discipline theory are tested and only market discipline theory is found to be significant indicating that banks are highly regulated compared to other industries, especially in terms of risk factors and information disclosure.

Key words: firm market value; risk; disclosure

1.0   Introduction

It is undeniable that higher performance and transparency of information disclosure with lower risk is one of the essential interests of the investors. Many researchers have done the research on the relationship between market performance and risk, market performance and disclosure as well as risk and disclosure. However, to our knowledge, no study has been done to examine the simultaneous relationship among market performance, risk and disclosure. Therefore, the aim of this study is to examine the simultaneous relationship among performance, risk and disclosure of the banks since theories such as signaling theory, capital asset pricing model and market discipline theory point out the existence of the possible relationship among them.

Accordingly, the question which comes under research is "Is there any simultaneous relationship among market performance, risk and disclosure of Malaysian listed banks?" In this study, listed banks are chosen as a sample because banking sector is riskier than other business sectors due to its nature of business activities and furthermore, banking sector is highly regulated compared to other business sector, especially in information disclosure. In terms of market performance, there is no exception for banking sector to have better market performance. At the same time, risk is also an important factor that banks are required to manage (Basel Committee on banking supervision, 2005; Alexander, 2006; Garcia-Marco & Robles-Fernandez, 2008).

This paper is organized in six sections. Section 2 explains literature review. Section 3 focuses on the development of hypotheses and research design. Section 4 elaborates on preliminary finds. Section 5 discusses on findings of simultaneous equation and the last section concludes.

2.0   Literature Review

This study examines the simultaneous relationship among market performance, risk and disclosure quality of the annual reports. Three theories which highlight the existence of potential relationship are explained below.

2.1   Risk and Disclosure: Market Discipline Perspective

Market discipline is a mechanism that allows the market participants to monitor the performance of the companies through the disclosure of information and the investors are able to discipline the companies if they do not meet investors' expectation (Kwan, 2004; Nier& Baumann, 2006).   Due to this separation of ownership and control, the information asymmetry exists. The higher the level of existence of information asymmetry is the more risky of the investments. The best way to reduce the information asymmetry or information risk is disclosing all the material aspects of the companies (Healy &Palepu, 2001; Chiang, 2005; Bassen, Kleinschmidt, and Zollner (2006). By doing so, the investors are able to monitor the management, to estimate the current and future financial position of the companies, and to discipline the management if it does not meet investors' expectation.

Therefore, it can be summarized that due to market discipline, higher disclosure will lead to lower information asymmetry, and consequently lower risk (Baumann &Nier, 2004; Chen, Chen and Wei, 2004; Jensen et al., 2006). This theoretical expectation is supported by the findings of Nier and Baumann (2006), and Baumann and Nier (2004).

2.2 Risk and Performance: Capital Asset Pricing Model (Risk and Return) Perspective

When the investors receive higher return, they may believe that the performance of the companies is good (Brigham and Houston, 2001). As a rational investor, if he has to face higher risk, he will expect higher return or performance in order to compensate the higher risk he bears (Richardson, 1970). This concept is derived from the capital asset pricing model (Keown, Martin, Petty and David, 2003: 274). This model shows a positive relationship between the risky assets and their respective returns. Therefore, from this model, it could be derived that the investors expect that higher the risk is, the more return for them and the better performance of the companies. This theoretical expectation is supported by the study of Tang and Shum (2004) and Ghysels, Santa-Clara and Valkanov (2005).

2.3 Performance and Disclosure: Signaling Theory Perspective

According to the signaling theory, if the companies are performing well; they prefer to disclose more in order to have positive impression on their companies (Spence, 1973; Bird &Smith, 2005). They assert in their paper based on the idea of the signaling theory that the signalers communicate the observers by symbolic communication which shows the hidden attributes of the firms and consequently it will provide the benefits to both signaler and observers. Hence, it could be expected that there should be a positive association between firm performance and disclosure (Jensen et al. 2006) since it could be predicted that healthy firms are most likely to disclose more information than the distressed firms (Norita&ShamsulNahar, 2004). The theoretical expectation is supported by the findings of Mitton (2002) and Chiang (2005).

3.0 Development of Hypotheses and Research Design

    3.1 Development of Hypothesis on the Simultaneous Relationship among Risk, Performance and Disclosure

Capital asset pricing asset model shows a positive relationship between the risky assets and their respective returns. Therefore, from this model, it could be derived that the investors expect that the higher the risk is, the more the returns for them and the better performance of the companies (Tang & Shum, 2004). According to the signaling theory, if the companies are performing well; they prefer to disclose more in order to have positive impression on their companies (Spence, 1973). Based on the above mentioned two theories, the following null hypothesis is developed.

