AN ANALYSIS OF CORPORATE RELATED-PARTY DISCLOSURE IN THE ASIA-PACIFIC REGION

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ABSTRACT

Related-party (RP) transactions have been widely criticised for contributing to wealth destruction and corporate failure. While it is argued that RP transactions are normal business activities that fulfil corporate economic needs, prior research suggests that many RP transactions appear to be used opportunistically to transfer assets or liabilities between related parties. Thus, transparent RP disclosure is warranted for effective monitoring of such transactions. Yet despite the criticisms there has been a scarcity of research internationally and, in particular, in emerging economies where disclosure transparency is often questionable. To address this gap, the aim of this study is to investigate the nature and extent of RP disclosure and identify factors which explain the variation in disclosure across the Asia-Pacific (A-P) region.

Based on an analysis of institutional differences in the A-P region and agency theory, it is argued that factors associated with stronger internal and external corporate governance influence RP transactions usage and their disclosure transparency. Importantly, a number of institutional factors which have been associated with more transparent disclosure (common law origin, stronger regulatory enforcement and investor protection, and controls for corruption) in other contexts are also expected to enhance firms' RP disclosures. Hypotheses are developed for each major governance and institutional factor.

To capture expected regional differences in RP disclosure transparency and institutional factors, a sample of 582 listed companies was selected across six countries (Australia, Indonesia, Malaysia, the Philippines, Singapore and Thailand). The sample ensured a wide coverage of companies that differ in legal origin, enforcement, shareholders' protection, and level of corruption. RP disclosures and other firm-specific data were hand-collected from the 2009 annual reports. The research questions were addressed and hypotheses tested using RP disclosure indices, and descriptive-comparative and multivariate analysis methods.

The results indicate that RP transactions are very common across Asia-Pacific countries, with related party loans the most common type of transaction. Importantly, factors associated with better internal and external governance contribute to improve disclosure scores. With respect to country-level characteristics, companies in a country with stronger enforcement and control for corruption are associated with more transparent disclosure of RP transaction information. Contrary to expectations, the strength of a country's investor protection has an inverse relationship with RP disclosure. However, when a more specific measure of investor protection (an anti-self-dealing index) is used, the findings show a positive association between the index scores and RP disclosure. Taken together, the evidence suggests that country-level factors, including the strength of enforcement by accounting regulatory bodies, the protection of minority shareholders against self-dealing actions, and the control for corruption influence RP disclosure transparency.

This thesis makes a number of important contributions. First, it is among the first to comprehensively investigate the nature and extent of RP transactions in a cross-country setting. Second, this study provides empirical evidence of an association between financial reporting and corruption in a cross-country setting. This finding

supports previous studies in other areas which find that corrupt actions are more likely to be discovered when there is greater business transparency. Finally, the study offers empirical evidence about corporate RP disclosure practices that may assist regulators to introduce more focused compliance programs and more effective RP disclosure guidelines and regulations.

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LIST OF ABBREVIATIONS

AASB	Australian Accounting Standards Board
ADB	Asian Development Bank
A-P	Asia-Pacific
ASEAN	Association of Southeast Asian Nations
ASX	Australian Securities Exchange
ASX CGC	Australian Securities Exchange Corporate Governance Council
BAPEPAM-LK	The Capital Market and Financial Institutions Supervisory Agency
CCDG	Council on Corporate Disclosure and Governance
CCG	Code of Corporate Governance
CFA	Chartered Financial Analyst
CG	Corporate Governance
CPI	Corruption Perception Index
ESO	Executive Stock Option
FAS	Financial Accounting Standard
FRC	Financial Reporting Council
FRQ	Financial Reporting Quality
FRS	Financial Reporting Standards
GDP	Gross Domestic Product
IAI	Indonesian Institute of Accountants
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
ICR	International Country Risk
IDX	Indonesia Stock Exchange
IFRS	International Financial Reporting Standard
IPO	Initial Public Offering
JSX	Jakarta Stock Exchange
KLSE	Kuala Lumpur Stock Exchange
KMP	Key Management Personnel
MAS	Monetary Authority of Singapore
MAS	Malaysian Accounting Standard
OECD	Organisation for Economic Co-operation and Development
PAS	The Philippines Accounting Standards
PSE	The Philippines Stock Exchange
RP	Related Party
RPT	Related Party Transaction
SEC	The Securities and Exchange Commission
SET	Stock Exchange of Thailand
SGX	Singapore Stock Exchange
USD	U.S. Dollar

STATEMENT OF ORIGINAL AUTHORSHIP

The work contained in this thesis has not been previously submitted to meet requirements for an award at this or any other higher education institution. To the best of my knowledge and belief, the thesis contains no material previously published or written by another person except where due reference is made.

Signature : QUT Verified Signature

Date : June 17, 2013

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CHAPTER 1: INTRODUCTION

Understanding the nature, extent, and consequences of related-party (RP) transactions and the disclosure about those transactions by companies in the Asia-Pacific Region is the focus of this study. International Accounting Standard (IAS) 24 Related Party Disclosure defines an RP transaction as "a transfer of resources or obligations between related parties, regardless of whether or not a market price is charged" (IAS 24, para 9). Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, for example a controlling shareholder, a director, key management personnel, or affiliated companies, controlled entities, and entities under common control. The critical issue is that RP transactions might not be undertaken at market prices, primarily due to the influence of the relationship between the two sides to a transaction, that is, the company and the related party. For example, the transactions may be conducted using favourable prices or terms and conditions, instead of using market prices or normal commercial terms and conditions.

Ideally, RP transactions between companies within a group can increase cost-effectiveness to meet a firm's specific economic needs (Gordon, Henry, & Palia, 2004a). However, for both controlling shareholders and insiders, such as management, RP transactions can be the mechanism of self-dealing or insider opportunism, whereby private benefits of control can be extracted at the expense of other shareholders (Djankov, La Porta, Lopez-de-Silanes, & Shleifer, 2008; Gordon, Henry, & Palia, 2004a, 2004b; McCahery & Vermeulen, 2005). From prior research, an examination of links between the nature of RP transactions and firms' governance mechanisms and institutional framework in which firms operate is essential in order to understand the contrasting motivations for RP transactions.

Currently, companies in Asian countries are identified as having potentially higher risk of opportunistic RP transactions given their unique institutional setting (Loon & De Ramos, 2009; OECD, 2009). Asian countries generally have the characteristics of family concentrated ownership, weak control for corruption, enforcement and protection of minority shareholders. Family-controlled firms can be more efficient,

leading to better performance than firms with other ownership forms (Anderson & Reeb, 2003a; Villalonga & Amit, 2006), particularly given the benefit of reciprocal relations between the family and the business (Chrisman, Chua, & Sarma, 2003; Sarma, 2004). However in other settings, family-owned firms may suffer from inefficiencies, particularly in the absence of strong enforcement and protection of minority shareholders, because such a setting allows greater opportunity for controlling owners to pursue private benefits at the expense of minority shareholders' interests (Heugens, Essen, & Oosterhout, 2009). It is argued that such self-interested practices contributed to the 1997 – 98 Asian financial crisis, as managers engaged in a high level expropriation of cash and tangible assets through RP transactions (Johnson, Boone, Breach, & Friedman, 2000). Accordingly, firms' commitments to fully disclose RP information is important to enable investors and other users of financial statements to monitor and assess the impact of the transactions on a firm's performance (Gordon, Henry, & Palia, 2004b). However, the negative perception of RP transactions as means of opportunisms may lead managers to refrain from disclosing details of information about these transactions since they may want to avoid public criticisms. Therefore, it is argued that appropriate regulation and enforcement mechanisms are warranted to ensure transparent RP disclosures (Djankov et al., 2008; Loon & De Ramos, 2009; OECD, 2009).

Despite the frequency and growth in concerns, uncertainties, and implications of RP transaction and disclosure, there has been little academic research to inform market participants and regulators about the effectiveness of RP disclosures.

1.1. Research Motivations

This study is motivated by a number of factors. First, there has been a general lack of comparative RP transaction research in the Asia-Pacific region. Extant studies have mainly focused on the larger and more economically significant countries in the Asia-Pacific region, such as Australia (Gallery, Gallery, & Supranowicz, 2008), China (e.g., Berkman, Cole, & Fu, 2009; Cheung, Jing, Lu, Rau, & Stouraitis, 2009; Jian & Wong, 2010), and Hong Kong (Cheung, Qi, Rau, & Stouraitis, 2009; Cheung, Rau, & Stouraitis, 2006). These studies tend to focus on specific types of RP transactions and the wealth effect of the transactions in a single country setting. In addition, no prior study has conducted a comprehensive and systematic examination

on the extent of corporate RP disclosure in accordance with RP disclosures standards on a regional basis.

Second, corporate financial reporting transparency in the Asia-Pacific region became increasingly important following the 1997-98 Asian financial crisis, particularly as poor corporate transparency was identified as a key factor behind the crisis (Morris & Gray, 2009). The 2009 Corruption Perception Index (CPI) produced by Transparency International shows that the indices for countries in the Asia-Pacific region range from the cleanest to the most corrupt with ranks from 3 to 139 out of 180 (Transparency International, 2009a)[1]. This variability in transparency raises the questions of what is behind the differences and what can countries learn from each other in the region.

A third factor motivating this study is the importance of understanding the influence of both country-specific and firm-specific (governance and other) factors on corporate RP disclosure transparency. The adoption of the International Financial Reporting Standard (IFRS)[2] in almost 100 countries may not result in higher quality financial statements, if country level factors, such as legal systems, are more dominant constraints than firm-level factors (Morris & Gray, 2009; Preiato, Brown, & Tarca, 2012).

Fourth, the nature of and motivation for firms entering into RP transactions in the Asia-Pacific region vary from those in other regions, particularly those in developed countries. In developed economies, companies tend to have diffused ownership with clear separation between ownership and control. However in Asia, companies have distinct ownership structures which are likely to be concentrated in a single group; family or the state (Carney & Child, 2012; Claessens, Djankov, & Lang, 2000; Loon & De Ramos, 2009). Accordingly, senior management and board positions, including

[1] A country/territory CPI Score indicates the degree of public sector corruption as perceived by business people and country analysts, and ranges between 10 (highly clean) and 0 (highly corrupt). The score is based on 13 corruption assessment sources developed by different international agencies. For the Asia-Pacific region, the 2009 scores range from 9.2 for Singapore (rank of 3/180) to 2.4 for the Philippines (rank 139/180) (Transparency International, 2009a).

[2] The International Financial Reporting Standards (IFRS) which are developed by the International Accounting Standards Board (IASB) are becoming the global standard for the preparation of public company financial statements (www.ifrs.com). The specific RP international accounting standard (IAS) is IAS 24 *Related Party Disclosure*. The terms 'IFRS' and 'IAS' will be used interchangeably in this study.

the chairperson and chief executives, are often filled by family members (in family-owned enterprises) or political appointees (in state-controlled entities) (Carney & Child, 2012; Claessens et al., 2000). These ownership structures in Asia may lead to different types of agency conflicts than those in other regions, such as conflicts between majority and minority shareholders which may lead to different types of RP transactions (Loon & De Ramos, 2009; OECD, 2009).

1.2. Research Questions

Drawing from the research issues and motivations mentioned above, this study aims to investigate the nature and extent of RP disclosures by companies in the Asia-Pacific region through addressing three primary research questions:

1. What is the nature and extent of related party transaction and related-party disclosures across countries in the Asia-Pacific region?
2. To what extent do the related-party disclosures by companies in the Asia-Pacific region conform to the IAS 24 *Related Party Disclosure* within and across countries?
3. What are the governance, country, and other firm-specific factors which explain the nature and extent of related-party disclosures by companies in the Asia-Pacific region?

1.3. Theoretical Framework and Hypotheses

This study builds upon prior literature and uses an agency theory framework in addressing the three research questions. Agency theory posits that the separation of ownership and control between the agent and the principal leads to agency problems when agents act opportunistically to maximise their wealth at the expense of principals (Berle & Means, 1932; E. Fama & Jensen, 1983; Jensen & Meckling, 1976). The theory posits that this problem occurs because of goal incongruence between owners and managers, or because of information asymmetry between owners and managers that restricts the owners from fully monitoring the agents. Information asymmetry gives rise to moral hazard when managers, who are usually better informed than the owners, pursue their own interests which deviate from those of the owners. This situation of goal misalignment leads to agency costs (Jensen & Meckling, 1976). It is argued that one way to reduce such costs is through a greater

disclosure in financial statements. A firm's commitment to disclose will enable shareholders to monitor their interests more efficiently and can provide a signal that the managers act in the interests of the shareholders (Healy & Palepu, 2001). Prior studies suggest corporate governance can act as monitoring mechanisms to mitigate information asymmetries and agency problems between managers and investors (Bushman & Smith, 2003; Farinha, 2003; Gillan, 2006; Larcker, Richardson, & Tuna, 2007).

Consistent with agency theory, a review of the literature in Chapter 3 identifies that RP transactions can be efficient business transactions that fulfil a firm's economic needs, or transactions that serve the interests of managers and therefore represent a conflict of interest between management and shareholders (Gordon, Henry, & Palia, 2004a, 2004b). Under the agency theory framework, it is argued that opportunistic RP transactions can facilitate managers/insiders' opportunistic behaviours, particularly given the non-arms-length nature of such transactions. In this case, firms' disclosure of RP transactions can be one way to increase monitoring of such transactions. However, companies tend to disclose information if the benefits of disclosures outweigh the costs of withholding such information (Healy & Palepu, 2001). Therefore, given the sensitive nature of RP transactions, firms may refrain from disclosing opportunistic RP transactions to avoid the costs of releasing such information. Accordingly, firms' decisions to disclose RP transactions may be influenced by the type of RP transactions. When RP transactions are efficient transactions, the benefits of fully disclosing these transactions are more likely to outweigh the costs.

The agency theory framework also posits that, given the potential agency costs, both the owners and managers of the firm have incentives to strengthen monitoring systems in the firm to minimise such costs. Corporate governance mechanisms are part of monitoring systems to minimise agency problems and ensure that managers act in alignment with shareholders' interests. Effective corporate governance can help safeguard an optimal firm's disclosure policy (e.g., Shleifer & Vishny, 1997). Assuming that effective corporate governance mechanisms can improve firms' monitoring of managers, such mechanisms are expected to result in less opportunistic RP transactions and more transparent disclosure of such transactions. Consistent with this expectation, prior studies find that better-governed firms are associated with

more frequent disclosures of price-sensitive information (Beekes & Brown, 2006) and greater RP disclosures (Utama & Utama, 2012). Full disclosure of RP transactions enables shareholders to monitor their interests more efficiently and can provide a signal that managers act in the interests of the shareholders, consistent with the agency theory framework.

Within this framework, three research questions and 15 research hypotheses are developed to address the study's objectives. Eleven hypotheses address the influence of firm-level internal and external governance characteristics, while four hypotheses address the influence of country-level factors, on the extent of RP disclosures.

1.4. Research Design

This thesis focuses on related-party disclosures by companies in the Asia-Pacific region in annual reports for the financial year ending 2009. In particular, this study focuses on comparing the disclosure of RP transactions in selected Asian-Pacific countries, namely Australia, Indonesia, Malaysia, the Philippines, Singapore, and Thailand. These countries account for a range of differences in legal systems (common or code law), ownership characteristics, and the nature of the regulatory frameworks (Carney & Child, 2012; Claessens, Djankov, & Lang, 2000; Djankov et al., 2008; La Porta, Lopez-De-Silanes, & Shleifer, 2006; Morris & Gray, 2009; Morris, Susilowati, & Gray, 2012; Tipton, 2009).

The year 2009 is selected to capture the existing differences in the institutional environment of RP disclosure. In 2009, Australia, Malaysia, the Philippines and Singapore mandated the IAS 24 (2003), whereas Indonesia and Thailand used an earlier version of IAS 24. In the same year, the IASB issued an amended/revised version of IAS 24 (2009), which would be effective from 1 January 2011. Accordingly, the year 2009 is selected since the disclosure in the annual reports preceded the changes in the disclosure requirements in the six countries. In addition, the 2009 annual reports were the most recent reports available in all six countries at the time of data collection for this thesis. A one year study period was chosen due to the complexity of controlling for the changes in institutional differences and their consequences over time and across countries[3].

[3] A similar argument is made by Aerts and Tarca (2010) in their international disclosure study.

The research methods in addressing the research questions and hypotheses consist of descriptive/exploratory analysis and multivariate testing of the RP disclosures of 582 selected firms from the top 100 largest non-financial companies in each country, based on the OSIRIS-BVDEP list of market capitalisation as at 31 December 2009. The selected firms have fulfilled the selection criteria that they provide RP disclosure in the 2009 annual reports, to enable comparison of the level (extent) of RP disclosures in the period of 2009.

The extent of RP disclosure index is measured using a self-constructed RP disclosures index *(RP_DISC)* based on IAS 24 *Related Party Disclosure*. The RP disclosure index *(RP_DISC)* is represented by three alternative measures of the RP disclosure scores, that is, mandatory score of RP disclosures *(MSCORE)*, discretionary score of RP disclosures *(DSCORE)*, and overall score of RP disclosures *(OSCORE)*.

The multivariate cross-sectional regression model was developed to investigate the influence of firm- and country-specific factors (independent) on the extent of RP disclosures (dependent). Additionally, robustness checks are performed to ensure the reliability of the findings. The independent variables consist of firm-specific governance characteristics (i.e., the independence, size, and financial expertise of board of directors and audit committee, ownership concentration, family-controlled firms, leverage, audit firm size, and cross-listing status) and country-specific characteristics (i.e., country legal origin, enforcement, investor protection, and control for corruption).

1.4.1 Definition of Terms Used for RP Transactions and RP Disclosures

In this study, RP disclosures are examined in the context of compliance with the requirements of the *International Accounting Standard* (IAS) 24 *Related Party Disclosure*. This standard requires companies to disclose related parties, compensation of key management personnel and the nature of transactions. At the the minimum level, the disclosures should include the monetary amount of transactions, the amount of outstanding balances, provision of doubtful debts related to the outstanding balances, and the expense recognised during the period in respect of doubtful debts due from related parties. Detailed information for each category of related party is required in order to facilitate a comprehensive analysis of RP

transactions. In this study, disclosure conformance is determined using a RP disclosure index and therefore it is discussed in terms of the level (i.e., extent) of conformance.

With respect to the RP transactions, this study refers to the transactions between related-parties which are reported in the companies' annual reports, for instance, sales to related-parties, purchases from related-parties, or related-party loans. The examination of the nature (i.e., the types) and extent (i.e., the dollar amount and the number) of RP transactions is conducted in accordance with a codification list of RP transactions, focusing on the nature of RP transactions and the nature of relationships between related parties.

1.4.2 Scope of Accounting Regulations

This study focuses on the *Related Party Disclosure* in relation to the requirements contained in the International Accounting Standards (IAS) 24 *Related Party Disclosure* applicable at the beginning of 2009 in all countries of study. Accordingly, this study refers to the domestic accounting standards in each of the sample countries, namely AASB 124 (Australia), PSAK 7 (Indonesia), FRS 124 (Malaysia), PAS 24 (the Philippines), FRS 24 (Singapore), TAS 47 (Thailand). Those domestic accounting standards are derived from IAS 24 *Related Party Disclosure*. A detailed discussion about these standards is provided in Chapter 2.

