

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

By

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Thesis Submitted to the Othman Yeop Abdullah

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Universiti Utara Malaysia,

In Fulfillment of the Requirement for the degree of

Master of Business Administration (Accounting)

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ABSTRAK

Kajian ini meneliti hubungan diantara ciri-ciri tadbir urus syarikat dalam membuat pendedahan berkenaan opsyen saham (ESO) melalui laporan tahunan di Malaysia. Penyelidikan ini dimotivasikan oleh kajian yang terhad mengenai pendedahan opsyen 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 pededahan opsyen saham dalam laporan tahunan syarikat di Malaysia, dan 2) Adakah ciri-ciri tadbir urus syarikat mempengaruhi pendedahan opsyen 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 opsyen saham sesebuah syarikat. Sebanyak 39 sampel telah dipilih daripada senarai Bursa Malaysia yang menawarkan opsyen 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 opsyen 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.

ACKNOWLEDGEMENTS

I am highly appreciative of and grateful for the assistance and support that I have received from Allah S.W.T and many people over the course of my MBA (Accounting). I really thank my supervisor, Associate Professor Dr. Wan Nordin Wan Hussin for his support and patience throughout the stages of my project. I am also thanking him for showing me how to think at much deeper level.

I would like also thank my fellow colleagues for their helpful comments and providing much support and encouragement along my journey.

I wish to express my sincere appreciation for the encouragement and support of my family over the duration of my studies which made the completion of this dissertation possible.

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LIST OF ABBREVIATIONS

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

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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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