    H_{d1}: There is no indirect effect of risk on disclosure through performance.

3.2 Development of Hypothesis on the Simultaneous Relationship among Performance, Disclosure and Risk

The signaling theory highlights that there is a tendency for the company to disclose more information if the performance of the companies is good in order to gain positive impression from the investors (Spence, 1973; Mitton, 2002; Chiang, 2005). Market discipline could be described as a mechanism that allows the market participants to monitor the performance of the companies through the disclosure of information and the investors are able to discipline the companies if they do not meet investors' expectation. Therefore, it can be summarized that due to market discipline, higher disclosure will lead to lower information asymmetry, and consequently lower risk (Baumann

&Nier, 2004; Chen et al., 2004; Jensen et al. 2006). This theoretical expectation is supported by the findings of Nier and Baumann (2006) and Baumann and Nier (2004). Based on the above mentioned two theories, the following null hypothesis is developed.

H_{d2}: There is no indirect effect of performance on risk through disclosure.

3.3 Development of Hypothesis on the Simultaneous Relationship among Disclosure, Risk and Performance

Based on the Market discipline theory, it can be inferred that higher disclosure will lead to lower information asymmetry, and consequently lower risk (Baumann &Nier, 2004; Chen et al., 2004; Jensen et al. 2006). Capital asset pricing asset model highlights a positive relationship between the risky assets and their respective returns (Ghysels et al., 2005). Based on the above mentioned two theories, the following null hypothesis is developed.

H_{d3}: There is no indirect effect of disclosure on performance through risk.

3.4 Development of Simultaneous Equations to Examine the Relationship among Risk, Performance and Disclosure

Three models will be developed to examine the simultaneous relationship among risk, performance and disclosure. The first simultaneous equation based on capital asset pricing model and signaling theory is as follows:

$Y_1 = (\beta_o + \beta_1 Y_2 + \beta_2 x_1 + \beta_3 x_2 + \beta_4 x_3 + \beta_5 x_4 + \beta_6 x_5 + \beta_7 x_6 + \beta_8 x_7 + \beta_9 x_8 + \beta_{10} x_9 + \beta_{11} x_{10} + \mu_{it})$ vs $Y_3 = (\beta_o + \beta_1 Y_1 + \beta_2 x_1 + \beta_3 x_2 + \beta_4 x_3 + \beta_5 x_4 + \beta_6 x_5 + \beta_7 x_6 + \beta_8 x_7 + \beta_9 x_8 + \mu)$

The second simultaneous equation based on signaling theory and market discipline is as follows:

$Y_3 = (\beta_o + \beta_1 Y_1 + \beta_2 x_1 + \beta_3 x_2 + \beta_4 x_3 + \beta_5 x_4 + \beta_6 x_5 + \beta_7 x_6 + \beta_8 x_7 + \beta_9 x_8 + \mu)$ vs $Y_2 = (\beta_o + \beta_1 Y_3 + \beta_2 x_1 + \beta_3 x_2 + \beta_4 x_3 + \beta_5 x_4 + \beta_6 x_5 + \beta_7 x_6 + \beta_8 x_7 + \beta_9 x_8 + \beta_{10} x_9 + \beta_{11} x_{10} + \mu)$

The third simultaneous equation based on market discipline and capital asset pricing model is as follows:

$Y_2 = (\beta_o + \beta_1 Y_3 + \beta_2 x_1 + \beta_3 x_2 + \beta_4 x_3 + \beta_5 x_4 + \beta_6 x_5 + \beta_7 x_6 + \beta_8 x_7 + \beta_9 x_8 + \beta_{10} x_9 + \beta_{11} x_{10} + \mu)$ vs $Y_1 = (\beta_o + \beta_1 Y_2 + \beta_2 x_1 + \beta_3 x_2 + \beta_4 x_3 + \beta_5 x_4 + \beta_6 x_5 + \beta_7 x_6 + \beta_8 x_7 + \beta_9 x_8 + \beta_{10} x_9 + \beta_{11} x_{10} + \mu)$