1.5. Main Findings

The descriptive-comparative analysis on the nature and extent of RP transactions indicate that RP transactions are common across countries. Of the six countries, companies in Thailand report the highest number of RP transactions, followed by Indonesia, Malaysia, Australia, Singapore and the Philippines. Among all types of RP transactions, RP loans are the most common type of transactions. Relative to the other countries, Thailand and Indonesia report a higher number of RP loans, which in many cases are unsecured, interest-free, and repayable on demand. With respect to the nature of RP relationship, RP transactions with corporate combinations (i.e., subsidiaries, associates and joint venture) are common in all six countries. RP transactions with entities under common control are only reported by companies in

Indonesia, Malaysia, the Philippines, and Thailand, indicating the dominance of family-controlled firms in these countries[4]. RP transactions with director-related entities are more frequently reported in Thailand and Australia.

The findings are also consistent with the expectations that corporate RP disclosure conformance to IAS 24 *Related Party Disclosure* differs across the Asia-Pacific countries (RQ2). The results reveal considerable country variations in the extent of RP disclosure conformance to IAS 24 by companies in the Asia-Pacific region. Of the six countries, Singapore shows the highest conformance to the mandatory requirements, followed by Australia, Malaysia, Thailand, Indonesia and the Philippines. With respect to the discretionary aspects of the RP disclosure requirements, Thailand shows the highest average, followed by Indonesia, Australia, Singapore, Malaysia and the Philippines. As for the overall disclosure, Australia has the highest average, followed by Singapore, Malaysia, Thailand, Indonesia and the Philippines. The findings also indicate that companies appear to be more reluctant to disclose information regarding RP balances, which is concerning, given the high number of RP loans reported by companies in the Asia-Pacific region.

The results of multivariate analysis support the expectation that the extent of RP disclosures by companies in the Asia Pacific region are associated with both firm- and country-specific factors of internal and external governance characteristics (RQ3). First, the findings reveal the influence of internal governance characteristics on the extent of corporate RP disclosures. In particular, smaller boards of directors are associated with higher levels of RP disclosures, suggesting that excessively larger boards may create redundancies and inefficiencies because, as boards grow, the costs of communication and inaccurate decision-making increases. In addition, a fewer independent board of directors is found to be associated with greater RP disclosures. This finding may be attributed to the substitution effects between board independence as a part of the internal monitoring mechanism and corporate RP disclosure. Further, companies with more concentrated ownership tend to provide

[4] Entities under common control include those under common control, those under a common ultimate holding company, other entities within the group, an entity under common key management, an entity under a common major shareholder, a subsidiary of an immediate holding company, an entity subject to common significant influence, wholly-owned subsidiaries of the company's immediate and ultimate holding company, and a subsidiary of a holding company.

greater RP disclosures. Similarly, family-controlled companies are more likely to have higher levels of RP disclosures. Thus, family-controlled and high ownership concentration firms appear to be more transparent in their disclosures of RP information.

Second, the findings also indicate the influence of external governance characteristics on the corporate disclosure of RP information. Specifically, the size of a firm's external auditor (as measured by Big 4/non-Big 4 grouping) is positively related with the level of RP disclosure. Larger external audit firms tend to encourage client firms to be more transparent in their RP disclosures. With respect to the country-level governance characteristics, stronger control for corruption is likely to encourage greater or more transparent disclosure of RP information. Furthermore, companies in a country with stronger enforcement are also more likely to provide a higher level of overall RP disclosure, suggesting that the more active enforcement bodies are likely to encourage greater disclosure transparency of RP information. However, the strength of a country's investor protection has an inverse relationship with RP disclosure. One possible explanation is that the investor protection index only captures the *de jure* legal system in a country, which will not be effective in the absence of effective law enforcement. Therefore, the enforcement mechanism appears to work better, particularly in Asian countries, than the investor protection mechanism. A robustness check on the alternative measure of investor protection provides support for this possible explanation.

Taken together, the findings reveal that: (1) corporate RP transactions are common in the Asia-Pacific region, however they vary by the nature of transactions and by the nature of RP relationships; (2) the extent of RP disclosure conformance to IAS 24 varies across countries in the region; (3) the extent of RP disclosures by companies in the Asia-Pacific region is influenced by both firm- and country-level factors; (4) in the firm level, the extent of RP disclosures is negatively associated with board independence and board size, and positively associated with ownership concentration, family-controlling ownership, Big 4 auditor, and RP transaction activity; and (5) in the country-level, greater RP disclosures are associated with the level of enforcement, investor protection, and control for corruption.

1.6. Contributions

Overall, this study's findings provide a number of contributions to understanding the nature and extent of corporate RP disclosure transparency and the firm- and country-specific factors associated with the disclosure. More broadly, this study contributes to the literature in a number of ways. First, this thesis extends prior studies on RP transactions which tend to focus more heavily on the "transactions", either the amount or number of specific or general transactions, rather than on the "comprehensive disclosure transparency" of RP transactions. This thesis is among the first in pursuing the understanding of both of the nature and extent of RP transactions as well as the comprehensive disclosure transparency of such transactions using cross-countries setting. The cross-countries approach is beneficial in informing the influence of country-level factors on the extent of corporate RP disclosures. The study's findings show that the country-level factors influence the disclosure transparency of RP information by companies in the Asia-Pacific region.

Second, this thesis also provides empirical evidence on the link between accounting and corruption in a cross-country setting. There is a lack of research in this area. Malagueño, Albrecht, Ainge, and Stephens (2010, p. 375) contend that "[T]here is little cross country research that establishes a direct empirical link between accounting and corruption". The evidence shows that less corrupt countries are associated with greater disclosure transparency of RP information. This finding supports previous studies in other areas which find that corrupt actions are more likely to be discovered when there is greater business transparency (Halter, Arruda, & Halter, 2009). The findings also suggest that in the absence of efficient control for corruption, RP transactions are more prevalent as a means of acquiring self-interested benefits.

Third, the findings of the study confirm the reports by OECD (2009, pp. 40–41) and CFA (2009, p. 37) which raise the issue of the effectiveness of board independence for companies in Asian countries[5], particularly in relation to RP transactions. The findings reveal that some of the mechanisms (found to be associated with disclosure in other studies) were not associated with the extent of RP disclosures by companies

[5] For example, Hong Kong Exchange's chief executive Paul Chow once mentioned that one challenge of corporate governance in Hong Kong is that non-executive independent directors may not be fully independent when major shareholders appoint the directors (Loon & De Ramos, 2009, p. 37).

in the Asia-Pacific region. The findings may suggest that such governance characteristics are not effective in encouraging RP disclosure transparencies by companies in this institutional setting. A more effective supervision and regulation may be required to ensure the efficacy of internal governance mechanisms as an internal monitoring system in a company, particularly given the costly investment expended by companies in establishing such mechanisms. For example, the number of boards on which an independent director may serve can be limited and the concept of independence can be reinforced, which is consistent with the recommendations by OECD (2009, pp. 40–41). In addition, a limitation should also be imposed on the duration of time that an independent can be appointed on the board as mentioned in the CFA report, "Because no limits exist on the number of times independent directors may serve on the board, their partiality is also prone to diminishing over time" (Loon & De Ramos, 2009, p. 37).

Finally, the findings of this study provide important implications for standard setters and regulatory bodies in relation to a RP disclosure standard. In particular, the study's findings show that the country-level factors, including the strength of enforcement by accounting regulatory bodies, the protection of minority shareholders against self-dealing actions, and the control for corruption influence corporate transparency of the RP disclosures. The disclosure of RP transactions, either in the form of mandatory or discretionary disclosures, is an essential component in strengthening the protection of minority shareholders, investors and other users relying on the financial statements as a legitimate source of information in their decision-making process (Lo & Wong, 2011). In this respect, the transparent RP disclosures enable users to better monitor transactions that may not be in accordance with shareholders' best interests. As an implication, a more stringent RP accounting standard and RP disclosure requirements are warranted to enhance the disclosure of RP transactions, particularly as higher standards of RP disclosure are likely to strengthen the mitigation of opportunistic RP transactions and increase disclosure transparency. Thus, the findings can help policy makers, particularly in the Asia-Pacific region, in articulating better RP disclosure requirements for listed companies.

1.7. Organisation of the Study

The remainder of this thesis is organised as follows. Chapter 2 examines the institutional setting of countries in the Asia-Pacific region, focusing on the institutional factors potentially associated with RP transactions and the transparency of RP disclosures. Chapter 3 presents a review of the RP transactions literature relevant to this study. Chapter 4 develops the theoretical framework, research questions and research hypotheses. Chapter 5 describes the research design including the study period and sample selection, data sources, hypotheses testing procedures, and regression models. Chapter 6 presents the descriptive results on the nature and extent of RP transactions, the descriptive statistics, univariate results, and the multivariate results relating to the hypotheses. This thesis concludes in Chapter 7 with a summary and discussion of the study's major contributions, recommendations for future studies, limitations and implications.

CHAPTER 2: INSTITUTIONAL SETTING

A country's accounting and financial reporting in a country is influenced by its environment (Belkaoui & Alnajjar, 2006; Ruland, Shon, & Zhou, 2007). Specifically, accounting quality and practices are influenced by firm-, market-, and country-level factors; including legal and cultural environments, and accounting standard setting (Ball, Robin, & Wu, 2003; Biddle & Saudagaran, 1989; Rahman, 2006). Among those factors, differences in legal systems have a profound effect on the approach to accounting and financial reporting (Ball et al., 2003; Epstein & Mirza, 2002). Similarly, both anecdotal and empirical evidence suggest that different institutional factors are likely to affect the nature and extent of related party (RP) transactions and RP disclosures (Djankov et al., 2008; Loon & De Ramos, 2009; OECD, 2009).

RP transactions are presumably normal transactions, as emphasised in IAS 24 (Para. 5): "Related-party relationships are a normal feature of commerce and business. For example, entities frequently carry on parts of their activities through subsidiaries, joint ventures and associates". Based on this presumption, RP transactions are efficient transactions to obtain specific economic needs and rationally fulfil the economic demands of a company (*efficient transaction hypothesis*) (Gordon, Henry, & Palia, 2004a, 2004b). However, owing to the nature of the relationship between the entity and the related party, these parties may enter into transactions that are not on "arm's-length" terms. The non-arm's length term of RP transactions provides the opportunity for an agent to pursue personal interest at the expense of the principal's interest (*opportunistic or conflict-of-interest hypothesis*) (Gordon, Henry, & Palia, 2004a, 2004b). Corporate governance systems and the economic environment, in which the firm operates, influence the economic rationale of a firm to enter into RP transactions (Pizzo, 2009). Additionally, previous studies on RP transactions suggest that a firm's decision regarding RP transactions and their disclosures are associated with the firm's ownership structure (Cheung, Qi et al., 2009), accounting regulation (Arshad, Darus, & Othman, 2009) and, importantly, institutional factors (Djankov et al., 2008; Jian & Wong, 2010).

This chapter presents an analysis of institutional factors across countries that are relevant to this study and documents the accounting regulation affecting RP disclosures. Section 2.1 examines institutional factors associated with RP disclosures, including ownership concentration, capital market development, the legal system and corporate governance principles. Section 2.2 discusses the evolution of international accounting standards on RP disclosures. Section 2.3 outlines the development of RP disclosure standards in selected Asia-Pacific countries. Finally, the chapter finishes with a conclusion in Section 2.4.

2.1. Country Factors Associated with RP Disclosures

An extensive line of research suggests that country-specific factors play an essential role in influencing accounting practices and incentives (for example, Ball, 2006; Ball, Kothari, & Robin, 2000; Biddle & Saudagaran, 1989; Doupnik & Salter, 1995; Perera, 1989; Ruland et al., 2007)[6]. Perera (1989, p. 41) argues that "accounting is a product of economic environment, and a particular environment is unique to its time and locality". In addition, a country's accounting practices are influenced by the structure and level of its capital market development (Biddle & Saudagaran, 1989). Similarly, Doupnik and Salter (1995) suggest that external environment and institutional structure have significant influences on the development of accounting standards. Further, Ball et al. (2000) find that the role of accounting information is less effective in environments with low investor protection and a more concentrated ownership.

Unlike current RP transactions studies, which tend to focus on the United States or other developed economies, this study focuses on Asia-Pacific countries, which provide a unique setting to investigate RP disclosures. First, firms in the Asian setting are commonly characterised by dominant shareholders and family ownership (Claessens et al., 2000; La Porta, Lopez-de-Silanes, & Shleifer, 1999). Notably, Indonesia, Malaysia, Thailand and the Philippines have a relatively higher number of family-controlled firms than the other countries. Second, Asia-Pacific countries also differ in legal origin, capital market development, enforcement, control for

[6] Ball et al. (2003) suggest that managers' incentives in preparing financial reports are influenced by the interaction between the market and political forces in the reporting country. Market forces include the amount of publicly traded equity, the size of the market for public debt and the extent of private versus public contracting. Political forces include the extent of government involvement in codifying and enforcing accounting standards.

corruption, and corporate governance structures, including capital market development and strength of law enforcement. While those unique characteristics provide an important setting to investigate the nature and extent of corporate RP disclosures (Djankov et al., 2008; Loon & De Ramos, 2009; OECD, 2009), there are no known prior studies examining these institutional characteristics. This section identifies and discusses differences in institutional factors across key Asia-Pacific countries that are relevant to RP transactions and their disclosures.

Table 2.1 presents comparative institutional factors affecting accounting disclosures in the countries of study; discussion of those factors follows.

Table 2.1 Comparative Institutional Factors Affecting Accounting Disclosures

Countries	Legal Origin	Stock Market Cap./GDP	Enforcement Index	Investor Protection Index	Anti-Self-Dealing Index	Control for Corruption Index	Ownership Concent.	Family Ownership	Controlling Owner Alone	Management
Australia	Common Law	128.8%	11	0.784	0.76	8.7	0.28	10.0	n.a	n.a.
Malaysia	Common Law	132.7%	9	0.729	0.95	4.5	0.52	51.5	76.3	70.9
Singapore	Common Law	170.5%	6	0.770	1.00	9.2	0.49	60.2	75.9	74.0
Indonesia	Code Law	33.0%	4	0.507	0.65	2.8	0.58	57.3	68.1	58.2
The Philippines	Code Law	49.8%	8	0.812	0.22	2.4	0.57	78.5	66.4	71.0
Thailand	Code Law	52.3%	7	0.373	0.81	3.4	0.47	37.8	65.9	65.2

Note: **Legal origin** is the origin of legal system of commercial code or company law in each country (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1998, p. 1122 citing Reynold & Flores, 1989); **Stock Market Cap./GDP** is the stock market capitalisation as a percentage of GDP (ADB, 2010, p. 200); **Enforcement Index** is an index measuring cross-country differences in the enforcement of accounting standards in 2008 which ranges from 0-12, in which 12 is the strongest enforcement (Preiato et al., 2012); **Investor Protection Index** is a country's securities regulation an index concerning legal protection of shareholders, which consists of the principal component of the indices of disclosure requirements, liability standards, and anti-director rights (La Porta et al., 2006); **Anti Self-Dealing Index** represents the protection of outside shareholders against self-dealing by insiders or controlling owners, which consists of ex-ante control, ex-post control, and public enforcement of anti-self-dealing practices (Djankov et al., 2008); **Control for Corruption Index** is a 2009 corruption perception index by Transparency International which ranges from 0-10 in which 10 is the cleanest from corruption (Transparency International, 2009a). For each proxy of enforcement, a higher score implies stronger enforcement. **Ownership Concentration** is the average ownership stake of the three largest shareholders among its 10 largest publicly traded companies (La Porta et al., 1998, pp. 1146-1147). **Family** is the number of firms controlled by family – using 10% as the criterion for control -- in a given country. Family ownership data for Australia is taken from La Porta et al. (1999, p. 493); whereas those of the other five countries are taken from Carney and Child (2012, p. 12). The sample of La Porta et al.'s (1999) dataset consists of top 20 firms ranked by market capitalisation of common equity at the end of 1995. The sample of Carney and Child's dataset consists of the top 200 largest firms by stock market capitalisation at the end of 2008 for which the ultimate ownership could be traced accurately. **Controlling Owner Alone** equals one if there is not a second owner who holds at least 10% of the stock, zero otherwise (Carney & Child, 2012, p. 15). **Management** equals one if the CEO, board chairman, or vice chairman are from the controlling family, zero otherwise (Carney & Child, 2012, p. 15).

2.1.1 Legal Origin

Table 2.1 identifies the legal origin of each country, distinguishing between common law and code law legal origins, following the classification of La Porta et al. (1998) and La Porta et al. (2006)[7]. The legal systems of Australia, Malaysia and Singapore are originated from common law, whereas those of Indonesia, the Philippines and Thailand are from code law[8].

Code law is rooted in Roman law and has a greater emphasis on codes and statutes established by legal scholars (La Porta et al., 1998 citing Merryman, 1969). In contrast to the Code law, Common law – which originated in England – has a greater reliance on the precedents of judges' decisions on particular disputes (La Porta et al., 1998). Through colonisation, the Common law legal origin was disseminated to the U.K. and British colonies including, for example, the U.S., Canada, Australia and India (La Porta et al., 1998).

The financial reporting system in a country may be influenced by its legal origin (e.g., Archambault & Archambault, 2003). A review on international accounting research by Meek and Thomas (2004, p. 29) suggests that "the international accounting literature has recognised for at least 30 years that accounting in common law countries differs from accounting in code law countries"[9]. Prior studies have provided evidence on the link between countries' legal origin and accounting practices and disclosures[10]. La Porta et al. (1998) classify countries into the British common law and the family of civil law legal origins (i.e., French, German and Scandinavian) and report that the legal origin in a country influences its accounting standards, shareholders' rights and capital market development. Specifically, La Porta et al. find that law enforcement and shareholders' protection are typically stronger in countries with British common law origins than in countries with French civil law. Consistent with this notion, Jaggi and Low (2000) find that firms in common law countries tend to have greater financial disclosures than those in code

[7] La Porta et al. (1998, p. 1119) note that, "Thailand's first laws were based on common law but since received enormous French influence". This thesis classifies Thailand as a civil/code law country, which is also consistent with Nenova, Claessens, and Djankov (2000).
[8] As mentioned in Jaggi and Low (2000, p. 499, also citing Ball, 1998 and Ball et al., 1998), "The civil law countries have also been referred to as code law countries." This thesis uses the code law terminology.
[9] Further, Meek and Thomas (2004, p. 29) also cite previous literature (e.g., Nobes, 1983; Berry, 1987; and Doupnik & Salter, 1993) that "The legal basis for accounting differences is a significant input into proposed classification of accounting systems worldwide."
[10] For example, Archambault and Archambault (2003); Ball, Kothari and Robin (2000); Ball, Robin and Wu (2003); Hope (2003a, 2003b); Jaggi and Low (2000); La Porta et al. (1998).

law countries. Hope (2003b) also finds a positive association between common law legal origin and the levels of annual report disclosure. In addition, the accounting systems in common law countries tend to be more fairly presented, have greater transparency and a higher level of disclosure than those in code law countries (Meek and Thomas, 2004, p. 29).

Compared to code law countries, common law countries generally have more developed capital markets and greater mandatory disclosure requirements which include the disclosure of RP transactions (La Porta et al., 2006, p. 6). Additionally, Djankov et al. (2008) find that the common law countries tend to have stronger regulations concerning the mitigation of companies' self-dealing compared to the worldwide average. Following the findings of the previous studies, common law legal origins are expected to influence greater disclosure transparency.

