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Research paper

Voluntary Disclosure Practices in the Family Business Context: the Case of Listed Family-Controlled Companies in Malaysia

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Abstract

The aim of this paper is to analyse the nature and factors that contribute to the voluntary disclosure practice by listed family owned companies. There were 41 stakeholders, consisting preparers and users of voluntary information in the companies' annual report, were interviewed. This paper reveals that voluntary disclosure reporting practice in the companies' annual reports have been contextually ingrained in the technical processes of accounting reporting. Analysis from the interviews reveal two driving factors contributing to the amount of additional information disclosed voluntarily by listed family owned firms. The two driving factors are first, managers' individual family root background, and second the family's business management setting. This study contributes significantly to the existing literature, particularly on family owned companies. Further, there are few studies investigate the effect of family-controlled ownership on voluntary disclosure practice. Finally, this study was conducted in a developing countries with strong political favouritism and cultural influence.

Keywords: *Disclosure, Family Business*

1. Introduction

This paper is motivated by a lack of research on listed family-controlled voluntary disclosure practice, particularly in developing countries like Malaysia. This paper investigates the effect of the family-controlled ownership on voluntary disclosure in companies' annual reports, which has not previously examined, and the influence of family ownership in Malaysian corporate reporting environment.

Family business represents one of the significant players that contribute to Malaysia's economy, particularly on the growth of its domestic products. Their importance is evidenced for being part of the listed companies on Bursa Malaysia listing board. Furthermore, many scholars recognised these listed family business consisting prominent companies in their respective industries in Malaysia [1]. In Malaysia, [2] documented that family business are common place, more than 67 percent of the top 40 richest people among the family owned companies which is listed on the stock exchange with the average control about more than 30 percent of shares.

In line with Malaysia vision for capital market growth, the incremental numbers of listed family-controlled companies offer another causal aspect to accelerate the development of the country economy. This situation can lead to diversification of business activities and trading that signifies an accountable flow of information is required for stakeholders' making prudent economic decision. Moreover, the move made by Malaysia in 2012 to converge with International Financial Reporting Standards (IFRS) has changed the country's capital market environment. Further, this standard strengthened the quality of information provided in the companies' published corporate reports and improved disclosure practices. The change has becoming a push factor for competition between family and non-family businesses in various range sectors of the Malaysian market [3].

In the context of ownership structure, family owned business unique attributes have called many scholars in the USA and UK to investigate further on the family exclusive ownership structure [4,5]. A number of researchers such as [6,7,8], conjecture two conflicting impacts that can shape the corporate governance structure with regard to companies' corporate disclosure. First, the entrenchment effects which has a significant implication towards family managers interest and limitations in internal controls. Second, is the arrangement (i.e. alignment) impact between family's legacy and other investors' economic advantages. This situation creates a vulnerable tension between family managers and other shareholders' expectation, particularly on the information to be shared among them. [9] contended that the family system, the family members' involvement in the companies' management, and the threats to their wealth and reputation are among the components that challenge the voluntary disclosure practice by family-controlled organisations [10].

Many scholars conjecture that very few family firms listed on the Malaysian stock exchange can last its business operation more than two decades. These scholars revealed that the critical obstruction that must be resolved within family business is the family firms' corporate governance system that mainly related to transparency and accountability towards other shareholders and external stakeholders. [11], and [12] for example, conjecture that the amount of information provided in the companies' corporate report has a significant relationship with the performance of the companies and companies' corporate governance system, and thus should improve. The efficiency of corporate reporting can reduce the criticism on family firms' governance system with regards to family managers' integrity and accountability.

Voluntary disclosure often being pointed out as a practical tool to use to maintain the value of the company and ensure good practice in an entity [13]. For example [14] study after the financial crisis in 1997, when regulation on accounting information was implemented, manager have becoming aware on the importance of the efficiency of quality information towards shareholders and external stakeholders' reaction. These scholars deduced that comprehensive, efficient and quality information disclosed not only can rebuild the stakeholders'' confidence but also can bridge the gap of accountability and transparency between companies and stakeholders [15]. Furthermore, this change is likewise shown after Malaysia had progressed to the Malaysia New Economic Policy in 1971, and the usage of a disclosure-based regime since 1996. Within the transitional era, all listed companies in Malaysia are encouraged to improve their disclosure reporting, particularly voluntary information in the companies' annual reports to the public. According to [16] voluntary disclosure reporting is a vital contributing factor in Malaysia's economy in providing strategic access for companies to gain a competitive edge. A sufficient and quality voluntary disclosure helps the stakeholders to be more knowledgeable about risk and to have a clearer representation of the current status of the company.