Where, Y_1 = Performance; Y_2 = Risk; Y_3 = Disclosure; x_1 = Board leadership structure; x_2 = Proportion of independent non-executive directors on the board; x_3 = Board size; x_4 = Proportion of director ownership; x_5 = Proportion of institutional ownership; x_6 = Proportion of block ownership; x_7 = Log of total assets; x_8 = Leverage; x_9 = Gross domestic product growth rate; x_{10} = Economic crisis variable and μ = Error term

3.5 Research Design

The sample includes twelve companies whose main business activity is banking and which are listed on Bursa Malaysia. Period of study is from 1996 until 2005. Variables used in this study are Tobin's Q, standard deviation of monthly stock return and weighted disclosure score. Some of researchers who use Tobin's Q as a market performance measure are Khaled and Mohamed (2007), Garg (2007), NazrulHisyam et al. (2007), Dahya et al. (2008) and Raja and Kumar (2008). Standard deviation of monthly stock return is an important measure for market risk and among the

researchers who use standard deviation of monthly stock return includes Nier and Baumann (2006), Stever (2007) and Cheng (2008). Weighted disclosure score is measured by the *disclosure index* developed based on the rules and regulations governing the banks, by regulating institutions like Bank Negara Malaysia, Basel Committee on banking supervision, statement on internal control issued by the institute of internal auditors Malaysia for public listed companies and prior researchers such as Sang (2005), Wong (2005) and Perrini (2006). The disclosure check list includes two hundred and twelve items which are mixture of both voluntary and mandatory items. In order to provide weight on each disclosure item, depending on the level of importance, a set of questionnaire is constructed and distributed to the accountants and financial analysts to seek their opinion on the level of importance of disclosure items from the index.

Other control variables are total assets as a proxy for firm size and ratio of total debt to total equity to measure leverage. In addition, gross domestic product rate and economic crisis period are used to control the general macroeconomic situations in the country because the sample period includes the economic crisis periods, i.e. 1997 and 1998. The purpose of controlling these two variables is to avoid any influence of economic crisis on the findings.

Simultaneous equation method is adopted to find the relationship among performance, risk and disclosure quality in this study.

4.0   Findings
4.1   Profile of Respondents

Weighted disclosure score is computed after seeking the opinions of accountants and financial analysts and so Table 1 shows the background information about the respondents. The information includes gender, educational background, employment category, age and working experience of the respondents. Overall, both male and female respondents are equally distributed (49 percent of the respondents are male and 51 percent are female). Regarding educational background, the majority of the respondents are bachelor degree holders, and the balance is professional certificate holders. Since 57 percent of the respondents are from audit firms and 43 percent are from non-audit firms, the opinion is not influenced by a particular group. In terms of group age, the majority is between 20 and 29 years, followed by 30 and 39 years. In terms of working experience, majority of the respondents i.e. 43 percent are below 30 years in their current profession and 23 percent have working experience between three to sevenyears.

[Insert Table 1 here]

The reliability testshows that the minimum Alpha value is 0.87 from the overall results and so it could be concluded that the respondents' answers are reliable.

[Insert Table 2 here]

Table 3 shows the descriptive statistics results of the variables used in this study.

[Insert Table 3 here]

In case of BLS, its mean value (0.81) shows that majority of the companies have separate leadership structure although the minimum value (zero) shows that there are companies which have combined leadership structure. The MCCG (2012) recommends the companies to have separate

leadership structure. Hence, it could be summed that the majority of the sample companies follow the recommendation provided by the MCCG (2012).

Regarding board composition, the MCCG (2012) recommends that at least one third of the board members should be INE_BZ. The mean value (0.36) of shows that, on the average, INE_BZ of sample companies is more than one third of the total number of the directors on the board. Thus, it could be summed that the board composition of the majority sample companies is in line with the recommendation provided by the MCCG (2012).

With regard to BZ, the MCCG (2012) does not provide the exact number of BZ although the importance of the independence of the board from the management is highlighted. According to the survey conducted by KLSE/Pricewaterhouse Cooper's survey indicated that the average board size is 8 for the companies listed on Bursa Malaysia (Malaysian Code on Corporate Governance, 2007). Mak and Li (2001) by referring to Jensen (1983) and Florackisand Ozkan (2004), mention that boards with more than about seven to eight members are unlikely to be effective. Hence, the mean value (8.23) of BZ shows on average, the sample companies have relatively larger BZ.