Table 2.1 also shows country differences in the development of capital market, the strength of enforcement, level of protection for investor, and control for corruption.

2.1.2 Capital Market Development

A country's legal origin may also affect the development of its capital market. La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1997) find that the size and extent of a country's capital markets are associated with their legal environment – that is, both legal rules and their enforcement. "[A] good legal environment protects the potential financiers against expropriation by entrepreneurs; it raises their willingness to surrender funds in exchange for securities, and hence expands the scope of capital markets" (La Porta et al., 1997, p. 20). La Porta et al. (1997) find that common law countries are associated with more developed capital markets and stronger investor protections than code law countries. More recently, La Porta et al. (2006) developed a disclosure index and examined the association between the index and stock market development across 49 countries around the world. The disclosure index includes insiders' compensation, ownership by large shareholders, inside ownership, contracts outside the normal course of business, and transactions with related parties (La Porta et al., 2006, pp. 10-11). They find a strong positive association between the development of capital markets and disclosure requirements, suggesting that a

developed capital market tends to have a more extensive disclosure requirement, including the disclosure of transactions with related parties[11].

Table 2.1 shows the average stock market capitalisation across six countries in 2009, measured by the percentage of stock market capitalisation relative to Gross Domestic Product (GDP). The stock market capitalisation of Australia, Malaysia and Singapore exhibits higher ratios than the other three countries, which may indicate that these three countries have more developed capital markets relative to the others.

Djankov et al. (2008) investigate the influence of anti-self-dealing regulation on the development of capital markets across 72 countries around the world and find positive associations between capital market developments and the anti-self-dealing regulation[12].

Based on the findings in La Porta et al. (2006) and Djankov et al. (2008), these more developed capital markets are expected to have more regulations concerning RP transactions and greater requirements of RP disclosures.

2.1.3 Enforcement, Investor Protection and Control for Corruption

In addition to the legal origin and capital market development, prior research in other areas of international accounting (e.g., earnings management) provides evidence on the association between the quality of accounting and the strength of enforcement (Ball et al., 2003; Hope, 2003a; Preiato et al., 2012), investor protection (Durnev & Kim, 2005; Francis & Wang, 2008; Leuz, Nanda, & Wysocki, 2003), and control for corruption (Kimbro, 2002; Malagueño et al., 2010). Table 2.1 shows the differences in the strength of enforcement, investor protection and control for corruption across the selected Asia-Pacific countries.

Enforcement

The quality of financial information is influenced by both the quality of accounting standards and the effectiveness of the enforcement of these accounting standards (Kothari, 2000). Ball (2006) argues that the quality of the enforcement of standards is

[11] La Porta et al. (2006) use seven proxies to measure the development of the stock market, including the ratio of stock market capitalisation to GDP scaled by the fraction of the stock market held by outside investors. They note that "the results are qualitatively similar for the unadjusted ratio of market capitalisation to GDP" (La Porta et al., 2006, p. 13)

[12] The stock market development is represented by a ratio of stock market capitalisation to GDP (Djankov et al., 2008, p. 445).

a more credible signal of financial reporting quality rather than the standards per se, because assuring high enforcement standards would alter local political and economic interests. Stronger enforcement will ensure that disclosure requirements can provide better access to basic financial information (Morris & Gray, 2009). In a poor enforcement environment, a high quality disclosure requirement alone is not sufficient in developing high quality financial reporting, despite it being an essential step (Preiato et al., 2012).

To represent the quality of a country's enforcement of law, La Porta et al. (1998) develop a "law and order" proxy which includes the efficiency of the judicial system[13], the respect for the rule of law, and the level of corruption[14] in a country. Based on those developed measures, La Porta et al. (1998) report that common law countries tend to have stronger enforcement. However, La Porta et al.'s (1998) measures are constructed using the data from 1983–1995; hence they do not incorporate any recent institutional changes which may have been happening after the period (Preiato et al., 2012, p. 16). A more recent study by La Porta et al. (2006) examines securities laws concerning public enforcement and investor protection across countries. The public enforcement index is derived from the mean of supervisor characteristics, rule-making power, investigative power, orders, and criminal indices (La Porta et al., 2006, p. 9).

The currently available enforcement proxies, however, tend to emphasise the general legal setting rather than accounting enforcement (Preiato et al., 2012, p. 2). Accordingly, Preiato et al. (2012) offer a self-constructed enforcement index, which emphasises countries' accounting enforcement. The index captures the existence, activity, involvement, and responsibility of a country's enforcement body or bodies in relation to the quality of financial reporting and standard setting outcomes. Specifically, the index measures seven enforcement items in a country, which are: whether a country has a security market regulator or another body monitors financial reporting, whether the body regulates audit firms, has power to set accounting and

[13] The rule of law reflects assessment of law and order tradition in the country, adapted from the country risk rating agency International Country Risk (ICR), and scored from 0-10 with lower scores indicating less tradition for law and order. The efficiency of judicial system is the assessment of the "efficiency and integrity of the legal environment as it affects business, particularly foreign firms" adopted from the country risk rating agency Business International Corp and scored from 0-10 (lower scores indicate lower efficiency).

[14] The rule of law reflects the law and order tradition in the country, whereas the efficiency of judicial system considers the "efficiency and integrity of the legal environment as it affects business, particularly foreign firms".

auditing standards, reviews financial statements, provides a report about its review of financial statements, has taken enforcement action regarding financial statements, and what is the level of resourcing by the securities market regulator. The value of the index ranges between 0-12 with higher values for stronger enforcement. Based on the index, Preiato et al. (2012) find that countries with more developed capital markets tend to have stronger enforcement; however, they do not examine firms' disclosure practices. Table 2.1 shows that, of the six countries, Australia has the highest enforcement index, whereas Indonesia has the lowest.

Investor Protection

In addition to the strength of enforcement mechanisms, extant research indicates that strong investor protection laws are warranted for high quality accounting (Leuz et al., 2003; Meek & Thomas, 2004).

La Porta et al. (1998) investigate the strength of investor protection laws across 49 countries and their associations with the legal origin and the development of a capital market. To measure the strength of protection to shareholders' rights, La Porta et al. (1998, p. 1127) develop *an anti-director index* which represents "how strongly the legal system favours minority shareholders against managers or dominant shareholders in the corporate decision-making process, including the voting process"[15]. Index scores (untabulated) range from zero to six, comprising the sum of one share/one-vote, proxy by mail, unblocked shares, cumulative vote/proportional representation, pre-emptive rights, oppressed minority, and percentage of shares needed to call a shareholder meeting (La Porta et al., 1998, p. 1123). Using La Porta et al.'s (1998) anti-director right and legal enforcement indices, Leuz et al. (2003) investigate the differences in earnings management across 31 countries. Leuz et al. predict and find evidence that stronger investor protection decreases earnings management, suggesting that the stronger investor protection reduces insiders' private control benefits and thus increases the quality of accounting information.

La Porta et al.'s (1998) anti-director index, however, has been criticised as being dated and not capturing the important aspects of the law (e.g., P. Brown, Beekes, & Verhoeven, 2011; Preiato et al., 2012). More recently, La Porta et al. (2006) develop an investor protection index which consists of a revised anti-director, a disclosure

[15] The selection of companies in each of those 49 countries is based on the largest stock market capitalisation in 1993.

requirement, and liability standard indices based on the securities laws for initial public offerings to examine the determinants of stock market development. Unlike the La Porta et al.'s (1998) original anti-director index which is collected through the "ad-hoc" inspection of company and bankruptcy laws across countries, the revised investor protection indices "are based on answers to a questionnaire by attorneys in the sample…" (La Porta et al., 2006, p. 5). The revised anti-director rights index is an aggregate index of shareholder rights according to the laws and regulations applicable to publicly traded firms in May 2003. The index is a summative of six items: vote by mail, shares not deposited, cumulative voting, oppressed minority, pre-emptive rights, and capital to call a meeting (Djankov et al., 2008, p. 455). The findings show that larger stock markets tend to be associated with both disclosure requirements and the liability standard in securities laws, but not related with all aspects of public enforcement. The findings may suggest the complementary role of securities regulation concerning protection for investors to the public enforcement (e.g., the active regulatory bodies or criminal sanctions). Table 2.1 indicates that the Philippines has the highest investor protection index, while Thailand has the lowest.

Djankov et al. (2008) investigate the strength of investor protection across 72 countries by specifically measuring the protection to minority shareholders against self-dealing by controlling owners. They develop an anti-self-dealing-index based on the six aspects of self-dealing regulations (i.e., approval by disinterested shareholders, ex ante disclosure, ex ante private control of self-dealing, disclosure in periodic filings, ease in proving wrongdoing, and ex post private control of self-dealing). Djankov et al. (2008) find positive associations between capital market developments and each of the aspects as well as the overall anti-self-dealing index[16] (Djankov et al., 2008).

Following previous empirical findings on the association between the strength of a country's investor protection and firms' disclosure practices (e.g., La Porta et al., 2006; Djankov et al., 2008), firms in countries with stronger investor protection are expected to have a greater level of RP disclosures. As shown in Table 2.1, Singapore shows the highest value of the anti-self-dealing index and the Philippines the lowest.

[16] The stock market development is represented by a ratio of stock market capitalisation to GDP (Djankov et al., 2008, p. 445).

Control for Corruption

A country's control for corruption is argued to be an important component of an effective institutional regulatory framework (Transparency International, 2009b). The risks of corruption exist both inside and outside companies, therefore stronger control for corruption is expected to mitigate corrupt acts in the public and private sectors (Aldrighi, 2009). Inside a company, corrupt acts may be in the form of opportunistic behaviours by managers or controlling owners. For example, controlling owners may exert their influence to expropriate wealth from minority shareholders or managers may opportunistically pursue short-term profits to obtain private benefits at the expense of long-term profitability (Aldrighi, 2009, p. 16). A commitment towards greater transparency is argued to be one way to mitigate corrupt practices (e.g., Malagueño et al., 2010). Therefore, firms in countries with stronger control of corruption are expected to have greater disclosure transparency of RP information. Table 2.1 shows that Singapore has the highest score of corruption perception index, which means that this country is the least corrupt compared to the other five countries, whereas the Philippines has the lowest score of corruption (i.e., the highest level of corruption).

2.1.4 Ownership Concentration

In corporations with dispersed ownership, conflicts of interest exist between powerful controlling managers and shareholders (Berle & Means, 1932; Jensen & Meckling, 1976). In the corporations with dispersed ownership, RP transactions can increase the conflict of interest between managers and shareholders, as the non-arm's length nature of RP transactions can provide an opportunity for managers to pursue personal interests at the expense of other shareholders. However, in an environment with highly concentrated ownership structures, there is potentially additional agency conflict between the controlling owner (who is often also the manager) and outside/minority shareholders (Shleifer & Vishny, 1997). In this case, the controlling shareholders have the opportunity to exercise their private benefits of control at the expense of minority shareholders.

Table 2.1 shows the ownership data taken from Carney and Child's (2012) and La Porta et al.'s (1999) studies. La Porta et al. (1999) investigate the ownership structures of large corporations in 27 wealthy economies including Australia and

Singapore. Using similar definitions of ownership structure and year as La Porta (1999) but with a different sample, Claessens et al. (2000) investigate the ownership structure of East-Asian corporations. More recently, Carney and Child (2012) investigate the ownership and control of East Asia's largest companies in 1996 and 2008[17] by mirroring the dataset, variables and sources of Claessens et al.'s (2000) study. As shown in Table 2.1, Indonesia, Malaysia, Thailand and the Philippines have a higher number of family-controlled firms than the other countries. In these four countries, control of listed corporate assets lies in the hands of a small number of families. The controlling owner alone, as shown in the table, indicates that more than 30% of listed firms in Indonesia, Malaysia, the Philippines, Singapore and Thailand are controlled by a single shareholder. Additionally, more than 60% of firms in Indonesia, Malaysia, Singapore and Thailand have managers who are members of the controlling family, suggesting that the separation of management from ownership control is uncommon. Such a relationship (between the controlling family and management) is relatively infrequent in the Philippines, which is most probably due to a preference in that country for interlocking directorates and management boards[18] (Claessens et al., 2000; citing Tan, 1993).

The studies by La Porta et al. (1999), Claessens et al. (2000), and Carney and Child (2012) document that family-controlled firms are very common among listed companies in Indonesia, Malaysia, the Philippines, Singapore and Thailand but are very rare in Australia. The concentration of ownership and the presence of family ownership raise conflicts of interest between the controlling and minority shareholders. The concentrated ownership of Asian corporations, including family-controlled ones, is most probably associated with weak enforcement of property rights. Such ownerships' structure could be used as mechanisms to tackle weak legal systems, poor law enforcement and corruption (Claessens et al., 2000). Ownership concentration and family ownership can form institutional arrangements to facilitate related transactions. In such an arrangement, the transaction costs among family members can be reduced. Moreover, closely affiliated companies have lower

[17] Carney and Child (2012, p. 2) state: "[T]o map changes since 1996 our data set mirrors that of Claessens, Djankov and Lang (2000) with respect to the variables and sources used so as to ensure consistency".

[18] Interlocking directorates and management boards exist when member(s) of a controlling family serve on the board of directors or management board of companies which are controlled by other family(ies) (Claessens et al., 2000, citing Tan, 1993).

information asymmetry, which may otherwise exist in transactions among unrelated parties (Claessens et al., 2000).

2.1.5 Corporate Governance Principles

It is claimed that effective corporate governance mechanisms play an essential role in monitoring RP transactions, particularly in ensuring efficient transactions and preventing opportunistic transactions (OECD, 2009; Loon & De Ramos, 2009). Prior studies suggest that the critical components of effective corporate governance include the mandatory establishment of an audit committee in the listed companies, the financial expertise of audit committee members, and the board's independence, as well as board competence and financial expertise[19] (OECD, 2009, pp. 37-42). In addition, a formal and transparent board nomination and election process is considered vital (OECD, 2004). Those factors are likely to be fundamental to ensuring the disclosure transparency and credibility of company financial statements, specifically the disclosure of RP transactions.

As previously discussed, the Claessens et al. study (2000) shows that companies in East Asian countries (including Indonesia, Malaysia, the Philippines, Singapore and Thailand) tend to have high family-concentrated ownership. In those companies, the board of directors and top management are typically dominated by the controlling shareholders, who tend to have family relationships. In addition, a study by Asian Development Bank reports that prior to the Asian financial crisis, listed companies in Indonesia, Malaysia and Thailand rarely had both independent boards of directors and audit committee (Nam & Nam, 2004). Since the crisis, a number of corporate governance reforms have been implemented by the Asia-Pacific countries in order to strengthen the efficacy of the board of directors' internal oversight role (Nam & Nam, 2004).

[19] For example, as a response to the Sarbanes–Oxley Act of 2002, the U.S. SEC defines a financial expert (in the audit committee) as "a director who (1) understands GAAP and financial statements; (2) can assess the application of GAAP for estimates, accruals, and reserves; (3) has prepared, audited, analyzed, or evaluated financial statements similar to those of the company or has experience supervising those who performed these functions; (4) understands internal controls and financial reporting procedures; and (5) understands audit committee functions. Directors may acquire these attributes through education and experience as (or by supervising) a principal financial officer, principal accounting officer, controller, public accountant, or auditor; by overseeing or assessing companies or public accountants in the preparation, auditing, or evaluation of financial statements; or from other relevant experience. See the SEC document at www.sec.gov/rules/final/" (The Corporate Governance of Listed Companies CFA, 2009, p. 14).

Various recent reforms and enhancements in corporate governance rules and guidelines are evident across the Asia-Pacific region. In Australia, the ASX Corporate Governance Council (ASX CGC) was established in 2002 to provide guidelines to improve corporate governance practices. The ASX CGC issued Corporate Governance Principles and Recommendations in 2003 and a revised edition in 2007 (ASX CGC, 2007). The ASX Listing Rule (4.10) requires listed companies to disclose their corporate governance practices in the annual reports, according to the best practice recommendations in the reporting period (Plastow, 2011). Further, ASX Listing Rule (12.7) mandates the establishment of an audit committee for the top 300 ASX listed companies (Munro & Buckby, 2008)[20]. In addition, the ASX CGC recommends that an audit committee has at least three non-executive directors, who are mostly independents, and is chaired by an independent director, who is not chair of the board (ASX CGC, 2007).

Following the Asian financial crisis, Asian countries have intensified their efforts in developing better governance to monitor firms and enhance their accountability and transparency. In March 2000, the Malaysian Code on Corporate Governance was formulated and incorporated in Chapter 15 Kuala Lumpur Stock Exchange (KLSE) requirements and became effective in January 2001 (Morris, Pham, & Gray, 2011). The code is mainly based on the Cadbury Report 2002 and Hampel Report 1998 (Wahab, How, & Verhoeven, 2007). The code requires listed companies to have independent directors (with at least the higher number between two directors and one-third of the board), an audit committee (at least three directors who are mostly independent), and appoint an external auditor (Morris et al., 2011). Following a revision to strengthen corporate governance in 2007, several key amendments were incorporated into the code. The amendments include the establishment of the Auditing Oversight Board under the support of the Securities Commission, prohibition of executive directors from becoming members of the audit committee, and a mandatory internal audit for all publicly listed companies (Wan-Hussin, 2009).

In the Philippines, the Securities and Exchange Commission (SEC) issued the code for Corporate Governance in 2002 and the code became effective in that year. The

[20] "ASX Listing Rules are contractually binding on ASX listed companies and are enforceable under sections 793C and 1101B of the *Corporations Act 2001 (Cth)*(Commonwealth of Australia 2001)" (Munro and Buckby, 2008).

code requires public companies to establish a board of directors, which includes at least two independent directors or at least 20% of the total of board members (whichever is the lesser). In addition, public companies must have an audit committee of at least three board members, preferably with accounting and finance background (one of whom should be an independent director and another to have related audit experience). The chairperson of the audit committee should be an independent director. Failure to comply with the recommendation would subject the firm to a penalty of PHP100,000 (Securities and Exchange Commission, 2002).

In Singapore, the Singapore Stock Exchange (SGX) adopted the Code of Corporate Governance (CCG) in April 2001 (Mak & Kusnadi, 2005). The CCG was reissued in 2005 and became effective in January 2007 following the recommendations and review by the Council on Corporate Disclosure and Governance (CCDG), a body established in August 2002. All of the recommendations were accepted, except two which were related to the definition of the independent director (which excluded the independence from substantial shareholders) and detailed disclosure of directors' remuneration (CFA, 2011). In September 2007, the corporate governance (CG) oversight responsibilities were transferred to the Monetary Authority of Singapore (MAS) and the SGX. The listing rules of the SGX have been criticised as they do "not always back up the code" (CFA 2011, p.4). For example, the code recommends that a minimum of one-third of the board be independent directors. However, the SGX listing rules require only two independent directors on each board (CFA, 2011).

In Thailand, the Thai Stock Exchange (SET) reissued the Principles of Good Corporate Governance for Listed Companies in 2006. The code incorporates the Organisation for Economic Co-operation and Development's (OECD) Principles of Corporate Governance and follows the World Bank's recommendations in the Report on the Observance of Standards and Codes (CG-ROSC). The Thai corporate governance principles require a minimum number of independent directors (at least one-third of the board size but not less than three). The principles also require the chairman of the board to be an independent director and the establishment of an audit committee, remuneration committee and nomination committee for all listed companies (SET, 2006).

