

**COMPLIANCE WITH MANDATORY EMPLOYEE STOCK OPTION
DISCLOSURE AND ITS RELATIONSHIP WITH CORPORATE
GOVERNANCE CHARACTERISTIC**

By

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ABSTRAK

Kajian ini meneliti hubungan diantara ciri-ciri tadbir urus syarikat dalam membuat pendedahan berkenaan opsiyen saham (ESO) melalui laporan tahunan di Malaysia. Penyelidikan ini dimotivasikan oleh kajian yang terhad mengenai pendedahan opsiyen saham di Malaysia berbanding dengan negara-negara lain. Pendedahan dikaji dalam konteks pematuhan terhadap Undang-undang Syarikat 1965 dan Standard Pelaporan Kewangan (FRS) 2. Pematuhan pula diukur melalui indeks pendedahan yang disediakan. Terdapat dua soalan kajian dalam kajian ini iaitu: 1) Apakah sifat pematuhan dalam membuat pendedahan opsiyen saham dalam laporan tahunan syarikat di Malaysia, dan 2) Adakah ciri-ciri tadbir urus syarikat mempengaruhi pendedahan opsiyen saham dalam laporan tahunan syarikat di Malaysia?.

Adalah dijangkakan bahawa ciri-ciri dalaman tadbir urus syarikat termasuk keberkesanan ahli lembaga pengarah, keberkesanan ahli jawatan kuasa audit dan kewujudan ahli jawatan kuasa ganjaran mempunyai hubungan dengan tahap pematuhan dalam pendedahan opsiyen saham sesebuah syarikat. Sebanyak 39 sampel telah dipilih daripada senarai Bursa Malaysia yang menawarkan opsiyen saham kepada para pekerja mereka. Terdapat dua kaedah yang digunakan dalam kajian ini iaitu ujian *Chi-Square* dan analisis regresi. Keputusan daripada analisis regresi menunjukkan bahawa hanya saiz jawatankuasa audit signifikan tetapi mempunyai hubungan yang lemah dengan tahap pendedahan opsiyen saham.

ABSTRACT

This study examines the association of corporate governance characteristic in employee stock option (ESO) disclosure in Malaysian annual reports. The study is motivated by the limited studies on ESO disclosure in Malaysia compare to other countries. Disclosure is examined in the context of compliance with Companies Act 1965 and Financial Reporting Standard (FRS) 2 – Share-based Payment. Compliance is measured using disclosure index and therefore is discussed in terms of the level of compliance. There are two research questions addressed: 1) what is the nature of compliance with ESO disclosure in company annual report in Malaysia?, and 2) Do corporate governance characteristics influence the compliance of ESO disclosure in company annual report in Malaysia?.

It is predicted that internal governance characteristic including board of director effectiveness, audit committee effectiveness and the existence of remuneration committee are associated with the level of compliance with ESO disclosure in the company. 39 samples had been chosen in this study from the Bursa Malaysia listing which offer ESO plan to their employees. There are two methods of analysis use in this study which are chi-square test and regression analysis. The result from regression analysis indicates that only audit committee size significant but has weak association with the level of ESO disclosure.

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TABLE OF CONTENTS

PERMISSION TO USE	ii
ABSTRACT (Bahasa Melayu)	iii
ABSTRACT (English)	iv
ACKNOWLEDGMENT	v
LIST OF TABLES	viii
LIST OF FIGURES	ix
LIST OF ABBREVIATIONS	x
CHAPTER ONE: INTRODUCTION	
1.1 Background of the study	1
1.2 Problem statement	2
1.3 Research Questions	5
1.4 Definition of terms use for ESO disclosure	6
CHAPTER TWO: LITERATURE REVIEW	
2.1 Disclosure of statutory information	7
2.2 Disclosure and corporate governance	9
2.3 Disclosure of Statutory Information for Stock Option	12
CHAPTER THREE: HYPOTHESIS	
3.1 Hypotheses/ Propositions Development	15
3.1.1 Board effectiveness	15
3.1.2 Audit Committee Effectiveness	17
3.1.3 Remuneration Monitoring	18

CHAPTER FOUR: METHODOLOGY

4.1 Research Framework	21
4.2 Research Design	
4.2.1 Operational Definition	22
4.2.2 Measurement of Variables/ Instrumentation	22
4.2.3 Description of Dependent Variable	23
4.2.4 Description of Independent Variable	25
4.3 Data Collection	
4.3.1 Sampling	26
4.3.2 Data Collection Procedures	26

CHAPTER FIVE: RESULTS AND DISCUSSION

5.1 Chi-Square Test	27
5.2 Regression Analysis	28
5.3 The Overall compliance with ESO Disclosure Requirements	29
5.4 ESO Disclosure Indices	31
5.5 Corporate Governance Characteristics	33

CHAPTER 6: CONCLUSION AND RECOMMENDATION 43

REFERENCES

APPENDICES

LIST OF TABLES

- Table 4.1 Summary of Independent Variable
- Table 5.1 Summary of Overall compliance with ESO disclosure.
- Table 5.2 Summary of Overall Compliance with ESO disclosure Regulations Reported in Bands from Higher to Lower Percentage.
- Table 5.3 Compliance of Companies with the ESO Disclosure requirements.
- Table 5.4 Descriptive Statistic of Independent Variable
- Table 5.5 Chairman independence * compliance percentage Crosstabulation
- Table 5.6 Board size * compliance percentage Crosstabulation.
- Table 5.7 Audit Committee Independence * compliance percentage Crosstabulation.
- Table 5.8 Audit Committee Size * compliance percentage Crosstabulation
- Table 5.9 ESOS committee existence * compliance percentage Crosstabulation
- Table 5.10 Regression analysis

LIST OF ABBREVIATIONS

- ESO - Employee Stock Option/ Employee Share Option
- FRS - Financial Reporting Standard
- ICAA - Institute of Chartered Accountants

LIST OF FIGURES

Diagram 4.0 Research framework

Figure 5.1 Percentage of overall compliance

CHAPTER ONE

INTRODUCTION

The purpose of this study is to examine the association between employee stock option (ESO) disclosure and governance characteristic of thirty nine companies in Malaysia annual reports for the year 2008. The samples for this study are from the listed company in Bursa Malaysia. Disclosure index had been created in this study which was based on the requirements of the accounting standards and Companies Act that address specifically on ESO disclosures.

This study is motivated by limited prior study in Malaysia. A study in Australia finds some evidence of low compliance level with ESO disclosures (Nelson and Percy, 2005). The literature on the content of annual report disclosure is not widely explored especially the issue of ESO disclosure compliance over time or the effect of corporate governance on compliance with these disclosures. In order to address the gap in the literature, this study examines the nature of compliance with ESO disclosure and the influence of governance characteristics on ESO disclosures in the annual reports of Malaysian companies.

1.1 Background of the study

The study on stock option disclosure has been motivated by the evidence of low level of compliance in prior research as reported by Nelson and Percy (2005) and Basset, Koh and Tutticci (2007). Basset et al. (2007) provide limited evidence on the influence of corporate

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