For ownership, the mean values of DOWN and IOWN are 0.02 and 0.17. Thus, on average, no significant number of shares is owned by directors and institutions. In the case of BOWN, its mean value (0.53) shows that the significant portions of the shares are owned by large shareholders. Regarding ownership issue, the MCCG (2012) does not provide any guidelines. However, based on the corporate governance literature, specifically based on the agency theory, higher director ownership, institutional ownership, and block ownership have the potential to have better performance and lower risk. In the case of better disclosure, smaller director ownership, larger institutional ownership and larger block ownership are preferred.

The means values of Tobin's Q (0.18), standard deviation of monthly stock returns, STD (0.67) and weighted disclosure score (321.91)are presented in Table 3. Based on the literature, performance, risk and disclosure could be affected by size and ratio of debt to equity of the company (i.e. leverage condition) and economic condition of the country. Hence, these variables are controlled in this study. Their descriptive statistics results can be referred to Table 3. On average, the sample companies have the means values of RM45992.19 millions for total assets (TA), 344.727 for ratio of total debts to total equity (TD_TE) and 0.084517 for gross domestic product (GDP) rate.

4.2   Correlation Results

Table 4shows the correlation among the variables. Based on the correlation table, there is no variable which is highly correlated with the others. None of the correlation coefficients is above 0.50. This result provides on early indication that the problem of Multicollinearity might not severely influence the regression results.
[Insert Table 4 here]

5.0   Simultaneous Equation Results

Three sets of simultaneous equations are run based on three theories.The first set of simultaneous equation is based on capital asset pricing model and signaling theory and results are presented in Table 5 (Panel A). The second set of simultaneous equation is based on signaling theory and market

discipline and results are presented in Table 5 (Panel B). The third set of simultaneous equation is based on market discipline and capital asset pricing model and results are presented in Table 5 (Panel C).

5.1   Simultaneous Equation Results among Risk, Performance and Disclosure

Based on the concept of capital asset pricing model, as a rational investor, if he has to face higher risk, he will expect higher return or performance in order to compensate the higher risk he bears (Richardson, 1970; Keown et al., 2003). Therefore, from this model, it could be derived that the investors expect that the higher the risk is, the more the returns for them and the better performance of the companies.

As investors are rational decision makers, they would like to choose the investment that will give them the maximum return. In the decision making process, the investors will rely on the information available to them that is supplied by the management of the companies. As managers of the companies, they definitely prefer the investors to invest in their companies. Hence, the management might disclose the positive information in order to persuade the investors that the investment in their company security is better than others. This concept is derived from the signaling theory, i.e. if the companies are performing well; they prefer to disclose more in order to have positive impression of their companies (Spence, 1973). Hence, in theory, it could be expected that there should be a positive association between firm performance and disclosure (Jensen et al. 2006).

Based on the results in Panel A of Table 5, it could firstly be concluded that risk is not an important determinant of performance. In the first half of Panel A (Table 5), it is found that BLS, IOWN, BOWN and LNTA and CRISIS are important determinants of performance. However, majority of the significant relationships contradict the theoretical expectations. For example, it is expected that separate BLS would lead to better performance, however, the results shown otherwise. Similar results can also be observed on IOWN and BOWN. It might be due to the use of Tobin's Q as the measure of performance. Tobin's Q is used as a proxy for market performance since the formula to calculate Tobin's Q includes the market value of common stock which captures the extent to which the stock market values the firms' shares. Most of the researchers such as Hermalin and Weisbach (1991), Yermack (1996) and Raja and Kumar (2008) use Tobin's Q as a proxy for market performance in the corporate governance research area.

With regard to the control variables, it is expected that larger firms should have better performance. However, the results show otherwise. One possible reason might be that larger banks are already matured with lesser business opportunities. As performance indicator used for the simultaneous equation is Tobin's Q, it is possible that the relationship is negative. With regard to crisis, it confirms the theoretical expectation where during the period of economic crisis, performance of banks becomes poorer.

In the second half of Panel A (Table 5), the second estimation results in better fitness of the first equation. It could be observed that the Chi^2 of the second estimation (i.e.429.69) is much better than the first estimation (i.e. 150.62). In addition, it could also be observed that the effect of performance and disclosure becomes much better, with z-value of 1.78, compared to the direct

effect of performance on disclosure (i.e. z-value of 1.28, refer to the first half of Panel B results). Therefore, it could be concluded that simultaneous equations results in better estimation of the effect of performance on disclosure. Although risk is not a significant determinant of performance, it helps in improving the effect of performance on disclosure under the simultaneous framework.