Lastly, in Indonesia, the corporate governance model differs from the rest of other countries in the region. Indonesian Company Law[21] (1995, revised in 2007) requires a two-tier corporate governance structure of Indonesian listed companies: that is, the board of commissioners and the board of directors. Similar to independent non-executive directors, the board of commissioners provides direction and supervision to the board of directors in managing the day-to-day operation of the firm (Morris, Ho, Pham, & Gray, 2004). The Company Law (1995, revised in 2007) requires public companies to have at least two members on the board of commissioners[22].

In addition, the stock exchange listing regulation (JSX 2000, revised in 2001) requires listed companies to have independent directors who make up at least 30% of the board[23]. Listed companies are also required to establish an audit committee with at least three members, one of whom is an independent director. The others should be independent professionals in accounting or finance, recruited from outside of the company.

Overall, each of the six countries in the Asia-Pacific region has embarked on a number of reforms to strengthen the efficacy of the oversight role of corporate governance mechanisms. Specifically, the corporate governance code in all countries requires independent directors on the board, establishment of an audit committee with an independent chair, and competence of the board members as well as audit committee members. These corporate governance reforms are expected to impact corporate RP transactions, that is to minimise abusive RP transactions and influence more transparent RP disclosure. However, the differences in legal systems in each country may affect the effectiveness of corporate governance rules. For example, in countries with weak law enforcement, the rules and requirements of corporate governance mechanisms can be cut short, impeding their role in mitigating abusive/opportunistic RP transactions and ensuring the disclosures of RP

[21] Article 94 (2) of the Company Law (1995), revised in Article 108 (5) of the Company Law (2007).

[22] Hereafter, for comparative purposes, the term "board" or "directors" is used in reference to the Indonesian board of commissioner (in a two-tier structure) or board of directors (in a one-tier structure), unless stated otherwise. Such approach in terminology is consistent with previous studies (for example, Morris et al., 2004; Siregar & Utama, 2008).

[23] JSX (Jakarta Stock Exchange) was the Indonesian stock exchange based in Jakarta, Indonesia. In 2007, JSX merged with the Surabaya Stock Exchange and changed its name into the Indonesia Stock Exchange (IDX) (http://www.idx.co.id/en-us/home/aboutus/history.aspx).

transactions. Accordingly, this study aims to investigate the associations of both corporate governance mechanisms and law enforcement with corporate RP disclosure practices.

2.1.6 Summary of Institutional Factors Affecting RP Disclosures

In summary, there are a number of key institutional factors across countries which are relevant to this study of RP transactions and RP disclosures. First, there are differences in the origins of legal systems across sample countries which are likely to affect corporate accounting practices and disclosure transparency. The legal systems in Australia, Malaysia, Singapore and Thailand originated from common law, whereas those of Indonesia and the Philippines originated from code law. Second, certain countries have more developed capital markets and relatively stronger law enforcement than the others. The differences in the stock market development may affect the regulation of RP transactions and their disclosures, as more developed stock markets tend to require greater disclosure in general. Third, there are also differences in the degree of ownership concentration and family ownership across countries. Indonesia, Thailand and the Philippines have a relatively higher number of family-controlled firms than the other countries. Finally, despite a number of corporate governance reforms implemented in each of the six countries in the Asia-Pacific region, the differences in the strength of enforcement may impact the efficacy of the oversight role of corporate governance mechanisms in mitigating RP transactions and ensuring RP disclosure transparency. Those unique characteristics provide an important setting to investigate corporate RP disclosures, in particular, whether those characteristics impact on the nature and extent of RP disclosures.

2.2. Evolution of IAS 24 *Related Party Disclosures*

While institutional factors may influence the extent of RP transactions, knowledge of those transactions by stakeholders is essential to their effective monitoring. Public disclosure of RP transactions enables users of financial statements to fully assess a firm's operations, its associated risks, and opportunities. Consistent with this notion, Henry, Gordon, Reed, and Louwers (2012, p. 190) point out the critical concern regarding the disclosure of RP transactions: "The issue is whether reported transactions, if not identified as being with a related party, might distort the

economic reality of the company's financial position". For example, sales/loans/receivables to a related party may not be made on similar terms as sales to third parties; or sales to a related party may not be as sustainable as sales to third parties (Henry et al., 2012). Given the possibility of opportunistic behaviour, it is not surprising that disclosure standards have evolved in an attempt to facilitate effective disclosure of RP transactions.

Table 2.2 presents the introduction and evolution of IAS 24 *Related Party Disclosure* over time. As shown in Table 2.2, the International Accounting Standards Committee (IASC) published an Exposure Draft (ED 25) on RP disclosures in March 1983. Following the comment period and after examining submissions, IAS 24 *Related Party Disclosures* was released by the IASC in July 1984, effective from 1 January 1986. The disclosure requirements of the standard were similar to those of the U.S., that is, Financial Accounting Standard (FAS) 57 *Related Party Disclosure,* which was issued in 1982. Both standards require detailed disclosures of RP transactions, including:

(1) information about the parent company
(2) information about the nature and amount of transactions
(3) information about the nature of relationships with related parties

Table 2.2 also shows that IAS 24 (1984) was reformatted in 1994 in order to align with the presentation of IASs issued from 1991 onwards (Epstein & Mirza, 2002). There was no substantial change or revision in the 1994 reformatted version (Epstein & Mirza, 2002). A few years later, in October 1995, the U.K. standard, FRS 8 *Related Party Disclosures* was issued by the Financial Reporting Council (FRC).

Table 2.2 History of IAS 24 Related Party Disclosure

Date	Activity
March 1983	Exposure Draft E25 *Disclosure of Related Party Transactions*
July 1984	Issuance of IAS 24 *Related Party Disclosure*
1 January 1986	Effective date of IAS 24 (1984) *Related Party Disclosure*
1994	Issuance of reformatted IAS 24
16 December 2004	Issuance of Revised IAS 24 (Effective from 1 January 2005)
February 2007	Issuance of ED Proposed Amendments to IAS 24
11 December 2008	Issuance of Revised ED of Proposed Amendments to IAS 24
4 November 2009	Issuance of Revised IAS 24 (Effective from 1 January 2011)

Source: Adapted from http://www.iasplus.com/en/standards/standard22

Following the IASC's restructuring process in March 2001, an Exposure Draft on its Improvement Project was published by the IASB in May 2002[24]. This project proposed amendments to 12 of its 43 active standards, with the objective to "eliminate certain conceptual inconsistencies among the standards, provide additional guidance on implementation, improve required disclosures, and ameliorate poorly drafted language and structure of certain extant standards" (Epstein & Mirza, 2004). Included in the Exposure Draft is IAS 24 *Related Party Disclosures*, which was finalised on 1 December 2003 and became effective for annual accounting periods beginning on or after 1 January 2005 (Epstein & Mirza, 2005)[25]. According to the standard, the objective of *Related Party Disclosures* (IAS 24, 2003, para. 1) is as follows:

> [T]o ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that the reported financial position and results may have been affected by the existence of related parties, transactions or outstanding balances with such parties.

In the standard, a related party transaction is defined as "any transfer of resources, services or obligations between related parties, regardless of whether a price is charged" (IAS 24, 2003, para. 9)[26]. The definition of related parties includes parties with joint control over the reporting entity, joint ventures in which the reporting entity is a joint venturer, individuals who control the reporting entity, post-employment benefit plans for the benefit of employees of the entity, or of any entity, that is a related party of the entity, and non-executive directors (para. 9). IAS 24 (2003) also provides detailed definition of "close family members" which includes "domestic partners and children or dependents of the individual or domestic partner". The state-controlled entities are also required to disclose RP transactions entered into with other state-controlled enterprises.

[24] The IASB was constituted to carryover the main task of achieving the convergence of national accounting standards and ensuring the promotion of IAS from March 2001 (Epstein & Mirza, 2003).

[25] Having been finalised, the revised IAS 24 was not officially issued as the IASB decided to wait until all standards under the Improvements Project were completed. Therefore, as shown in Table 2.2, the revised IAS 24 was officially issued in 16 December 2004.

[26] This definition is consistent with the previously applicable IAS 24 (1984 and 1994), which defines related-party transactions as "dealings between related parties involving transfer of resources or obligations between them, regardless of whether a price is charged for the transactions".

The standard requires a reporting entity to disclose the name of its parent and the ultimate controlling party, if different (IAS 24, 2003, para. 12). When neither the entity's parent nor the ultimate controlling party produces public financial statements, the entity shall disclose the name of the next most senior parent that does so (IAS 24, 2003, para. 15). The identity of the parent company is essential information to clarify a complex business structure which the reporting entity is a part of. Information about the parent's identity enables users of financial statements to trace the parent's or ultimate controlling party's financial statements if such a report is required in the decision-making process (Mackenzie et al., 2012).

Paragraph 16 of IAS 24 (2003) also requires detailed disclosure of key management personnel (KMP) compensation, which includes five categories of compensation in addition to the total amount. Such disclosures are subject to criticisms. Firstly, detailed disclosure of KMP remuneration is deemed as very sensitive information in some jurisdictions, hence an aggregated amount is often preferred than more detailed amounts. Secondly, it is argued that the approval processes for KMP remuneration already exist within the reporting entities (for example, through the remuneration committee), which should prevent abusive practices or excessive remunerations. Despite these criticisms, detailed KMP compensation disclosures are mandatorily required in IAS 24 (2003) as such details are relevant for users' decision-making and they, undoubtedly, are RP transactions (Mackenzie et al., 2012).

Regarding the RP balances, paragraph 17 of the standard requires companies to disclose the amount of outstanding balances, and terms and conditions of the balances. The requirements include detailed information of whether the balances are secured, how repayments will be made (e.g., settled by cash), details of guarantees given or received, the amounts of bad debt provisions and bad debts expenses recognised. It is argued that these details should provide better economic assessment on RP transaction balances and may reveal any irregularities, for example, whether any provisions are provided for and/or written-off from RP bad debts and, if so, whether the amount is reasonable (Epstein & Mirza, 2006).

Interestingly, comparisons of the amounts of RP transactions to arm's length amounts are no longer required in IAS 24 (2003), owing to the difficulty in determining arm's length pricing with sufficient accuracy and reliability (IAS 24,

2003, para. 21). Based on the presumption that RP transactions are not arm's length by their nature, IAS 24 (2003) highlights: "Disclosures that related party transactions were made on terms equivalent to those that prevail in arm's length transactions are made only if such terms *can be substantiated*" (IAS 24, 2003, para. 22, emphasis added). Accordingly, firms/managers have to justify the arm's length value of RP transations if they wish to indicate the transactions are under arm's length terms (Mirza, Holt, & Orell, 2006). Nonetheless, the justification is likely to involve discretionary judgment by the reporting entity's management.

Paragraph 22 of IAS 24 (2003) advises that: "items of a similar nature may be disclosed in aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity". Aggregation can simplify the presentation of financial statements and thus provide a greater focus in analysing the nature of transactions; however, separate disclosure may also be needed for certain information. For example, RP balances need to be disclosed separately for each RP owing to the different *materiality* and *risk* of RP balances with the party. For instance, the balance of loans provided to the director is deemed to have higher materiality and risk than a similar balance with a subsidiary (Epstein & Mirza, 2005).

Overall, IAS 24 (2003) improved guidance on RP disclosures. However, the standard still leaves room for discretionary judgment by reporting entities. As an endeavour to further improve IAS 24 *Related Party Disclosures* and in particular its acceptance worldwide, the IASB issued ED Amendment of IAS 24 in February 2007. Specifically, the amendment aimed to clarify and remove inconsistencies in the definition of a related party by removing the disclosure requirement for transactions between state-controlled entities. Following the comment period and after studying submissions, the amended IAS 24 was issued in November 2009 and became applicable from 1 January 2011 (http://eifrs.ifrs.org/eifrs/bnstandards/en/2012/ias24.pdf).

IAS 24 *Related Party Disclosures* (2009) amends the requirements to: provide a partial exemption from related party disclosure requirements for government-related entities, clarifies the definition of a related party (to remove inconsistencies), and includes an explicit requirement to disclose commitments involving related parties.

In comparison, the disclosure requirements in IAS 24 (2009) are not substantially different from those of IAS 24 *Related Party Disclosures* (2003). However, since IAS 24 (2009) is effective from 1 January 2011, the revised requirements apply to reports ending on or after 31 December 2011. Accordingly, IAS 24 (2003) is used as the applicable international standard for this study due to the study period being fiscal year 2009.

2.3. RP Disclosure Standards in the Asia-Pacific Countries

This section outlines domestic regulation on RP disclosures in Australia, Indonesia, Malaysia, the Philippines, Singapore and Thailand. In 2009, the accounting standards in all those countries were based on IAS 24 *Related Party Disclosures.* Accordingly, as discussed in the previous section, IAS 24 *Related Party Disclosures* (2003) is used as a benchmark for cross-country comparison. Table 2.3 presents the extent of IAS 24 adoption across six countries.

Table 2.3 Extent of Conformance to IAS 24 and Relevant Regulatory Authority in Fiscal Year 2009

Countries	Extent of IAS 24 Conformance*	Statutory Backing	Enforcement Authority	Notes
Australia	Full-plus disclosure (AASB 124)	Australian Corporations Act 2001	Australian Securities and Investment Commission (ASIC)	Requires additional KMP disclosures (Aus25.1 to Aus 25.9.3).
Indonesia	Partial disclosure (PSAK 7)	Capital Market Law 1995 Company Law 40 (2007)	Bapepam –LK (Capital Market and Financial Institutions Supervisory Agency)	Less disclosure for joint venture, post employment benefit plans, and KMP compensation. Requires pricing disclosure.
Malaysia	Full-disclosure (FRS 124)	Financial Reporting Act 1997 (Amended 2004)	Securities Commission	State-controlled entities are exempted.
Thailand	Partial disclosure (TAS 47)	The Accounting Act B.E. 2543 (2000)	Securities and Exchange Commission Thailand	Less KMP compensation disclosure. Requires pricing disclosure.
The Philippines	Full-disclosure	Accountancy Act, 2004; Securities Regulation Code (Article 22)	Securities and Exchange Commission	
Singapore	Full-disclosure (FRS 24)	Accounting Standard Act, 2007	Accounting and Corporate Regulatory Authority	

Note: *Extent of IAS 24 conformance means conformance to the IAS 24 (2003). Full-plus disclosure = RP disclosure standard requires additional paragraphs of disclosure requirements; full disclosure = RP disclosure standard requires full disclosure; partial disclosure = RP disclosure standard requires less disclosure; all are in comparison with IAS 24 (2003).

Sources: www.aasb.gov.au; www.iasplus.com; www.iaigobal.or.id;www.bapepam.go.id; the Philippines Institute of Certified Public Accountants (www.picpa.com.ph); www.iasb.org.

Table 2.3 indicates that the level of conformance to the IAS 24 *Related Party Disclosures* in the year 2009 differs across countries. Specifically, domestic accounting standards for RP disclosures in Indonesia and Thailand were based on IAS 24 (a 1984 version and a reformatted 1994 version, respectively), whereas those of other countries were based on IAS 24 (2003). Owing to the differences in the extent of IAS 24 *Related Party Disclosure* conformance, there were several notable differences in the component of RP disclosure requirements across countries. RP disclosure requirements in conformance with IAS 24 (2003) in each selected country are further discussed below.

2.3.1 Australia

Table 2.3 shows that Australian Accounting Standards are issued by the Australian Accounting Standards Board (AASB) and have the legal backing of the Corporations Act (2001). The Australian accounting standards regulating RP disclosures have experienced several changes. The first accounting standard addressing RP transactions in Australia, AASB 1017 *Related Party Disclosures,* was issued in 1989 and last revised in 1997. Consistent with IAS 24 in determining the existence of related party relationship, AASB 1017 emphasised the substance of the relationship, rather than its legal form (para. 3).

AASB 1017 required reporting entities to disclose the details of relationships, transactions and balances within three classes of related parties (directors and their related entities, members of a wholly owned group, and other related parties). Following the need for a more comprehensive disclosure for transactions relating to company officers, AASB 1046 *Director and Executive Disclosures by Disclosing Entities* was then issued by the AASB in January 2004.

Upon full convergence with IFRS, effective in July 2004, companies were required to comply with AASB 124 *Related Party Disclosure,* which is equivalent to IAS 24 (2003). Further, AASB 124 was reissued in December 2005 following an amendment in December 2004 as a process of integrating the requirements of AASB 1046 *Director and Executive Disclosure by Disclosing Entity.* Since the disclosure-requirements for key management personnel (KMP) compensation in AASB 124 are

less extensive[27] than those in AASB 1046, additional requirements of *Other Key Management Personnel Disclosure by Disclosing Entity* are added in paragraph Aus25.1 to Aus25.9.3 of AASB 124. This additional paragraph is intended to make the KMP disclosures in AASB 124 equivalent to AASB 1046, and simultaneously comply with IAS 24[28] (2003) (AASB, 2008; ICAA, 2008). Accordingly, as shown in Table 2.3, the extent of conformance is labelled as *"full-plus disclosure"*.

2.3.2 Indonesia

The Indonesian Accounting Standards Board (DSAK)[29] promulgates the accounting pronouncements in Indonesia. DSAK – a body established by the Indonesian Institute of Accountants (IAI) – issues Statements of Financial Accounting Standards (PSAK) and their interpretations (ISAKs). As shown in Table 2.3, the financial accounting standards have legal backing through both the Capital Market Law (Law 8/1995) and the Company Law (1995, revised in Law 40/2007).

In 1973, IAI codified the first Indonesian Accounting Principles (PAI), which is sourced from Grady's (1965) *Inventory of GAAP for Business Enterprises* (as cited in Ikatan Akuntan Indonesia, 2007; Saudagaran & Diga, 2000). In 1984, the PAI were revised to integrate several Indonesian business concepts. Further, from 1987 to 1991, several statements of accounting principles based on the U.S. accounting treatments were issued. Then, in September 1994, IAI undertook a major revision by adopting 21 International Accounting Standards (IAS), renamed as "Financial Accounting Standards" or "Standar Akuntansi Keuangan" (SAK), and made those standards mandatory for all publicly listed companies (IAI, 2007; Saudagaran & Diga, 2000). In the same year, IAI decided to fully harmonise, the term later revised as "adopt", its accounting standards to IAS/IFRS[30]. Among those newly adopted

[27] That is, the term *specified director, executive* and *specified executive* are replaced by *key management personnel* (KMP) as a sole definition in AASB 124 (including a removal of the requirement to describe at least five executives with the highest authority).

[28] AASB 124 states (AASB 124, p.7), "Entities that comply with AASB 124 will simultaneously be in compliance with IAS 24." Further, "Compliance with the additional individual key management personnel disclosure requirements in paragraphs Aus29.1 to Aus29.9.3 of AASB 124 is not needed for IFRS compliance."

[29] DSAK (Dewan Standar Akuntansi Keuangan) has been so named since September 1998. Previously this authoritative body was established in 1973 as Komite IAI (IAI, 2007).

[30] On 23 December 2008, IAI announced a formal statement of its plan and roadmap to fully adopt the IFRS starting 1 January 2012 (IAI, 2009). The Exposure Draft of PSAK 7 (2009 revision), adopted from IAS 24 amended in 2009, was released on 15 December 2009. This PSAK is effective from 1 January 2012.

standards was "Pernyataan Standard Akuntansi Keuangan" or PSAK 7 (1994) *Related Party Disclosure,* which refers to IAS 24 (1984)[31].