In Malaysia, voluntary disclosure has long grappled with the issue on the level or extent of information disclosed voluntarily. These scholar argued that the amount of information disclosed in companies' annual reports and shared with the public remains low than is anticipated [17,18,19]. These scholars further elaborate that the cause of less or low information disclosure often stems from the unique business ownership setting. For example, [20] highlighted that family members dominate and/or control the decision making as an impetus for conflicting interests between dominant shareholders and those of other counterparts. This situation resulted to inefficiency information sharing between family owned business and other stakeholders. And, since the family firms has the substantial and dominant control in monitoring the company, the need to increase the level of additional information disclosed is not their major concern [21,22,23,24].

2. Research Method

In view of the exploratory nature of this research, a qualitative approach was carried out [25]. This study takes the qualitative approach to identify the answers by analysing the data obtained via a semi-structured, face-to-face interview. This interview approach is vital to emphasis on the reasons and clarification for the managers' behaviour when making decision [26,27]. This study includes a total of 41 corporate managers as the interview respondents. They are among those involved directly in using the information from annual reports. These corporate managers were identified using personal contacts, acquaintance, and snowballing methods. The managers who were interviewed included business owners, professional auditors and accountants, analysts, regulators, and corporate consultant.

3. Research Findings and conclusions

This paper has employed insights within interview data to explain the reasons for low voluntary disclosure practices in Malaysia. One of the factors that can impacted the decision for voluntary disclosure is the proprietary rights and structure, which is also discovered as the core contributing element for insufficient additional information reporting in Malaysia. The outcomes gained from this interview data analysis show that the current amount of additional information disclosed in companies' annual reports is low and do not appear to meet the stakeholders' expectation. In addition, from the Malaysia context, the additional information disclosed voluntarily has insignificant improvement in accordance with stakeholders' needs. Although the improvement is not significant, the interviewees agreed that the interaction between managers' decision and stakeholders' expectations require some time. This finding is consistent with previous studies for instance [28,29,30] those discovered that family owned companies are incline to provide less additional information voluntarily in developing countries.

This current study shows that the family business, operate with a distinctive culture, may have an important impact between governance and voluntary disclosure practice. It is found that family owned governance system and the individual family settings involved in the companies play a fundamental role as internal forces that differentiate the way how these companies provide the disclosure compare to nonfamily-controlled companies. This current study identifies the quantity of family actively involved in the company's management, the family members' generations (i.e. age group), and the degree of education of family members are amongst the internal attributes that can influence family managers' selectivity in deciding the amount of meaningful disclosure in companies' annual reports.

These internal factors also embedded some other forces such as family traditions and practices, and the education received in terms of geographical location are significant for disclosure practices. The findings revealed that these forces exist within the family managers and can influence their preference on the amount of voluntary disclosure contents and presentation. Therefore, the family managers have envisioned to strip away other shareholders' economic interest and focused on the family benefits. The implication of internal factors apparently shape the outcomes of the voluntary disclosure provided. Conceding with previous findings, this paper generates compelling evidence that the complexity of family business ownership tends to aggravate the level of voluntary disclosure.

As pointed out earlier, the effectiveness and quality of voluntary disclosure is also depending on the number of family composed as a board of directors. Each family members have different view and opinion on business matter based on the generation of the members come from or age bracket. Therefore, these factors indicate the significance of the education and knowledge criteria, which seem contribute to the viability of the additional information provided voluntarily by family-controlled companies. One crucial contribution in this paper is that it signifies that the family members, who are also the company's managers tend to provide voluntary disclosure in accordance to their self-proficiency professional background and expertise. Further, given they are also the substantial shareholders, the decision on the amount of information to be shared is their prerogative rights. This circumstance indicates that the conflicting responsibilities and privilege within family owned business is often impacted by the family social and conventional values of the family's member involved.

On the basis of the findings in the preceding section, the analysis construed that additional disclosure practices in Malaysia particularly listed family owned companies are merely within market-driven reporting. The empirical findings from this study corroborates the conceptual proposition that the additional information disclosed voluntarily by family owned companies is shaped by managers' self-background, states of mind and recognition. Family business managers are typically affected by their collective social custom, formal and non-formal experience, and perhaps some government regulations. In other word, these family managers embraced their decision for voluntary disclosure within the business 'subculture' that is made up of various stakeholders who use information in the companies' annual reports [31,32]. Over and above, in spite of the fact that family owned companies are often regarded as secretive and cautious on the information shared, and often to have conflicting interests issues between shareholders [33,34] findings from this study discover that the family owned companies are inclining towards providing quality additional information voluntarily and repositioning themselves to be more responsive to the stakeholders' expectations. Although the degree of improvement is small, but it is increasing. Disclosure practice is treated as value added mechanism that has a visible impact to maintain image and accountability as well as transparency in business activities. Given the previous scholars reservation concerning family ownership unique structure, it is vital to point out that it is a common action by family owned companies, who is also the substantial shareholders, to decide the amount and level of information to be disclosed voluntarily in their companies' annual reports. As noted, family owned companies' internal forces have strong influenced to create an enduring family benefits and interest, and to bequeath their business to their descendant. Thus, these characteristics of family-controlled companies is the main conflicting aspect towards effective and quality corporate disclosure reporting in Malaysia.

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