5.2   Simultaneous Equation Results among Performance, Disclosure and Risk

Based on the signaling theory, if the companies are performing well; they prefer to disclose more in order to have positive impression on their companies (Spence, 1973). Hence, in theory, it could be expected that there should be a positive association between firm performance and disclosure (Jensen et al. 2006).

In the modern business environment, corporations face a lot of market uncertainties, such as market risk, credit risk and operational risk. One of the main factors leading to all these risks is the problem of information asymmetry. Thus, it could be assumed that higher level of existence of information asymmetry is the more risky of the investments since the investors do not know the actual financial position of the companies. The best way to reduce the information asymmetry or information risk is to disclose all the material aspects of the companies (Healy &Palepu, 2001; Chiang, 2005; Bassen et al., 2006). By doing so, the investors are able to monitor the management, to estimate the current and future financial position of the companies, and to discipline the management if it does not meet investors' expectations. Therefore, based on the market discipline, investors will be able to monitor the performance of the companies through the disclosure of information and discipline the companies if they do not meet investors' expectations. In theory, it can be summarized that due to market discipline, higher disclosure will lead to lower information asymmetry, and consequently lower risk (Baumann &Nier, 2004; Chen et al., 2004; Jensen et al. 2006).

[Insert Table 5 here]

Based on the results in Panel B of Table 5, it could firstly be concluded that performance is not an important determinant of disclosure. In the first half of Panel B (Table 5), it is found that INE_BZ, BZ, DOWN, BOWN and LNTA are important determinants of performance. However, two of the significant relationships contradict the theoretical expectations. For example, it is expected that smaller BZ would lead to better disclosure, however, the results show otherwise. Similar results can also be observed on BOWN.

With regard to the control variables, it is expected that larger firms should have higher disclosure and the finding from LNTA is in line with the expectation. However, the result from leverage, i.e. TD_TE, shows otherwise. One possible reason might be that banks with more debts are less likely to disclose more information so as not to reveal their actual financial position.

In the second half of Panel B (Table 5), the second estimation results do not improve the fitness of the first equation since the Chi^2 of the second estimation (i.e.883.95) is much lower than the first estimation (i.e. 5820.64). However, p-value of both estimations is still highly significant. In addition, it could also be observed that the direct effect of disclosure on risk is very much lower, with z-value of -0.17 (refer to the second half of Panel B results), compared to the direct effect of disclosure on risk (i.e. z- value of -3.09, refer to the first half of Panel C results). Therefore, it could

be generally concluded that performance is not a significant determinant of disclosure and it does not really help in improving the effect of disclosure on risk under the simultaneous framework.

5.3   Simultaneous equation results among disclosure, risk and performance

Based on the market discipline, investors will be able to monitor the performance of the companies through the disclosure of information and discipline the companies if they do not meet investors' expectation. In theory, it can be summarized that due to market discipline, higher disclosure will lead to lower information asymmetry, and consequently lower risk (Baumann &Nier, 2004; Chen et al., 2004; Jensen et al. 2006). According to the concept of capital asset pricing model if the risk is high, the investors expects more returns and better performance of the firms.

Based on the results in Panel C of Table 5, it could firstly be concluded that disclosure is an important determinant of risk at z-value of -3.09. In the first half of Panel C (Table 5), it is also found that BLS, GDP rate and economic crisis are important determinants of performance. However, the significant relationship of BLS with risk is contrary to the theoretical expectations. In the second half of Panel C (Table 5), the second estimation results in better fitness of the first equation. It could be observed that the Chi^2 of the second estimation (i.e.1254.72) is much better than the first estimation (i.e. 946.19). Therefore, it could be concluded that simultaneous equations results in better estimation of the effect of risk on performance. Disclosure is a significant determinant of risk and it helps to improve the effect of risk on performance under the simultaneous framework.

6.0   Conclusion and Area for Future Research

This paper examines the relationship among market performance, risk and disclosure quality of the twelve Malaysian listed banks using simultaneous equation. In Malaysian context, the applicability of the concept of *market discipline theory* seems to be significant. It might be due to the following reasons. First, Malaysian banking industry is closely regulated by Bank Negara Malaysia. Secondly, banks are also required to follow the specific guidelines issued by Bank Negara Malaysia in addition to the existing accounting standards in disclosing the accounting information. Finally, Malaysian banks are required to observe the Pillar Three: Market Discipline issued by Basel Committee on Bank Supervision. Hence, it seems to improve the market's ability to assess a bank's risk and value.