In addition to PSAK 7, the Capital Market and Financial Institutions Supervisory Agency (BAPEPAM-LK) as the enforcement authority requires listed companies to disclose related party transactions in the audited annual and semi-annual reports (Rule VIII.G.7 and IX.E.1) (BAPEPAM, 2000; OECD, 2009)[32]. In comparison with IAS 24 (2003), Indonesian GAAP has four notable differences. First, there is no specific requirement to disclose the name of the ultimate parent entity, unless there is a transaction with the party (Deloitte, 2007; KPMG, 2008; PWC, 2005; IAI, 2007). Second, while a company needs to disclose the total compensation of key management personnel, there is no requirement for detailed disclosures by category of compensation (KPMG, 2008; PWC, 2005; IAI, 2007). Third, in relation to the related party definition, Indonesian GAAP defines that an entity which has a common director or other member of the key management personnel with the reporting entity is deemed to be related. Lastly, Indonesian GAAP requires firms to disclose the pricing for RP transactions and the reasons for providing allowances for outstanding receivables (IAI, 2007; KPMG, 2008; BAPEPAM, 2000). Accordingly, as shown in Table 2.3, the extent of conformance is labelled as *"partial disclosure"*.

2.3.3 Malaysia

The Malaysian Accounting Standards Board (MASB) issues Malaysian Accounting Standards (MAS), and is an independent authoritative body established under the Financial Reporting Act 1997 (refer to Table 2.3 above).

Historically, Malaysia followed the U.K. in setting their domestic accounting standards. However, after the IASC formation in 1973, Malaysia announced their support for the IASC Standards (Saudagaran & Diga, 2000). As early as 1977, the professional accounting bodies, which include the Malaysian Association of Certified Public Accountants (MACPA) and the Malaysian Institute of Accountants (MIA), endorsed IAS adoption (Ball et al., 2003).

[31] The original title is PSAK 7, *Pengungkapan Pihak-Pihak yang Mempunyai Hubungan Istimewa* (IAI, 2007)

[32] Bapepam-LK is the securities and non-bank financial institutions regulator and has issued a number of corporate governance related regulations (ROSC CG, 2010).

Effective for accounting periods beginning on or after 1 January 2000, listed companies in Malaysia are required to comply with MAS 8 *Related Party Disclosure.* In 2005, the MASB embarked on a restructuring process of the accounting standards, by renaming and renumbering all the applicable MASB Standards as Financial Reporting Standards (FRSs). In the restructuring process, MASB issued Exposure Draft of MAS 8 *Related Party Disclosure* on 1 July 2004. Following the comment period, MAS 8 was superseded by FRS 124 *Related Party Disclosure,* which is equivalent to IAS 24 (2003) (IASPlus, 2009). Accordingly, as shown in Table 2.3, the extent of conformance is labelled as *"full disclosure".*

2.3.4 The Philippines

The Philippines Accounting Standards (PAS) are issued by the Accounting Standards Council (ASC), an organisation established in 1981 by the Philippines Institute of Certified Public Accountants (PICPA). Historically, accounting standards in the Philippines were drawn from the U.S. accounting sources, in particular from the recommended treatments by the U.S. standard-setting bodies. Domestic standards based on the U.S. pronouncements were developed in the 1980s (Saudagaran & Diga, 2000). However, in 1994, the Philippines accounting standard setting body decided to move toward full adoption of international accounting standards (Fajardo, 2009). In November 2004, the ASC approved the adoption of IAS and IFRS, which were then renamed as Philippines Accounting Standards (PASs) and Philippines Financial Reporting Standards (PFRS), respectively. The standards were adopted with very minor modification such as the effective dates, and became effective in January 2005 (Fajardo, 2009).

The Philippines related party disclosures, regulated under the Philippines Accounting Standard (PAS) 24 *Related Party Disclosure*, have become effective for accounting periods beginning on or after 1 January 2002 (IASPlus, 2009). Subsequently, in 2005, following the Philippines adoption to IFRSs without modification, IAS 24 (2003) was adopted and renamed as PAS 24. Accordingly, as shown in Table 2.3, the extent of conformance is labelled as *"full disclosure".* The standard became effective from 1 January 2005.

2.3.5 Singapore

Similar to Malaysia, Singapore followed the U.K. in setting their domestic accounting standards. However, they announced their support for the IASC Standards upon the formation of the IASC in 1973 (Saudagaran & Diga, 2000). The professional accounting body, the Institute of Certified Public Accountants of Singapore (ICPAS) was established in 1987 and since then has been relying on the IASC as its main guidance for standard setting (Ball et al., 2003).

In 2001, the Disclosure and Accounting Standards Committee (DASC) of ICPAS recommended the adoption of the IFRS. Following the recommendation, the Council on Corporate Disclosure and Governance (CCDG), an authoritative body with the main task of promulgating Singapore Financial Reporting Standards (FRS), revised and issued the FRSs in 2004. All the revised FRSs were "almost identical" to the IAS (IASPlus, 2010)[33].

Listed companies in Singapore are required to disclose their RP transactions based on FRS 24 (2003) *Related Party Disclosure.* The standard was then superseded by FRS 24 (2004), which is equivalent to IAS 24 (2003) and became effective for periods beginning on or after 1 January 2005 (www.icpas.org.sg)[34]. Accordingly, as shown in Table 2.3, the extent of conformance is labelled as *"full disclosure".*

2.3.6 Thailand

Table 2.3 shows that accounting practices in Thailand are regulated by the Accounting Act (2000), the Civil and Commercial Code, and the Securities and Stock Exchange Act (1992, revised in 2001). Thai Accounting Standards (TAS) are issued by Federation of Accounting Professions (FAP), the successor of Institute of Certified Accountants and Auditors of Thailand (ICAAT). Accounting standards in Thailand were heavily drawn from the U.S. accounting sources. Thailand included several accounting concepts from the U.K. and Germany (e.g. the concept of prudence), however, its *Recommended Accounting Concepts and Principles* are mostly based on U.S. GAAP. While Thailand continues to draw upon U.S. pronouncements, it gradually started to adopt IAS (Saudagaran and Diga, 2000).

[33] CCDG, successor to the ICPAS as the accounting standard setter for companies incorporated in Singapore, was replaced by Singapore Accounting Standards Council in 2007 (www.iasplus.com).
[34] The FRS 24 (2004) is accessible in *www.icpas.org.sg/Handbook/Vol%201/**FRS/FRS**%2024.doc.*

The first Thailand Accounting Standard (TAS) regulating RP disclosure is TAS 47 *Related Party Disclosure,* which became effective for periods beginning on or after 1 January 2000[35]. This standard is based on IAS 24 (1994) and has two notable differences with IAS 24 (2003). First, disclosure of compensation for key management personnel is not required under the current TAS 47. Second, TAS 47 requires companies to disclose their transfer pricing policy. In addition to the TAS, the Thai Securities and Exchange Commission regulation requires listed companies to comply with the *Checklist for Disclosure of Connected Transactions in Notes to the Financial Statement* (SET, 2010). Further, Form 56-1 Annual Registration Statement requires more specific information such as the nature of business operations, description of each product line, risk factors of the business, legal disputes, and research and development activities (World Bank, 2008). In addition, the Stock Exchange of Thailand (SET) also issued a *Listed Companies' Handbook,* which contains guidelines for information disclosure for Thai listed companies, including *Connected Transactions (SET, 2009).*

2.3.7 Summary of Regulations on RP Disclosure

Based on the above review, this section compares the domestic accounting standards of all selected countries. In 2009, the accounting standards in Australia, Indonesia, Malaysia, the Philippines, Singapore and Thailand were based on IAS 24 *Related Party Disclosures*. Several notable differences and similarities are identified and summarised in Table 2.4.

There are two notable differences in RP disclosure requirements by local accounting standards across the countries. First, Australia, Malaysia, the Philippines and Singapore adopted IAS 24 (2003) in 2009. However, additional disclosures about KMP compensation and information about the parent entity are required by Australian accounting standards. Specifically, paragraph Aus 12.1 of AASB 124 states that: "[A]n entity shall: (a) identify which of those entities is incorporated overseas and where; and (b) disclose the name of the ultimate controlling entity incorporated within Australia". Second, Indonesia and Thailand adopted – and

[35] TAS 47 is issued by The Institute of Certified Accountants and Auditors in Thailand (ICAAT) on 1 January 2000. Following revision of the standard, TAS 24 *Related Party Disclosures* has been issued and effective for annual periods beginning on or after 1 January 2011 (Charoenthaveesub, 2011).

translated into domestic languages – the older version of IAS 24, with some adjustments in each domestic standard.

Table 2.4 Comparative Related Party Disclosure Requirements in 2009

Panel A. The Applicability of Related Party Disclosures' Components

Disclosure Item	IAS 24 (2003) *(Para)*	Applicability					
		Aus	**Ind**	**Mal**	**Phil**	**Sing**	**Thai**
Information about Parent company							
1. Relationships between parent and subsidiaries.	12.1	M[(i)]	M	M	M	M	M
2. The name of the parent.	12.2	M		M	M	M	
3. The name of the ultimate controlling party/next most senior parent.	12.3	M		M	M	M	
4. Where the parent is incorporated/constituted.	Aus12.1 (a)	M					
5. The name of the ultimate controlling entity incorporated within Australia.	Aus12.1 (b)	M					
Information about Key Management Personnel Compensation							
6. KMP compensation in total.	16.1	M	M	M	M	M	M
7. Short-term benefit.	16 (a)	M		M	M	M	
8. Post-employment benefit.	16 (b)	M		M	M	M	
9. Other long-term benefit.	16 (c)	M		M	M	M	
10. Termination benefit.	16 (d)	M		M	M	M	
11. Share-based payment.	16 (e)	M		M	M	M	
Information about the Nature of Transactions							
12. Information about the transaction.	17.1	M	M	M	M	M	M
13. Quantitative amount of the transaction.	17.2	M	M	M	M	M	M
14. Pricing policy.[(ii)]			M				M
Information about the Outstanding Balances							
15. Aggregate quantitative amount for the outstanding balances.	17.3	M	M	M	M	M	M
16. Information on whether the balances are secured.	17.4	M		M	M	M	
17. Information on the nature of consideration to be provided in the settlement of the balance e.g. to be settled by cash.	17.5	M		M	M	M	
18. Details of any guarantees given or received.	17.6	M		M	M	M	
19. Information about provision for doubtful debts.	17.7	M	M	M	M	M	M
20. Expense recognised for bad or doubtful debts due from related parties.	17.8	M	M	M	M	M	M
Information about the Nature of Relationship							
21. Nature of relationships.	18.1	M	M	M	M	M	M
22. Quantitative amount for the nature of relationships.	18.2	M	M	M	M	M	M

Panel B. The Country-by-Country Applicability of IAS 24 Related Party Disclosures, as at December 31, 2009

Countries	National Accounting Standards	Effective Date	IFRS-Reference
Australia	AASB 124 Related Party Disclosures	1/01/2005	IAS 24 (2003)
Indonesia	PSAK 7 Related Party Disclosures	1/01/1994	IAS 24 (1984)[(iii)]
Malaysia	FRS 124 Related Party Disclosures	1/10/2006	IAS 24 (2003)
The Philippines	PAS 24 Related Party Disclosures	1/01/2005	IAS 24 (2003)
Singapore	FRS 24 Related Party Disclosures	1/01/2005	IAS 24 (2003)
Thailand	TAS 47 Related Party Disclosures	1/01/2000	IAS 24 (1994)[(iii)]

Note: (i) M = the information is mandatory under the country's GAAP; shaded area = the information is not mandatory; (ii) Item 14 *Pricing Policy* is only required by IAS 24 (1984, reformat 1994) which was applicable in Indonesia and Thailand; (iii) IAS 24 (1994) is a reformat of IAS 24 (1984), there is no substantial difference other than the presentation of the standard (Epstein & Mirza, 2003)

In Indonesia, IAS 24 (1984) was adopted and translated into the Indonesian language (i.e., Bahasa Indonesia). In Thailand, IAS 24 (1984, reformatted 1994) was adopted and translated into the Thai language. In Indonesia and Thailand, the accounting standards require companies to disclose the pricing policy of the RP transactions[36]. Despite those differences, Table 2.4 shows that a number of RP disclosure components are consistently required in all six countries.

2.4. Conclusion

This chapter has highlighted the institutional factors influencing RP disclosures, the evolution of IAS 24 *Related Party Disclosures,* and the development of domestic accounting standards of RP disclosures in selected countries in the Asia-Pacific region. The review provides information on the background, development, and the extent of adoption of IAS 24 *Related Party Disclosures* by each country. The financial reporting regime plays a significant role in the shaping, monitoring and enforcement process of accounting standards, as well as influencing the extent of compliance with those standards.

Family-controlled firms are very common among listed companies in Indonesia, Malaysia, the Philippines, Singapore and Thailand but very rare in Australia. In addition, a more developed stock market tends to be associated with greater disclosure requirements, including RP disclosure. Countries with common law legal system traditions have had better disclosure requirements and more stringent rules in mitigating self-dealing than countries with civil law legal systems. Also, countries with stronger law enforcement and shareholders' protection tend to have greater financial disclosure. Lastly, all six countries in this study have embarked on governance reforms following the Asian financial crisis. The revised code of corporate governance in each of the countries requires the presence of independent directors on firms' board of directors and audit committees. In addition, the board members and audit committee members are expected to have appropriate financial expertise. These reforms should increase governance effectiveness in mitigating abusive/opportunistic RP transactions and ensure more complete and transparent RP

[36] As previously mentioned in Section 2.2, IAS 24 (1984) was reformatted in 1994 in order to align with the presentation of IASs issued from 1991 onwards (Epstein & Mirza, 2002). Accordingly, there was no substantial difference between those two versions of IAS 24.

disclosure. However, weak legal systems may impede the effectiveness of corporate governance mechanisms in monitoring RP transactions and their disclosures. Accordingly, this study incorporates both country legal systems and corporate governance mechanisms as potential factors associated with variation in RP disclosures across the region.

Overall, IAS 24 *Related Party Disclosure* is used as the basis for the development of national accounting standards for RP disclosures in Australia, Indonesia, Malaysia, the Philippines, Singapore and Thailand, although each country has had a different pace of conformity. All six countries rely on IAS 24 *Related Party Disclosures* as the main source for regulating accounting disclosure of corporate RP transactions. In 2009, Australia, Malaysia, the Philippines and Singapore fully adopted IAS 24 (2003) *Related Party Disclosure;* however, Indonesia and Thailand were still conforming to a previous version of the standard.

The following chapter reviews the existing RP and related disclosure literature, including studies that examine the association between RP disclosures, corporate governance, and relevant institutional factors.

CHAPTER 3: LITERATURE REVIEW

The increasing significance of related-party (RP) transactions and the considerable impact of those transactions have stimulated a growing body of research in both finance and accounting. This study aims to examine the nature and extent of RP transactions, their disclosures by companies in the Asia-Pacific region, and the potential factors associated with the disclosures. To achieve this objective, this chapter reviews extant research in corporate financial disclosures, firm-level and country-level governance characteristics, and RP transactions. First, the overview of information asymmetry and financial disclosure is outlined and the underlying motivations of RP transactions are discussed. Second, research on the nature and extent of RP transactions are examined and findings on potential determinants of RP transactions are identified. Third, studies investigating the firm-level and country-level governance characteristics influencing corporate disclosures are examined and the findings on potential determinants of corporate disclosures are identified. Finally, the chapter concludes with the gaps in the existing RP disclosure research, which provide the basis for the theory and hypotheses developed in Chapter 4.

3.1 Information Asymmetry and Financial Disclosure

3.1.1 Agency Theory and Information Asymmetry

Agency theory posits that the separation of corporate managers from outside investors potentially creates conflict of interests in which the managers may not act in the investors' best interest (Berle & Means, 1932; Jensen & Meckling, 1976). Managers (insiders) are likely to have superior information about their firms compared to investors (outsiders), resulting in information asymmetry between the insiders and the outsiders (Kothari, Shu, & Wysocki, 2009). Furthermore, information economics research shows that information asymmetry can create incentives for managers to withhold or distort certain information. Such information problems are known as "moral hazard" and "adverse selection" in a capital market (Cooper & Keim, 1983).

The moral hazard problem arises as managers have opportunities to withhold and utilise private information to maximise their personal benefits (Scott, 2006).

Managers can make inefficient investment or operating decisions that are detrimental to the interests of outside investors (Healy & Palepu, 2001). This problem leads to adverse consequences in the allocation of capital. Furthermore, the adverse selection problem arises when investors are unable to distinguish between good and bad investments, a situation known as the "lemon problem" (Akerlof, 1970; Healy & Palepu, 2001; Scott, 2006). Investors may be reluctant to invest in firms they are unfamiliar with, even when those firms provide good investment opportunities. Consequently, those firms will be unable to attract sufficient funds to finance their business plans. The information asymmetry problem can lead to a failure (inefficiency) in the functioning of capital markets (Akerlof, 1970; Cooper & Keim, 1983) including reduced liquidity in the stock markets (Glosten & Milgrom, 1985).

3.1.2 Information Asymmetry and Disclosure

Disclosure of financial accounting information is claimed to be an important monitoring mechanism to reduce information asymmetry (Beyer, Cohen, Lys, & Walther, 2010; Bushman & Smith, 2001; Hermalin & Weisbach, 2012). Bushman and Smith (2001) argue that financial disclosure can assist managers in channelling resources towards good investments and may prevent wealth expropriation. Beyer et al. (2010) contend that financial disclosure enables potential and current shareholders and creditors to assess the expected return of their potential investments and evaluate the usage of the entrusted capital. Furthermore, Hermalin, and Weisbach (2012) state that greater disclosure may help reduce the incidence of outright fraud and theft by insiders.

Financial accounting information disclosure can be classified into two types: (1) discretionary disclosure and (2) mandatory disclosure (see for example Healy & Palepu, 2001; Cooper & Keim, 1983). In the context of discretionary disclosures, firms have incentives to disclose more than the minimum information required when the benefits of reducing information asymmetry outweigh the associated costs (Healy & Palepu, 2001; Marston & Shrives, 1991; Verrecchia, 1983). For example, some studies (e.g., Amihud & Mendelson, 1986; Diamond & Verrecchia, 1991) find that greater disclosures are likely to lower transaction costs, increase liquidity and reduce cost of capital. Amihud and Mendelson (1986) suggest that a firm's commitment to voluntarily disclose private information is likely to reduce information asymmetry

and narrow bid-ask spreads. The reduced spreads will, in turn, increase the liquidity of firms' securities and thus reduce the opportunity cost of equity capital (Amihud & Mendelson, 1986). Extending this argument into debt financing context, Sengupta (1998, p. 473) finds that firms with high disclosure quality (i.e., disclosures which are regarded as having higher degree of detail, timeliness and clarity by financial analysts) are likely to have lower debt issuing costs because borrowers and underwriters consider the quality of disclosure in estimating the firms' default risk.

Prior studies discuss several motivations for firms' decision to voluntarily disclose financial accounting information (e.g., Verrecchia, 1983; Armitage & Marston, 2008). For example, firms with better performance are motivated to disclose greater financial information to distinguish themselves from firms with poor performance (Verrecchia, 1983). Managers are motivated to disclose unfavourable information when they want to minimise reputation impairment costs, arising from delayed negative earnings surprises (Skinner, 1994). Managers are motivated to disclose greater levels of information when they have more accurate information, as they are concerned about potential legal costs of investors relying on inaccurate information (Richardson, 2001). For instance, information on property values is likely to be disclosed when managers have more certainty about the valuations (Richardson, 2001). Based on interviews with firms' executives, Armitage and Marston (2008, p. 315) find that managers are motivated to make greater disclosure because they want to increase firms' "reputation for openness" and shareholder confidence which may lead to higher share prices or commercial benefits.