In the case of signaling, the findings are in line with the theoretical expectation although it is not significant (refer to the second half of Panel A& the first half of Panel B, Table 5). Therefore, the applicability of the concept of *signaling theory* is not significant. It might be due to the following reasons. First, the motive of information disclosure of the banks is based on the regulatory requirements by the Bank Negara, rather than the choices of the individual companies. It has been supported by the findings of Berglof and Pajuste (2005). Secondly, weakness of local media in Malaysia might hinder the flow of information. Some of the situations that make local media weak in Malaysia are as follows (Singam, 2003).

Regarding the *risk and return theory*, the findings are not in line with the theoretical expectations and it is also not significant. It might be due to the nature of banking business

activities. This research applies the theories which are developed based on the social and economic situations in developed countries. Therefore, among the theories used in this study, only market discipline theory is significant and the main reason for it is highly regulated nature of banking industry. Therefore, in future, the theory which is based on local culture, religion and market situation should be considered.

References

Alexander, K. (2006). Corporate governance and banks: The role of regulation in reducing the principal-agent problem. *Journal of Banking Regulation 2* (1/2), 17-40.

Basel committee on banking supervision. (2005). *Enhancing corporate governance for banking organizations.*Retrieved May 16, 2008.http://www.bis.org/publ/bcbs117.pdf

Bassen, A., Kleinschmidt, M. &Zollner, C. (2006). Corporate governance of German growth companies: Empirical analysis of the corporate governance quality and the structure of supervisory boards of companies listed on TEC-DAX. *Corporate Ownership & Control 3* (3), 128-137.

Baumann, U. &Nier, E. (2004). Disclosure, volatility, and transparency: An empirical investigation into the value of bank disclosure. *FRBNY Economic Policy Review.* Retrieved April 29, 2008.http://www.ny.frb.org/research/epr/04v10n2/0409Baum.pdf

Berglof, E., Pajuste, A. (2005). What do firms disclose and why? Enforcing corporate governance and transparency in central and eastern Europe. *Oxford Review of Economic Policy 21*(2), 1-20

Bird, R.B. & Smith, E.A. (2005).Signaling theory, strategic interaction, and symbolic capital. *Current Anthropology 46* (2), 221-248.

Brigham, E.F. & Houston, J.F. (2004).*Fundamentals of Financial Management* (10thedn.). South Western: Thomson

Chen, K.C.W., Chen, Z. & Wei, K.C.J. (2004).*Disclosure, corporate governance, and the cost of equity capital in emerging markets.*Retrieved May 16, 2008.http://www.bm.ust.hk/~acct/acsymp2004/Papers/Chen_n.pdf

Cheng, S. (2008).Board size and the variability of corporate performance.*Journal of Financial Economics87*, 157-176.

Chiang, H. (2005, March). An empirical study of corporate governance and corporate performance.*The Journal of Amercian Academy Business*.95-101.

Dahya, J., Dimitrov, O. & McConnell, J.J. (2008). Dominant shareholders, corporate boards, and corporate value: A cross-country analysis. *Journal of Financial Economics 87*, 73-100.

Garcia-Marco, T. & Robles-Fernandex, M.D. (2008). Risk-taking behaviour and ownership   in the banking industry: The Spanish evidence. *Journal of Economics and Business 60*, 332-354.

Garg, A. K. (2007). Influence of board size and independence on firm performance: A study   of Indian companies. *VIKALPA 32* (3), 39-60.

Ghysels, E., Santa-Clara, P. &Valkanov, R. (2005). There is a risk-return trade-off after all. *Journal of Financial Economics76*, 509-548.

Gilbert, R.A. (n.d.). *Market discipline of bank risk: Theory and evidence.* Retrieved May 16, 2008.http://www.research.stlouisfed.org/publications/review/90/01/Discipline_Jan_Feb1990.pdf

Healy, P.M. &Palepu, K. (2001). Information asymmetry, corporate disclosure, and the   capital markets: A review of the empirical disclosure literature. *Journal of Accounting   and Economics 31*, 405-440.

Hermalin, B.E. &Welsbach, M.S. (1991, Winter). The effects of board composition and direct incentives on firm performance.*Financial Management.*101-112.

Htay.(2012). Invisible hands behind corporate governance practices in Malaysia.Asia-Pacific Business Research Conference. Kuala Lumpur, Malaysia.

Jensen, M.R.H., Marshall, B.B. & Pugh, W.N. (2006). Does quantity reflect quality?   Financial disclosure size and future performance.*Managerial Finance 32*(1), 39-50.