Under certain circumstances, however, managers may have incentives to avoid disclosing financial information. For example, managers tend to withhold information of a proprietary nature to avoid the increased costs of such disclosure (Richardson, 2001; Verrecchia, 1983, 1990). Moreover, managers may want to withhold bad news when they want to prevent a reduction in firm value (Lundholm & Van Winkle, 2006).

It is argued that disclosure regulations serve as a mechanism to ensure "investor confidence" for efficient functioning of the financial market (Cooper & Keim, 1983, p. 198). The imperfections in the market for financial information arising from information asymmetry necessitate government regulation to ensure equitable and

efficient production and dissemination of corporate financial information (Cooper & Keim, 1983). Regulatory intervention intends to rectify the reluctance of managers to disclose information and to lower information asymmetry between informed and uninformed investors by ensuring a minimum level of disclosure to investors and other stakeholders (Healy & Palepu, 2001). While regulation can minimise the information asymmetry problem through mandated disclosure, managers may have incentives to distort or withhold information, particularly in the case of sensitive information (e.g., Kolhbeck & Mayhew, 2010; Rodrigues & Stegemoller, 2009; Nelson, Gallery & Percy, 2010).

In the U.S. setting, Rodrigues and Stegemoller (2009) investigate the disclosure of ethics waivers associated with RP transactions that are granted to U.S. top three corporate executives (i.e., CEO, CFO and CAO). They argue that managers have incentives not to disclose RP transactions, because the true non-disclosure of such transactions is hard to detect. By matching a companies' disclosure through overlapping disclosure requirements, Rodrigues and Stegemoller (2009) confirm that companies delay the disclosure of ethics waiver granted to their top officers. The finding implies that managers have incentive not to disclose such information, because non-disclosure is hard to detect[37] (Rodrigues & Stegemoller, 2009). Similarly, Kohlbeck, and Mayhew's (2010) investigate RP disclosures by U.S. companies and find that many companies choose to disclose RP transactions in their annual proxy statements rather than in the financial statements, despite the fact that the accounting standard (FAS 57) requires financial statement disclosure of material RP transactions. Furthermore, an Australian study by Nelson et al. (2010) examines the disclosures of executive stock option (ESO) plans (a component of RP disclosure) and finds that firms are more likely to withhold more sensitive remuneration information (i.e., value and price-related options), compared with non-sensitive remuneration information. Lower compliance with these sensitive items is masked by apparently high overall compliance, which highlights the need to distinguish between different types of disclosure in disclosure research, particularly

[37] In the U.S., Section 406 of Sarbanes Oxley requires companies to disclose their codes of ethics (or explain why they do not have them) and then, at the time when the transaction occurs, to disclose any waivers from that code granted to top corporate officers. Meanwhile, Item 404 of Regulation S-K requires firms to disclose related-party transactions in their year-end proxy statements. After examining both disclosures, Rodrigues and Stegemoller (2009) find that firms do not disclose any waivers at the time the transactions arise (thus violating Section 406 of Sarbanes-Oxley). Instead, those transactions are disclosed in the year-end proxy statements, indicating "disclosure arbitrage" (Rodrigues & Stegemoller, 2009, p. 3).

in the contexts where managers have strong incentives to avoid disclosure obligations. Those three studies indicate that disclosures can be sub-optimal or distorted, even in the environment with high-quality accounting regulations, particularly when management has incentives to withhold sensitive information.

Overall, the small literature on corporate disclosures of RP transactions or sensitive information has used the agency theory and information economics theory to provide possible explanations for firms' decision to disclose or not disclose information. Also, past studies on mandatory and discretionary disclosure provide empirical findings on the motivations and the extent and quality of the disclosure. In general, the literature indicates that firms have incentives to disclose more information when benefits of disclosure (e.g., lower cost of debt or equity) outweigh the costs of disclosure (e.g., reputation costs). Research focusing on sensitive information disclosure suggests that the information could be distorted when managers have incentives to withhold, particularly where there are weak enforcement and governance mechanisms. However, firms also have incentives to disclose sensitive/unfavourable information to avoid litigation or reputation impairment costs of withholding such information. Therefore, given the sensitive nature of RP transactions, a number of factors are likely to influence the level of RP disclosure, including corporate governance, regulatory enforcement, and firm-specific factors. The next section discusses the literature on RP transactions and RP disclosures.

3.1.3 The Motivation for Related Party (RP) Transactions and RP Disclosures

Prior U.S. studies by Gordon et al. (2004a) point out two main views (or hypotheses) for why firms enter into RP transactions. One view is that RP transactions are considered to be normal business transactions to fulfill a firm's economic needs and increase the firm's efficiency, or are a bonding mechanism between the party and the company (Gordon & Henry, 2005). Gordon and Henry (2005) argue that, as a bonding mechanism, RP transactions would bind the related parties to the company and reduce incentives for those parties to engage in opportunistic behaviours that could jeopardise the company. RP transactions can also improve contracting efficiency by reducing delays or obstacles in contract negotiation, which often occur in contracts with third parties (Ryngaert & Thomas, 2012). Moreover, a related party may be more willing to provide finance to a firm when external funding is difficult to

obtain since there is a lower information asymmetry between a firm and a related party, than with an unrelated party (Ryngaert & Thomas, 2012, p. 849).

The second view of RP transaction is from an agency theory perspective which considers them to be a conflict of interest between management and shareholders (Gordon, Henry, & Palia, 2004a). Agency theory posits that agency problems arise when managers opportunistically maximise their benefits at the expense of shareholders (Berle & Means, 1932; E. Fama & Jensen, 1983; Jensen & Meckling, 1976). In that regard, managers may act in a self-interested way through opportunistic RP transactions that expropriate firms' resources or transfer the wealth of the firms to the hands of managers or controlling owners. For example, a number of RP transaction studies find that the transactions are associated with tunnelling[38] (e.g., Bae, Kang, & Kim, 2002; Johnson, Boone, Breach, & Friedman, 2000), asset transfers (e.g, Cheung, Qi, Rau, & Stouraitis, 2009), or earnings management (e.g., Jian & Wong, 2010).

The non-arms-length nature of RP transactions raises concerns about opportunism arising from management or other insiders' (Kohlbeck & Mayhew, 2010; Loon & De Ramos, 2009; OECD, 2009). When RP transactions are perceived as opportunistic (i.e., an agency conflict), investors are likely to perceive the transactions negatively and price protect against it (Kohlbeck & Mayhew, 2010). Owner-managers, who want to avoid the price protection, would likely implement monitoring mechanisms to mitigate opportunistic RP transactions (Kohlbeck & Mayhew, 2010, p. 120). As discussed earlier (Chapter 2), RP disclosure requirements, corporate governance mechanisms, and strong investor protection can help mitigate opportunistic RP transactions. For example, an international study by La Porta et al. (2006) reports positive association between regulations relating to RP disclosure requirements and stock markets development, which may indicate that disclosure minimises opportunistic RP transactions. Djankov et al. (2008) contend that common law countries have better regulation which mitigates self-dealings than civil-law countries. Moreover, Kohlbeck and Mayhew (2010) argue that while RP disclosures do not eliminate RP transactions, the disclosures provide an opportunity for

[38] "[t]he diversion of corporate resources from the corporation (or its minority shareholders) to the controlling shareholder" (Johnson et al., 2000, p. 10).

interested parties to either discipline opportunistic behaviour or take precautionary action (e.g., through lower firm valuation).

The next section discusses the literature on the nature and extent of corporate RP transactions and the disclosure of such transactions. The discussion leads to the identification of factors potentially associated with RP disclosure.

3.2 Nature and Extent of Corporate RP Transactions and RP Disclosures

RP studies tend to focus on the nature and determinants of RP transactions based on the assumption that the disclosures on RP transactions capture the full extent of the transactions. Those studies examine either comprehensive RP transactions, for example, the number or the total amount of RP transactions (e.g., Gordon et al., 2004a, 2004b) or specific RP transactions, for example, transfer of assets, RP sales, RP purchases, and RP payments. While those studies do not focus on RP disclosures, they provide empirical insights on the relationships between firms' corporate governance mechanisms, institutional factors, and RP transactions. Given the focus of this thesis is the Asia-Pacific region, the following review of extant RP studies are classified into U.S. Studies and Asia-Pacific/Non-U.S. studies.

3.2.1 RP Transactions – U.S. Studies

Motivated by the introduction of Sarbanes-Oxley Act which imposes a stricter regulation on RP transactions, Gordon et. al., (2004a) investigate 112 publicly listed firms in the U.S. that disclose RP transactions in 2000 and 2001. Those firms mainly operate in the manufacturing, wholesale and retail industries. Their analysis shows that, on average, each firm discloses 3.9 RP transactions of which real estate transactions, RP sales, and RP loans are the most common types of the transactions. Extending their previous study by using a similar sample, Gordon et al. (2004b) test the competing hypothesis of whether RP transactions support efficient contracting or are a product of agency conflicts[39]. They find that RP transactions are common in all sample companies, (i.e., 878 RP transactions in 224 firm-years), but are less common

[39] Gordon et al. (2004b) divide RP disclosures according to the types of parties' involved as well as type and amount of transaction. Related parties are characterised as "primary related party", i.e., when the party has the most direct or senior relationship with the firm and "secondary related party", i.e., when the party is a family member of, or the company owned by or affiliated with the related party. Further, according to the type of transaction, RP transactions are identified into six main types of transactions, including employment/direct services between related parties or the related party and the company; purchases of goods or services from the RP; sales to the RP; loans to or from the RP; investments; and others. Those types of transactions are then sub-categorised into 18 different kinds of transactions. The amount of each type of RP transaction is then analysed following the classification.

in companies with stronger corporate governance mechanisms, suggesting that these mechanisms mitigate RP transactions. Lastly, they find that the number and magnitude of RP transactions are negatively related with industry-adjusted returns.

Using a longitudinal time frame, Kahle and Shastri (2004) examine executive loans in the U.S. during 1996 – 2000 and find that the loans, particularly for relocation and personal home loans, are provided at lower interest rates than arm's-length loans. Interestingly, other results indicate that loans provided for stock purchases are beneficial in increasing executives' ownership, suggesting that the loans align managers' incentives with shareholders' interest (i.e., the efficient-transaction view).

Kohlbeck and Mayhew (2010) argue that RP disclosures provide information needed by investors to discipline insiders' opportunistic behaviour. However, they note that following the RP disclosures, investors have little ability to discipline and prevent such opportunistic behaviour. Investors' ability is limited to selling or refusing to buy the stocks of the offending firms, or instigating ex-post litigation against opportunistic insiders. However, insiders with less than 100% ownership will not fully bear the consumption of firms' benefits (Jensen & Meckling, 1976); therefore they may have incentives to engage in opportunistic RP transactions. Additionally, investors who choose price protection through reducing stock purchases will have less power to protest about the opportunistic RP transactions. Such a situation creates an equilibrium RP transaction disclosure level and a lower firm valuation (Kohlbeck & Mayhew, 2010).

Focusing on the valuation implication of U.S. corporate RP disclosures, Kohlbeck and Mayhew (2010) investigate RP transaction disclosures in the 2001 year annual reports and proxy filings of 1,194 firms in U.S. S&P 1500. They classify RP transactions into three broad categories: loans, other simple transactions and complex strategic transactions. The findings suggest that firms which disclose RP transactions are associated with lower stock returns and negative market values (as measured by Tobin's Q) compared to firms which do not disclose any RP transactions. Interestingly, while firms that engage in relatively simple RP transactions (including loans and other simple transactions with directors, officers and shareholders) are valued negatively, those that engage in complex transactions are not valued

negatively. These findings suggest that complex transactions are not well understood by the market as the quality of disclosure varies widely across firms.

Also from a valuation perspective, Ryngaert and Thomas (2012) examine how the timing of RP transactions (i.e., "ex-ante" and "ex-post" RP transactions) affect firm's financial outcomes[40]. They use a sample of 234 small to medium-sized U.S. firms in the fiscal year 1999 and find that in general, RP transactions do not affect firms' operating and overall performance, suggesting that they are "benign" transactions. However, further analysis shows ex-ante (ex-post) RP transactions are positively (negatively) associated with firm value. Ryngaert and Thomas conclude that the timing of RP transactions is likely to determine the wealth consequences of RP transactions for outside shareholders.

Overall, prior U.S. studies on RP transactions generally support the conflict of interest view. This opportunistic view argues that RP transactions can facilitate wealth transfer to managers, particularly given the non-arms-length nature of such transactions. Additionally, the findings of Kohlbeck and Mayhew (2010) and Ryngaert and Thomas (2012) suggest that the wealth effect of RP transactions differs across the nature and timing of such transactions.

3.2.2 RP Transactions – Asia-Pacific Studies[41]

While in the U.S. setting RP transaction practices commonly involve related entities and managers individually, RP transaction practices in Asian countries mostly involve major shareholders or controlling owners and the company as a whole (Loon & De Ramos, 2009). All of those studies focus on single country setting and can be categorised into three different areas of research: (1) RP disclosure transparency, (2) general RP transactions, and (3) specific RP transactions.

[40] The "ex-ante" RP transactions occurred prior to public listing or the time that the counterparty becomes an official related party, whereas the "ex-post" took place after public listing or the time that the counterparty becomes an official related party (Ryngaert & Thomas, 2011).

[41] This section discusses RP transaction studies in the Asia-Pacific context. However, there is a relevant study which does not belong to this region (La Porta, Lopez-de-Silanes, & Zamarripa, 2003). In a context of high ownership concentration, La Porta et al. (2003) investigate bank lending to companies controlled by the bank's owners (related lending) in Mexico in the 1990s, and find such lending exists in 20% of all loans issued. Compared to loans with an unrelated party, RP loans have lower interest rates, are more likely to default, and have lower recovery rates when they do default. The results indicate looting by insiders from depositors and minority shareholders.

RP Disclosure Transparency

A number of studies in the context of Asia-Pacific countries specifically investigate the determinants of RP disclosures in single country settings, for example, in Malaysia (Arshad et al., 2009), China (Lo & Wong, 2011) and Indonesia (Utama & Utama, 2012).

Using the annual reports of 144 Malaysian listed companies, Arshad et al. (2009) investigate the effects of IFRS adopted standard, board members with accounting professional affiliations, board interlocks, family members, government ownership and independent non-executive directors on the extent of RP disclosure in two disclosure regimes (2002 and 2007). They measure RP disclosure as the aggregate number of words related to RP disclosure in the annual reports and find a significant increase in the extent of RP disclosure in 2007 when the IFRS adopted standard became mandatory. Based on this finding, they argue that more detailed disclosure requirements limit the amount of accounting choices, or less discretionary disclosures, to managers. They also find a positive association between the extent of RP disclosure and professional affiliations and company size, but do not find any support for other variables (i.e., family ownership and independent non-executive directors).

In a Chinese context, Lo and Wong (2011) investigate the influence of corporate governance structure (i.e., independent directors and ownership structure), RP transactions and legal environment on the firms' decision to voluntarily disclose transfer pricing policies, and earnings management. For the period 2004 – 2005, they document an association between voluntarily disclosure of RP pricing methods and higher proportions of independent board directors and higher percentage of government ownership.

Also from an RP transaction/governance perspective, Utama and Utama (2012) examine the influence of corporate governance characteristics and ownership concentration on the RP disclosure of Indonesian listed companies in 2006. The disclosure requirements of Indonesian Capital Market and Financial Institutions Supervisory Agency (Bapepam-LK) are used to measure the extent of RP disclosures, whereas corporate governance practices are measured by using a composite corporate governance index (CGI) issued by a rating agency. The results

show that RP disclosure is positively associated with the corporate governance index and the size of RP transactions. However, the Arshad et al. (2009) and Utama and Utama (2012) studies do not consider the potential joint impact of a comprehensive set of corporate governance mechanisms and enforcement in monitoring and disciplining managers' disclosure behaviour (for example, the role of an audit committee and the financial expertise of the committee as well as individual board members were not considered).

General RP Transactions

In a unique setting of commitment-test entities (CTEs) firms that listed in the Australian Securities Exchange (ASX) between 2000 – 2005, Gallery, Gallery et al. (2008) examine the associations between RP transactions and governance and performance[42]. They find that both related party payments (RPPs) and related party loans (RPLs) are common throughout the CTEs, but RPPs are more prevalent than RPLs. Based on a number of internal (i.e., the proportion of independent directors, the presence of independent chairman, and the presence of audit committee) and external (i.e., the size of audit firms, firms' size and firms' reporting history) governance mechanisms investigated in the study, the findings show a negative association between board independence and RPPs suggesting that non-executive directors may restrict payments to related parties. There are also positive associations between RPPs with both operating and R&D cash outflows, which may imply that RPPs serve as "part of legitimate cash outflows for productive activities" (Gallery, Gallery et al., 2008, p. 162). However, other findings show that greater amounts of RP transactions are associated with poor performance, consistent with the findings of Gordon et al. (2004b) that, on average, RP transactions do not serve shareholders' interests.

Chen, Chen and Chen (2009) investigate the influence of comprehensive types of RP transactions on the operational performance of listed companies in Shanghai and Shenzhen Stock Exchanges during 2002 – 2006 [43]. They find negative relationships

[42] The commitments test entities (CTEs) are the smaller, newly listed companies in the Australian Securities Exchange (ASX). CTEs are subject to the additional reporting requirements by ASX, including the mandatory requirements to provide quarterly cash flow reports for the first eight quarters after listing. Included in the report is the disclosure of cash outflows for related party payments and loans to directors and related entities (Gallery, Gallery et al., 2008, p. 148).

[43] Chen et al. classify RP disclosures into the following seven categories: RP sales, RP purchase, RP asset, RP loan, RP guarantee, RP lease, and "other transactions". The extent to which companies are engaged in each type

between RP_Sales, RP_Loan, RP_Guarantee, and RP_Lease and financial performance (Tobin's Q) when the listed company is the controlled party, which may suggest that these transactions damage firms' market performance. However, when the listed company is the controlled party, they find significant positive relationships between RP_Purchase and operating performance (ROA and Tobin's Q) which may indicate that this type of RP transactions increases firms' market performance.

In a Malaysian study, Munir and Gul (2010) investigate 462 annual reports in 2004 and 2005 to find any relationship between RP transactions and firm-performance, particularly whether RP transactions in family firms are used as a mechanism to expropriate minority shareholders. Their results indicate that RP transactions, measured as the amount of RP transaction scaled by total assets, are negatively associated with firm performance (measured by Tobin's Q and ROA). In addition, they find that the negative association is stronger for family firms than non-family firms. Based on these findings, they argue that RP transactions serve the entrenchment argument and tunnelling practice, indicating supports for conflict-of-interest (opportunistic) hypothesis for RP transaction usage.

In a more recent Malaysian study, Wahab, Haron, Lok, and Yahya (2011) investigate the relationship between RP transactions, internal and external corporate governance, and firm performance. Based on the examination of 448 annual reports of Malaysian listed companies during 2005 – 2007, Wahab et al. find a negative association between RP transactions and firm performance, suggesting a conflict-of-interest argument. Further analysis reveals that executive remuneration, the proportion of board independence, and the presence of a Big-4 auditor mitigates the negative impact of RP transactions on firm performance.

Specific RP Transactions

A growing body of research in accounting and finance focuses on the specific nature of RP transactions. Those studies were predominantly conducted in Chinese and Hong Kong settings.

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of RP transaction is measured by the values of each type of RP transaction divided by total assets. The sample firms are further partitioned into three categories according to the listed company's controlling status: "no control relationship", "the listed company is the controlling party", and "the listed company is the controlled party".

Cheung, Jing et al. (2009) investigate RP transactions of Chinese publicly listed firms in the year 2001 – 2002 to identify tunnelling and propping up incidence by controlling shareholders[44]. Based on 292 RP transactions reported in the filings submitted to stock exchange authorities, they classify RP transactions into those which are "ex-ante potentially tunnelling transactions" and "ex-ante potentially propping transactions" (Cheung, Jing et al., 2009, p. 377). They find that both tunnelling and propping up activities are common in the sample, but tunnelling is more prevalent. Propped-up firms show worse operating performance in the year prior to the RP transaction announcement. Following the classifications of RP transactions into the ex-post value-destroying and value-enhancing transactions based on the sign of CAR, the value-destroying ones appear to be less informative. In addition, firms announcing RP transactions appear to have value reductions. However, firms which are cross-listed in Hong Kong or the U.S. and firms which voluntarily disclose more information about RP transactions (i.e., submitting "fairness" opinion from independent financial advisors) are associated with positive excess returns. Lastly, Cheung, Jing et al. (2009) document a negative relation between ROE and excess returns, indicating that the best performing firms have the largest value losses in tunnelling. These results suggest that RP transactions are used to exert the controlling owners' opportunistic behaviour, by tunnelling assets out of well-performing firms to prop-up poorer-performing firms.

In the context of loan guarantees, Berkman et al. (2009) examine 88 RP loans in 1999 annual reports for listed firms in the Shanghai and Shenzhen Stock Exchanges[45]. Their results show that RP loan guarantees are less likely to be found in profitable firms, smaller firms, or firms with higher growth. Moreover, they find that firms issuing related loan guarantees tend to have lower performance (i.e., as measured by Tobin's Q and ROA), lower dividend yield and higher leverage, lending support to the prohibition of loan guarantees by Chinese Securities regulators.

[44] Cheung et al. (2009) refer the definition of "prop up" to that of Friedman, Johnson & Mitton (2003 p. 1) which is the use of private funds to benefit minority shareholders. Friedman et al. (2003) develop a model to detect the existence of propping.

[45] In China, listed firms may issue such loan guarantees to their controlling block holder (or to entities controlled by the controlling block holder), however, the practice was prohibited by Chinese Securities regulators after June 2000. Berkman et al. (2009) argue that these related-party loan guarantees represent an "unambigous and direct method of tunnelling".

Lo, Wong, and Firth (2010) investigate whether RP sales are used by management as an earnings management tool by examining the transfer prices of RP sales for 266 Shanghai stock exchange listed firms that disclose 2004 gross profit ratios on RP transactions. They detect earnings management for any difference between the gross profit margins on RP transactions and on normal sales to external customers. The results further show that transfer pricing manipulations are less frequent in firms with a higher proportion of independent directors,with a lower proportion of "parent" directors (i.e., those who represent the parent companies of the listed firms), where there is a different person serving as the company chair and CEO (i.e., non-duality firms), and where there are financial experts on the audit committee.

Aharony, Wang and Yuan (2010) examine RP transactions and the incidence of tunnelling by firms that made a first-time issue of common shares to the public on the Shanghai Stock Exchange during the period 1999 – 2001[46]. They find evidence of tunnelling practices among Chinese companies, through non-repayment by Chinese parent companies of net outstanding corporate loans made to them by their newly listed subsidiaries. In addition, they find that RP sales of goods and services could be used opportunistically to manage earnings upwards in the pre-IPO period. They argue that such behaviour could be motivated by the prospect of tunnelling opportunities in the post-IPO period, that is, transferring economic resources from minority shareholders for the benefit of the parent company.

Jian and Wong (2010) investigate firms' propping through abnormal related sales of Chinese listed firms over the 1998 to 2002 period[47]. They find higher incidence of related sales propping in firms which are state-owned and firms with domiciles in Chinese regions with a relatively weak economic institution (i.e., measured by a market development index and a deregulation index). They argue that controlling owners use such intercompany trades to maintain listing status and meet rights issues qualifications for listed firms.

Focusing on Hong Kong listed companies; Cheung et al. (2006) investigate the incidence of tunnelling, propping or expropriation through RP transactions. They

[46] Aharony et al. (2010, p. 2) define tunnelling following the description by Johnson et al.'s (2000): "the transfer of assets and profits out of firms for the benefit of those who control them".

[47] Jian and Wong (2010, p. 71) define "propping" as a situation "[W]hereby a controlling owner uses its own resources to manage the listed affiliate's earnings. This is different from accruals management in which the controlling owner or another affiliated firm is not involved in the listed firm's earnings management".

examine 375 filings of listed firms' connected transactions during 1998 to 2000 and compare companies with and without RP transactions. Firms announcing "connected transactions" tend to have significantly lower abnormal returns than firms with similar arm's length transactions. Moreover, the lower disclosure of the connected transactions appears to be associated with negative abnormal returns[48]. While the presence of independent directors and CEO duality do not show any significant results, the presence of an audit committee seems to have a small mitigating impact on the association between the announcement of connected transactions and market reactions. Also in the context of Hong Kong's listed companies, Cheung, Qi et al. (2009) investigate specific RP transactions that involve asset transfer to/from related parties. Using a similar data-set as used in Cheung et al. (2006), they examine 129 related party and 125 arms' length acquisitions and sales of assets and find that firms deal with related parties using unfavourable prices. Compared to similar arm's length deals, firms pay a higher price when acquiring assets and receive a lower price when selling assets to related parties. Also, the presence of an audit committee appears to be an effective constraining factor on transaction prices.

Lastly, a Taiwanese study by Yeh, Shu, and Su (2012) examines related sales, lending and guarantee, and related borrowings and the role of corporate governance in mitigating those transactions. They find that corporate governance quality has a negative association with the level of RP transactions (regardless of the measures and type of transaction) and moderates the relation between the level of RP transactions and their motives. Firms appear to have higher incentives to prop up their accounting numbers when they expect to issue seasoned equity offerings in the following period and when their earnings are lower than the prior period.

Summary of RP Transactions – Asia-Pacific Studies

Overall, existing research on RP disclosures and RP transactions has highlighted some important points. First, current studies generally focus on the RP transaction

[48] Cheung et al. (2006, pp. 354-355) use seven proxies of disclosure of RP transactions which are: (1) a dummy variable for transactions which have no amount in the filing; (2) a dummy variable for firms whose auditor is not one of the Big 5 audit firms; (3) the number of analysts compiling reports during the fiscal year; (4) a dummy variable for firms with Level II and Level III American Depository Receipts traded in the U.S. stock markets; (5) a dummy variable for filings that do not include a report by an independent financial adviser; (6) proxy for financial adviser reputation, which is a ratio of one divided by the ranking of the adviser in the league table of Hong Kong mergers and acquisitions; and (7) a dummy variable to indicate transactions which involve connected parties but are not designated as connected in the heading of the filing (and thus do not comply with the disclosure requirements for connected transactions).

activities (i.e., the nature, amount or number of transactions), rather than the disclosure transparency or RP information. In general, those studies find support for the conflict-of-interest view. Second, there is a recurrent focus on the monitoring role of the board of directors. However, the literature suggests that there seems to be lack of research that systematically investigates a comprehensive set of governance mechanisms in monitoring RP transactions. Third, there is no known research examining comprehensively the nature and extent of RP disclosure. Lastly, there is no known comparative research on RP disclosure across countries.

3.3 Factors Influencing Corporate Related Party Disclosure

Agency theory argues that companies need to establish monitoring mechanisms to minimise agency costs and information asymmetry (Fama, 1980; Fama & Jensen, 1983; Jensen & Meckling, 1976). Corporate governance structures have evolved as monitoring mechanisms to mitigate information asymmetries and agency problems between managers and investors (Bushman & Smith, 2003; Farinha, 2003; Gillan, 2006; Larcker et al., 2007). Literature on corporate governance documents this link, both theoretically and empirically, between internal and external corporate governance characteristics and corporate disclosure (e.g., P. Brown et al., 2011; Gillan, 2006). This section discusses potential factors that influence the corporate RP disclosure. The potential factors are classified into three groups: (1) internal corporate governance, (2) external corporate governance, and (3) non-governance factors.

3.3.1 Internal Corporate Governance Characteristics

Brown et al. (2011, p. 111) state that a firm's internal governance characteristics refer to "[T]hose that result from the decisions and actions of the shareholders and the board, such as the constitution and membership of the board of directors and its committees, the structure of share ownership, financing arrangements, and the form of executive compensation". Numerous studies examine internal corporate governance factors that potentially influence the corporate disclosure (e.g., Beekes & Brown, 2006; Brown et al., 2011; Chen & Jaggi, 2000; Eng & Mak, 2003; Ho & Wong, 2001; Nelson, Gallery, & Percy, 2010). These studies identify board characteristics, ownership characteristics and other general factors as determinates of corporate disclosures practices.

Board Characteristics

A firm's board of directors as "the common apex of the decision control system" are in charge of advising and monitoring management, as well as ensuring the distribution of information to outsiders (Fama & Jensen, 1983, p. 311). The board of directors can serve as a mechanism to reduce agency problems through monitoring and disciplining management on behalf of external owners (Healy & Palepu, 2001).

Chen and Jaggi (2000) examine the role of independent non-executive directors and family control on the comprehensiveness of firms' mandatory disclosures in Hong Kong. They document a positive relationship between the proportion of non-executive directors and firms' comprehensive disclosures; however the relationship is weaker for family-controlled firms than it is for non-family controlled firms. Ho and Wong (2001) extend Chen and Jaggi's (2000) study by examining the monitoring role of the board of directors on the voluntary disclosures of Hong Kong's listed firms. They find that the existence of an audit committee encourages firms' voluntary disclosure, however, both the proportion of non-executive directors on the board and the CEO duality are not associated with disclosure. Ho and Wong attribute the findings to Hong Kong's institutional setting, where the person who sits as Chairperson and CEO typically has large ownership; hence the CEO duality does not influence firms' level of disclosure. Also in the Hong Kong context, Gul and Leung (2004) find a negative relationship between CEO duality and firms' disclosures. However, such relationship is weaker for firms with a higher proportion of independent and experienced non-executive directors (NEDs), suggesting that the independence and experience of NEDs moderates the relationship between CEO duality and corporate disclosures.

Eng and Mak (2003) investigate the influence of board composition and ownership structure on the level of voluntary disclosures by listed firms in Singapore. The findings show that both managerial ownership and proportion of independent directors are negatively associated with the level of firms' voluntary disclosure. Eng and Mak argue that the findings imply a substitute monitoring role between independent directors and the level of disclosures rather than a complementary role as found in Chen and Jaggi's (2000) study. Also in Singapore, Cheng and Courtenay (2006) investigate the relationship between board monitoring (i.e., CEO duality,

board independence, and board size) and firms' voluntary disclosures. While board size and CEO duality do not seem to influence firms' voluntary disclosure, greater disclosure is shown to be associated with a higher proportion of independent directors. Cheng and Courtenay argue that their finding on the monitoring role of independent directors differs from that of Eng and Mak (2003) most likely due to the inclusion of "grey" directors in the board independence variable[49]. Similarly, Barako, Hancock, and Izan (2006) report that voluntary disclosure of Kenyan companies is negatively influenced by the proportion of non-executive directors on the board and contend that this finding may indicate the lack of true independence of outside directors.

An Australian study by Beekes and Brown (2006) examines the influence of corporate governance quality (as measured in the Horwath – University of Newcastle Corporate Governance Report) on firms' disclosure practices. They find that better governed firms make more frequent disclosures of price-sensitive information. In a follow up study Beekes, Brown, Chin, and Zhang (2012) find that better-governed Australian firms tend to release value-relevant information sooner. Also in an Australian context, Basset, Koh, and Tutticci (2007) investigate the influence of firms' corporate governance characteristics on their executive stock option (ESO) disclosures. The results show that a better quality external auditor is associated with higher mandatory and voluntary ESO disclosures, whereas firms with CEO/Chair duality are likely to have lower ESO disclosure compliance. Additionally, findings of Lim, Matolscy, and Chow (2007) for Australian firms show a positive association between board independence and overall voluntary disclosure. However, the results do not hold for all types of voluntary disclosures. While board composition shows a positive association with "forward looking quantitative" and "strategic" information of voluntary disclosures, it has no significant association with "non-financial" and "historical financial" voluntary disclosure (Lim et al., 2007, p. 575).

An Australian study by Kent and Stewart (2008, p. 656) examines the relationship of corporate governance quality on "the extent of disclosure about transition to AIFRSs and shows positive associations between board and audit committee diligence and greater disclosure. Firms audited by larger external auditor are more likely to provide

[49] A "grey" director is a non-executive director who has an indirect affiliation with management by means of a business or family relationship.

greater disclosure. However, both the size and expertise of the audit committee are negatively associated with disclosure. Kent and Stewart (2008, pp. 667–668) argue that these results indicate "substitution effects between expertise and size of the audit committee and external auditor with respect to financial statement disclosures".

In contrast, a U.K. study by Li, Mangena, and Pike (2012) shows that a larger audit committee size encourages firms' intellectual capital (IC) disclosures, however there is no support for the influence of both the independence and financial expertise of audit committee members on the firms' IC disclosure.

Also in the Australian context, Nelson et al. (2010) examine the influence of good internal (i.e., board independence, audit committee independence and effectiveness, and compensation committee independence and effectiveness) and external (i.e., external auditor quality, shareholder activism and regulatory intervention) governance on the disclosure of executive stock option (ESO) plans. While the findings show that ESO disclosure compliance is positively associated with audit committee independence and effectiveness, it is negatively associated with board independence. Nelson et al. (2010) argue that companies appear to alleviate agency problems arising from a lack of board independence by releasing greater ESO disclosures.

In the cross-country setting, Morris and Gray (2009) investigate the influence of country-level and firm-level factors (including governance characteristics) on the firms' overall disclosure in 2002[50]. The findings show that a firm overall disclosure is positively associated with the proportion of independent directors and firms' overseas listing status, however, there is no support for the influence of an audit committee on the disclosure. Additionally, an international study by Morris et al. (2012) examines the influence of country-level and firm-level factors (including governance characteristics) on the firms' overall disclosure in 2002 and 2007[51]. The findings indicate that while audit committee and CEO duality do not seem to influence firms' overall disclosures, greater disclosure is shown to be associated with the presence of an independent director(s) and concentrated ownership.

[50] Morris and Gray's (2009) study included Australia (n=50), China (n=50), Hong Kong (n=37), India (n=50), Indonesia (n=50), Japan (n=50), Korea (n=50), Malaysia (n=46), the Philippines (n=24), Singapore (n=40), Taiwan (n=36) and Thailand (n=36).

[51] Morris et al.'s (2012) study included Australia (n=41), China (n=12), Hong Kong (n=39), India (n=24), Japan (n=46), Malaysia (n=40), the Philippines (n=22), and Singapore (n=41).

In the specific context of RP transactions, prior studies have examined the association between governance characteristics and RP transactions. A U.S. study by Gordon et al. (2004a) investigates the monitoring role of corporate governance mechanisms on firms' RP transactions and finds that firms with stronger corporate governance mechanisms (i.e., Log (DirFee), DirStock, % Large Owners, smaller % insiders) are associated with fewer numbers of RP transactions with executives, whereas higher number of RP transactions with non-executive board members are associated with larger boards, DirFee, and DirOptions[52]. Gordon et al. (2004b) argue the findings indicate the influence of stronger corporate governance mechanisms in mitigating opportunistic RP transactions.

An RP transaction study in the Australian context by Gallery, Gallery et al. (2008) investigates the influence of internal (i.e., the proportion of independent directors, the presence of independent chairman, and the presence of audit committee) and external (i.e., the size of audit firms, firms' size and firms' reporting history) governance mechanisms on RP transactions. Their findings show a negative association between the proportion of non-executive directors and RP payments suggesting that non-executive directors may restrict payments to related parties.

In Hong Kong, Cheung, Qi et al. (2009) report that the presence of an audit committee in the firm's board appears to be an effective constraining factor on the opportunistic non-arm's-length prices of asset transfers to/from related parties. Whereas in China, Cheung, Jing et al. (2009) find that RP transactions firms which are cross-listed in Hong Kong or the U.S. are associated with positive excess returns when other firms with RP transactions experience value reductions. Lo, Wong, and Firth (2010) show that transfer pricing manipulations are less prevalent in Chinese firms with higher proportions of independent directors, lower proportions of "parent" directors (i.e., those who represent the parent companies of the listed firms), non-duality CEO position, and financial experts on the audit committee. Lo and Wong (2011) show that firms with both a higher proportion of independent directors and a higher percentage of government ownership are more likely to voluntarily disclose the pricing policy of RP transactions.

[52] Log(DirFee) = annual cash retainer fee paid to board non-executive members; DirStock = a dummy variable, 1 if company gave stock to directors and 0 otherwise; DirOptions = a dummy variable, 1 if a company gave stock options to directors and 0 otherwise; % insiders = percentage of executives on the board (Gordon et al., p. 43).

In Malaysia, Arshad et al. (2009) examine the influence of governance characteristics (i.e., board members with accounting professional affiliations, board interlocks, family members, government ownership and independent non-executive directors on the extent of RP disclosure) and find a positive association between the extent of RP disclosure and professional affiliations of board members. In a more recent Malaysian study, Wahab et al. (2011) reveal that executive remuneration, the proportion of board independence, and the presence of a Big 4 auditor mitigates the negative impact of RP transactions on firm performance of Malaysian listed firms. Consistent with Arshad et al., Utama and Utama (2012) find that Indonesian firms with better corporate governance practices (measured by a composite governance index) tend to have greater RP disclosures.

Overall, the literature on the influence of corporate governance characteristics on the firms' disclosure practices suggest that caution needs to be exercised in generalising the findings to the RP disclosure setting, due to the following reasons. First, depending on the nature of the disclosure (e.g., sensitive versus less sensitive information) the costs and benefits of disclosure may differ considerably and few studies have examined RP disclosure and corporate governance. Most RP studies tend to focus on the RP transaction activity (i.e., the nature, number or amount of transactions), rather than the disclosure transparency of RP information. Second, variations in the country setting, study period and sample may lead to the differences in findings. Third, different proxies for corporate governance characteristics may contribute to the variation in the results.

Ownership Characteristics

In addition to the board and audit committee characteristics, a number of studies have examined the influence of corporate disclosures and ownership characteristics. In accordance with agency theory, the separation of ownership and control may lead to conflicts of interests between owners and managers (Jensen & Meckling, 1976). Greater conflict of interests may be present in the more widely dispersed ownership (Fama & Jensen, 1983). To reduce the conflict of interests, managers may choose to provide greater information disclosure. Alternatively, due to the lack of monitoring power, individual shareholders with low ownership stakes may have less influence on company's financial disclosures (Barako et al., 2006 citing Zeckhauser & Pound,

1990). In this later context, concentrated owners may possess greater influence on corporate disclosures.