Keown, A.J., Martin, J.D., Petty, J.W. & David, F.S. (2003).*Foundations of Finance* (4th edn.) New Jersey: Pearson Education.

Khaled, A. & Mohamed, M. (2007, December).   The impact of corporate governance mechanisms on the performance of UAE firms: An empirical analysis. *Journal of Economic & Administrative Sciences 23* (2), 71-93.

Kwan, S.H. (2004). Risk and return of publicly held versus privately owned banks. *FRBNY Economic Policy Review.*97-107.
Lai, D.Y. (2004). *Corporate governance in Malaysia: The underlying Chinese business culture.*RetrievedApril 25, 2008.http://www.isbee.org/index.php? option=com   docman& task=doc_ download&gid=42.

Mak, Y.T. & Li, Y. (2001). Determinants of corporate ownership and board structure: Evidence from Singapore. *Journal of Corporate Finance7***, 235-256.

Malaysian Code on Corporate Governance. 2007.

Mitton, T. (2002).A cross-firm analysis of the impact of corporate governance on the East Asian financial crisis.*Journal of Financial Economics 64*, 215-241.

NazrulHisyam, A.R., Rubi, A. &HusonJoher, A. (2007, February). Government ownership and performance: An analysis of listed companies in Malaysia. Paper presented at Conference on Managing Knowledge in the Borderless World, Selangor, Malaysia.

Nier,E. &Baumann,U. (2006). Market discipline, disclosure and moral hazard in banking. *Journal of Financial Intermediation 15* (3), 332-361.

Norita, M.N. & Shamsul Nahar, A. (2004). Voluntary disclosure and corporate governance among financially distressed firms in Malaysia.*The Electronic Journal of the Accounting Standards Interest Group of AFAANZ 3* (1).Retrieved May 16, 2008. http://www.cbs.curtin.edu.au/files/nasir-abdullah.pdf

Perrini, F. (2006).The practitioner's perspective on non-financial reporting.*California Management Review 48* (2), 73-103.

Raja, J. & Kumar, A.S. (2008). SME enterpreneurship, firm performance, and corporate governance practices in Indian service firms. *Journal of Sevices Research 7* (2): 99-113.

Richardson, L.K. (1970). Do high risks lead to high returns? *Financial Analysts Journal 26* (2), 88-99.

Singam, K. (2003). Corporate governance in Malaysia.*Bond Law Review 15* (1), 313-344.

Sang, Y.K. (2005, July).Linking the key corporate governance components towards organization's performance excellence. Paper presented at Corporate Governance & Transparency Conference, Kuala Lumpur, Malaysia.

Spence, M. (1973).Job market signaling.*Quarterly Journal of Economics*.354-374.

Stever, R. (2007). *Bank size, credit and the sources of bank market risk.*Retrieved April 30, 2008.http://www.bis.org/publ/work238.pdf

Tang, G.Y.N. & Shum, W.C. (2004). The risk-return relations in the Singapore stock market. *Pacific-Basin Finance Journal 12*, 179-195.

Wong, C. (2005, February). The rating agency perspective on corporate governance. Paper presented at Asia Corporate Governance Conference 2005: Managing Corporate Responsibility and Crisis through Fairness, Transparency and Accountability, Kuala Lumpur, Malaysia.

Yermack, D. (1996). Higher market valuation of companies with a small board of directors. *Journal of Financial Economics40*, 185-211

Table 1: 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

Table 2

Reliability Test Results: Actual Respondents

	Alpha		
	Accountants	Financial analysts	Overall
Disclosure on Strategic Information	0.92	0.86	0.90
Disclosure on risk management	0.96	0.97	0.96
Disclosure on Financial Information	0.92	0.93	0.93
Disclosure in the notes to the accounts	0.95	0.96	0.96
Disclosure on segmental information	0.92	0.91	0.92
Disclosure on market share, contingent liabilities and assets, and other information	0.88	0.85	0.87
Disclosure on Social, Environmental and Value Added Information	0.88	0.90	0.89
Additional Disclosure on Operations of Islamic Banking	0.92	0.93	0.93

Table 3

Descriptive Statistics of Independent, Dependent and Control Variables

	Mean	Std. Dev.	Min	Median	Max
(a) CG variables					
BLS	0.81	0.40	0.00	1.00	1.00
INE_BZ	0.36	0.18	0.10	0.33	0.83
BZ	8.23	2.34	4.00	8.00	14.00
(b) Ownership variables					
DOWN	0.02	0.05	0.00	0.00	0.25
IOWN	0.17	0.18	0.00	0.09	0.64
BOWN	0.53	0.21	0.00	0.58	1.00
(c) Market performance					
TOBIN'S Q	0.18	0.09	0.03	0.16	0.46
(d) Risk					
STD	0.67	1.00	0.06	0.42	7.03
(d) Disclosure score					
WDS	321.91	108.24	119.84	316.95	574.68
(e) Other variables					
TA	45,992.19	40,245.92	1,120.36	33,326.95	191,895.30
TD_TE	344.73	331.14	14.03	223.80	1,442.26
GDP RATE	0.08	-0.05	0.02	0.09	0.14

Note: WDS refers to weighted financial information disclosure score.

Table 4
Correlation Results

	BLS	INE_BZ	BZ	DOWN	IOWN	BOWN	TA	TD_TE	GDP RATE	DUM_ CRISIS[1]
BLS	1.00									
INE_BZ	0.12	1.00								
BZ	-0.39	-0.20	1.00							
DOWN	-0.42	-0.12	0.41	1.00						
IOWN	-0.05	-0.26	-0.03	-0.10	1.00					
BOWN	-0.08	-0.36	-0.02	0.12	0.34	1.00				
TA	-0.04	0.11	0.43	-0.08	-0.03	-0.05	1.00			
TD_TE	-0.37	-0.26	0.02	-0.02	0.15	0.14	0.32	1.00		
GDP RATE	-0.01	0.12	-0.10	-0.08	-0.01	-0.06	0.04	0.01	1.00	
DUM_CRISIS	-0.07	-0.18	-0.07	0.14	-0.14	0.17	-0.15	-0.03	-0.24	1.00

Note: The figures provided above are the correlation coefficients and none are significant at 5% level.

---

[1] DUM_CRISIS refers to economic crisis dummy.

Table 5

Simultaneous equation results

PANEL A (PERFORMANCE &. RISK) vs. (DISCLOSURE & PERFORMANCE)				PANEL B (DISCLOSURE & PERFORMANCE) vs. (RISK & DISCLOSURE)				PANEL C (RISK & DISCLOSURE) vs. (PERFORMANCE & RISK)			
TOBIN'Q	Coefficient	Z_value	P value	WDISCLSOURE	Coefficient	Z_value	P value	STD	Coefficient	Z_value	P value
STD	-0.10	-1.07	0.29	TOBIN'Q	95.17	1.28	0.20	WDISCLOSURE	**0.00**	**-3.09***	**0.00**
LNTA	**-0.08**	**-5.65***	**0.00**	LNTA	**65.77**	**4.72***	**0.00**	LNTA	0.01	0.60	0.55
TD_TE	0.00	1.79	0.07	TD_TE	-0.01	-0.21	0.84	TD_TE	0.00	0.38	0.70
GDP RATE	0.16	1.37	0.17	Chi^2			**5820.64***	GDP RATE	**-0.57**	**-5.5***	**0.00**
DUM_CRISIS	**-0.04**	**-2.27****	**0.02**	P value			**0.00**	DUM_CRISIS	**0.10**	**6.24***	**0.00**
Chi^2			**150.62***					Chi^2			**946.19**
P value			**0.00**					P value			**0.00**
WDISCLSOURE	Coefficient	Z_value	P value	STD	Coefficient	Z_value	P value	TOBIN'Q	Coefficient	Z_value	P value
TOBIN'Q	357.16	1.78	0.08	WDISCLOSURE	0.00	-0.17	0.87	STD	-0.22	-0.60	0.55
LNTA	**88.35**	**4.07***	**0.00**	LNTA	0.01	0.07	0.94	LNTA	**-0.09**	**-5.45***	**0.00**
TD_TE	-0.03	-0.74	0.46	TD_TE	0.00	0.35	0.73	TD_TE	0.00	1.78	0.08
Chi^2			**429.69***	GDP RATE	**-0.57**	**-5.18***	**0.00**	GDP RATE	0.12	0.53	0.60
P value			**0.00**	DUM_CRISIS	0.09	1.81	0.07	DUM_CRISIS	-0.03	-0.66	0.51
				Chi^2			**883.95***	Chi^2			**1254.72***
				P value			**0.00**	P value			**0.00**

* Significant at 1%
** Significant at 5%