Empirical findings on the association between ownership concentration and corporate disclosure are mixed. A Malaysian study by Haniffa and Cooke (2002) documents a positive association between ownership concentration and corporate disclosures. Additionally, the findings of Chau and Gray (2002) for Singapore and Hong Kong listed firms show a positive association between ownership concentration and the extent of voluntary disclosure. In contrast, the study of Barako et al. (2006) on Kenyan companies finds a negative association, whereas the findings by Eng and Mak (2003) on Singapore firms reports no relationship between ownership structure and voluntary corporate disclosure.

In addition to the ownership concentration, the previous discussion in Chapter 2 shows that family control is predominant in many Asian countries. The high family ownership concentration may lead to a unique agency problem between controlling shareholders and minority shareholders. The impact of highly concentrated family ownership on corporate RP transactions and disclosures can be explained by the entrenchment or convergence-of-interest view (Ali, Chen, & Radhakrishnan, 2007; Chau & Gray, 2010; Chen, Chen, & Cheng, 2008; Morck, Shleifer, & Vishny, 1988; Wang, 2006). When the convergence-of-interest dominates, companies are "less likely to engage in opportunistic behaviour in reporting accounting earnings because it could potentially damage the family's reputation, wealth and long-term firm performance" (Wang, 2006, p. 622). If the convergence-of-interest is more dominant than the entrenchment effect, the family firm would tend to be more transparent in reporting financial information.

Ali et al. (2007) find that family firms report higher quality earnings than non-family firms. Family firms' concentrated and under-diversified ownership tends to encourage more of a focus on the longer-run investment horizon and higher concerns over reputation; hence, they are more affected with both the benefits of disclosure and the costs of non-disclosure (Chen et al., 2008). Since the benefits of disclosure (e.g., lower cost of capital) and the costs of withholding bad news are more important to family owners relative to other shareholders, family owners are more likely to provide greater disclosure. Moreover, as family owners tend to have active

involvement in their firms' management, they have direct influence on the firms' disclosure practices. If the convergence-of-interest is more dominant in the family firms, it is expected that higher ownership concentration can mitigate abusive/opportunistic RP transactions and encourage greater RP disclosure.

In contrast, when the entrenchment effect dominates, controlling owners may have greater opportunity to pursue private benefit of control which gives rise to the agency conflict between the controlling and minority owners. For example, based on Claessens et al. (2000) ownership data of seven East Asian economies[53], Fan and Wong (2002) find that the entrenchment effect of concentrated ownership results in low quality of accounting earnings information[54]. Thus, the entrenchment effect implies higher information asymmetry between insiders (controlling owners) and outsiders (minority owners) due to the increased agency conflicts (Chau & Gray, 2010). Given the higher agency conflicts, outsiders will increase their monitoring of insiders' potential opportunism. In this case, owner-managers may choose to provide greater disclosure as a way to minimise the costs of monitoring by outsiders. Accordingly, when there is a high owner-manager's shareholding, a greater information disclosure is expected to enable outsiders to effectively monitor the insiders and reduce monitoring costs by outsiders.

Empirically, a Malaysian study by Haniffa and Cooke (2002) shows a negative association between the proportions of family members on the board. Haniffa and Cooke (2002, p. 339) argue that there is "less demand for published information as owners have better access to internal information". In the U.S. setting, Ali et al. (2007) examine corporate disclosure practices of family firms compared to those of non-family firms, and find that family firms report better quality earnings and are more likely to disclose bad news through management earnings forecasts. Ali et al. (2007, p. 240) contend that family firms have less opportunistic behaviour because "the difference in agency costs across family and non-family firms due to Type I

[53] Hong Kong, Indonesia, Malaysia, Singapore, South Korea, Taiwan and Thailand.
[54] The earnings informativeness is measured by the earnings-return relation (Fan & Wong, 2002, p. 403).

agency problems dominate the difference due to Type II agency problems"[55]. Furthermore, Ali et al. (2007, p. 242) argue that:

> When families engage in private rent seeking, their activities may get revealed to the market and they may incur substantial cost in the form of lower equity value, especially since families have concentrated ownership and tend to hold their firms' equities for long periods.

Ali et al. also attribute their findings to the strength of legal protection of non-controlling shareholders in the U.S., as documented by La Porta et al. (2000; 1998).

Also in the U.S. setting, Chen et al. (2008) investigate the voluntary disclosure practices of family firms by using a number of disclosure channels (i.e., earnings forecasts, conference calls and earnings warnings). While family firms are less likely to provide earnings forecasts and conference calls; they are more likely to disclose earnings warnings than non-family firms. Chen et al. (2008) argue that the lower disclosure of earnings forecasts and conference calls may indicate that family owners prefer less disclosure due to the longer investment horizons which potentially create higher costs of disclosing timely information. In addition, since family owners are likely to have better access to information, family firms may have less incentive to disclose. With respect to the greater likelihood of earnings warnings, Chen et al. argue the finding could be explained by reputation costs concerns and greater litigation facing family firms. Family owners, which typically hold large, under diversified and multi-generations ownerships, appear to avoid potential reputation impairment costs of withholding bad news and thus prefer to release greater disclosure (Chen et al., 2008, p. 506).

Wan-Hussin (2009) investigates the influence of board composition on the firms' decision to provide segment disclosures in Malaysia and finds that family firms tend to have greater disclosure than non-family firms. Wan-Hussin argues that his finding on the influence of family ownership differs from that of Haniffa and Cooke (2002) most likely due to the difference in the breadth of disclosure as a dependent variable (i.e., Haniffa & Cooke (2002) include a comprehensive voluntary disclosure whereas Wan-Hussin focuses on the segment disclosure). In the context of Hong Kong, an RP transaction study by Cheung, Qi et al. (2009) does not find support for the

[55] Type I agency problems arise from the separation of ownership and management, while Type II agency problems refer to the agency problems between controlling and non-controlling shareholders (Ali et al., 2007 citing Gilson & Gordon, 2003).

association between family ownership and related-party sales of assets. The authors contend that family firms may not necessarily expropriate wealth from minority shareholders.

Additionally, findings on Hong Kong firms by Chau and Gray (2010) show that family-concentrated ownership (with shareholdings of more than 25%) tend to have greater disclosure. Chau and Gray (2010) contend that the stronger entrenchment effect due to higher levels of family ownership lead to an increased monitoring by outsiders. Accordingly, managers are likely to disclose greater voluntary information to assure outsiders that their optimal economic interests are safeguarded.

3.3.2 External Corporate Governance Characteristics – Firm Level

In addition to the internal governance characteristics, prior disclosure studies have provided evidence on the effect of external governance characteristics on corporate disclosure policies. Brown et al. (2011, p. 112) point out that a firm's external governance characteristics refer to "[M]onitoring by outside parties such as block holders and institutional investors, activists and external auditors". The most predominant external governance characteristics examined in the literature include leverage, external auditors, and law/regulation (e.g., P. Brown et al., 2011; Gillan, 2006).

Leverage

Agency theory posits that companies with higher financial leverage have higher monitoring costs; therefore they will reduce this monitoring cost by increasing public disclosures (Jensen & Meckling, 1976). However, a contradicting argument suggests that the agency cost of debt can be effectively minimised using restrictive debt covenant agreements, rather than by providing greater disclosure (Jensen, 1986). In addition, Gallery, Cooper, and Sweeting (2008) argue that companies with high leverage may choose to provide greater disclosure or to have direct communication with creditors as they may want to avoid greater public scrutiny. Empirically, Eng and Mak (2003) and Hossain, Perera, and Rahman (1995) find an inverse relationship between debt and voluntary disclosure, whereas Ferguson, Lam and Lee (2002) document a positive association between firms' voluntary disclosure and leverage. Taylor, Richardson, Tower, and Hancock (2012) find that firms with higher leverage are likely to provide greater disclosure.

External Auditor

In his pioneering work, DeAngelo (1981) posits that larger audit firms provide better quality audits as they have incentives to maintain their reputation and require client firms to provide full disclosure. Empirical research tends to support the argument that larger audit firm have a positive impact on disclosures. Also, in a more detailed examination of auditor influence on disclosure quality, Gallery et al. (2008) find that each of the Big 4 auditors has a different influence on the disclosure quality. That is, disclosure quality is higher for companies audited by KPMG and PricewaterhouseCoopers than for companies audited by other Big 4 auditors.

Cross-listing Status

Karolyi (2012, p. 516) describes cross-listing as "a strategic choice made by a firm to secondarily list its equity shares trading in a home market exchange on a new overseas market". Karolyi (2012, p. 517) argues that firms are motivated to cross-list their shares abroad to obtain access to "a larger, deeper market for capital, greater diversification of their ownership base, and a more liquid trading environment for their shareholders"[56]. According to agency theory (Coffee, 1998; Karolyi, 2012; Stulz, 1999), a firm may opt to cross-list in a foreign capital market because they may want to bond to the more stringent requirements of disclosure, accounting, and governance. Leuz and Wysocki (2008, pp. 53-54) argue that:

> [F]irms in countries with weak institutional frameworks have difficulties in raising external finance because controlling insiders in these environments cannot sufficiently assure outside investors that they will not expropriate them. Outside investors react to this commitment problem by price protecting their investments, which increases the firm's cost of raising capital. This problem matters more to firms with growth opportunities that require outside finance and, consequently, these firms have an incentive to seek bonding devices that sufficiently reassure outside investors.

Consistent with this argument, past studies find foreign investors are more likely to invest in firms with better quality voluntary disclosures and in countries with better disclosure regulation (Leuz & Wysocki, 2008)[57].

[56] Citing Bancel and Mittoo (2001, 2008); Fanto and Karmel (1997), and Mittoo (1992).

[57] These studies include, for example, Bradshaw, Bushee and Miller (2004) and Aggarwal, Klapper, and Wysocki (2005) (as cited in Leuz & Wysocki, 2008).

3.3.3 External Governance Characteristics – Country Level

In addition to the internal and external firm-level governance factors, more recent studies indicate the influence of legal environment as an external governance factor (e.g., Farinha, 2003; Leuz & Wysocki, 2008) on firms' disclosure practice. No prior research has specifically examined the influence of the institutional environment (country factors) on the use and disclosures of RP transactions. However, research in other disclosure contexts has been conducted on a cross-country basis and these studies provide insights into how institutional differences may impact on RP transactions and their disclosures.

Prior research investigating the extent of firms' disclosure in cross-country settings includes Craig and Diga (1998), Tower, Hancock, and Taplin (1999), Taplin, Tower, and Hancock (2002), Jaggi and Low (2000), Hope (2003b), Archambault and Archambault (2003); Al-Shammari, Brown, and Tarca (2008), Morris and Gray (2009), and Morris, Susilowati, and Gray (2012). In general, the research finds that: (1) companies do not fully conform to the disclosure requirements of IASs; (2) there are country differences on the extent of disclosures; and (3) accounting standards will be ineffective without adequate enforcement.

Disclosures and Country of Origin

One of the earliest cross-country studies of international accounting harmonisation in the Asia-Pacific region is Craig and Diga's (1998) study. Their study examines corporate annual report disclosure practices in the fiscal year 1993. The sample consists of 145 randomly selected publicly listed companies across five ASEAN countries: Singapore, Malaysia, Indonesia, the Philippines and Thailand. A disclosure checklist containing 530 items is constructed according to the disclosure requirements by accounting standards and government regulations. The *de jure* disclosure is assessed by comparing the checklist with each country's domestic disclosure requirements. It infers that Singapore has the most extensive set of specific disclosure requirements (74%), whereas Indonesia has the lowest (52%), compared to the other selected countries. Further, a checklist of 200 items of IAS-prescribed disclosure requirements is developed to measure the extent of IAS harmonisation with each country's domestic requirements. It shows that Singapore's set of disclosure requirements show the highest harmonisation (93%) with IAS,

whereas that of Indonesia exhibits the lowest (55%). These findings indicate that *de jure* disclosure harmony (i.e., harmony in terms of what is to be disclosed) is high; however, there are cross-country differences in the volume and extent of disclosures as well as sources of authority.

Additionally, Craig and Diga (1998) employ a "substantially common" checklist of 270 specific disclosure requirements to measure *de facto* disclosure. The checklist represents disclosure requirements which were common to at least four of the five ASEAN countries examined. The index derived from the checklist shows that the average level of disclosure ranges from the minimum of 51% (Indonesia) to the maximum of 61% (Singapore). A partition of the index shows that companies are more reluctant to disclose sensitive information (i.e., RP transactions and transfer pricing policies) than non-financial and social information (e.g., organisational structure investment program). After controlling for the effects of firm-specific characteristics, their statistical tests confirm the extent of disclosure is significantly associated with country of origin, with the average disclosure scores ranging from 51% (Indonesia) to 61% (Singapore) (Craig & Diga, 1998, p. 253)[58].

A subsequent study by Tower et al. (1999) examines the extent of IAS harmonisation across six Asia-Pacific countries: Australia, Hong Kong, Malaysia, the Philippines, Singapore and Thailand. Their study focuses on *de facto* harmonisation (i.e., the harmony of company practices), rather than *de jure* harmonisation (i.e., the harmony of accounting regulation). Ten listed companies' 1997 annual reports were selected from each country and analysed against a comprehensive disclosure checklist with 512 data points constructed from IASC standards. Since many IAS are not applicable for sample companies, two compliance index ratios are used. Ratio 1 is calculated by excluding non-disclosed items (hence the ratio may be biased upward); whereas Ratio 2 is calculated by including the non-disclosed items (thus the ratio may be biased downward). Their findings indicate that Australia and Thailand have higher scores of Ratio 1 (94% and 93%, respectively) than other countries. The results are slightly different for Ratio 2, in which Australia and Hong Kong have higher ratios

[58] The scores of each country, from the highest to the lowest, are as follows: Singapore (61%), Malaysia (59%), Thailand (56%), the Philippines (55%) and Indonesia (51%) (Craig & Diga, 1998, p. 253).

(54% and 53%, respectively) than other countries[59]. Consistent with Craig and Diga (1998), their findings confirm that firms' disclosure compliance with IAS is significantly associated with country of reporting.

Disclosures, Legal Systems, and Cultural Values

Jaggi and Low (2000) examine the influence of legal systems and cultural values on firms disclosures in Canada, France, Germany, Japan, the U.K. and the U.S. The International Financial Reporting Index (IFRI) for Industrial Companies developed by the Center for International Financial Analysis and Research (CIFAR) in 1993 is used as a dependent variable[60]. The firm's cultural values are measured using the Hofstede (1984) cultural dimensions of Uncertainty Avoidance, Power Distance, Individualism, and Masculinity. Each of the cultural dimensions is tested in separate regression. The findings show that firms in common law countries are associated with higher disclosures; however, there is no significant association between cultural values and financial disclosures. With respect to the findings on cultural values, Jaggi and Low (2000, p. 517) offer three arguments: (1) the cultural values may have been out-dated due to globalisation and industrial changes; (2) Hofstede's (1980) cultural values may not capture managerial attitudes across countries, particularly given that the values were obtained from employees of the multinational IBM company, hence they may not fully represent countries' cultural values; and (3) a country's business environment may have a greater influence on financial disclosures than the cultural environment.

Extending Jaggi and Low's (2000) study, Hope (2003b) investigates the influence of legal origin and/or culture on firm-level disclosures internationally by including a larger number of countries[61]. The disclosure scores from CIFAR in the first half of the 1990s (1995, 1993) are used as dependent variables, whereas culture is measured using cultural values from Hofstede and Schwartz (1994). The findings show that firms' disclosures are negatively related to both uncertainty avoidance and power distance, and positively related to individualism. However, after controlling for legal

[59] The average compliances (Ratio 2) of each country, from the highest to the lowest, are as follows: Australia (54%), Hong Kong (53%), Malaysia (41%), Thailand (39%), Singapore (38%), and the Philippines (28%) (Tower et al., 1999, p. 302).

[60] The IFRI is based on the mean disclosure scores of 90 items on a sample of largest industrial firms in each country (Jaggi & Low, 2000, p. 505).

[61] Hope's (2003, p. 219) study includes firms which come from between 39 – 42 countries, according to data availability for each test.

origin, uncertainty avoidance and power distance are not significantly related to disclosure levels. Hope (2003) argues that his findings differ from those of Jaggi and Low (2000) mainly due to the difference in sample selection. The sample countries in Jaggi and Low's (2000) study "are arguably closer to each other in terms of financial reporting and disclosure than most countries" with substantially smaller variance of both CIFAR index and cultural values than the overall countries[62] (Hope, 2003, p. 223).

Archambault and Archambault (2003) investigate the influence of cultural, national and corporate factors on firms' financial disclosures in 33 countries. Disclosure scores by *International Accounting and Auditing Trends* (CIFAR 1995) are used to measure disclosure as a dependent variable, whereas the scores of cultural dimension are obtained from Hofstede (1991)[63]. The main findings show that firms in common law countries have greater disclosures. For firm-specific factors, disclosures are positively associated with foreign sales, dividend payout, foreign exchange listing, and Big 6 auditor. The findings for cultural factors, however, are inconclusive. Firms' levels of disclosures are negatively associated with individualism, masculinity, and adult illiteracy, but positively associated with uncertainty avoidance, individualism, and religions. In terms of national political and economic systems, the results are also inconclusive. Disclosure is positively associated with civil liberties and market capitalisation, but is negatively associated with political rights, legal system, newspaper circulation and inflation. Archambault and Archambault (2003, p. 192) conclude that "the firm-based financial reporting disclosure decision is made within a complex process that considers national as well as corporate factors".

Disclosures and Enforcement

Al-Shammari et al. (2008) examine the international accounting standards' (IASs) disclosure compliances by firms in the Gulf Co-Operation Council (GCC) member states (i.e., Bahrain, Oman, Kuwait, Qatar, Saudi Arabia, and the United Arab

[62] Hope (2003) cites Ball et al. (2000) and Nobes (1983).

[63] CIFAR index is "a total index disclosure score equal to the average of the disclosure scores of seven information categories (number of information variables in parentheses): general information (8), income statement (11), balance sheet (14), funds-flow statement (5), accounting policies (20), stockholders information (17), and supplementary information (10). The disclosure for each category is equal to the percentage, excluding non-applicable items, of information available based on 1993 or 1992 annual reports. Within each category, the disclosure score is unweighted index of voluntary and non-voluntary information disclosures. The total index disclosure is an unweighted average of the seven categories." (Archambault & Archambault, 2003, p. 182).

Emirates) for the 1996 to 2002 period. Based on a self-constructed disclosure checklist, the findings show the highest compliance mean for all years is in the UAE (0.80), followed by Saudi Arabia (0.78), Kuwait (0.75), Oman (0.74), Bahrain (0.73) and Qatar (0.70). In addition, the disclosure compliance levels differ across countries according to the difference in the audit quality and enforcement body activism.

A study by Morris and Gray (2009) investigates the extent of disclosure of 519 large companies from 12 Asian countries. Annual reports of fiscal year 2002 are scored against a 441 items checklist constructed from IFRS 2001/2002, resulting in three transparency scores (i.e., TRANSP1, TRANSP2, and TRANSP3)[64]. With respect to the scores, Singapore has the highest and Indonesia the lowest TRANSP1 and TRANSP3 scores; whereas Australia has the highest and Indonesia the lowest TRANSP2 score. In addition to country of reporting and firm-level variables, Morris and Gray (2009) investigate sets of country-level variables in the examination of firms' disclosure practices. The variables included country legal system, bank-oriented economy, stock market prominence, enforcement and culture. The findings show that country-level variables (i.e., legal system, enforcement, bank orientation or importance of the stock exchange) explain more variance in firms' transparency than firm-level variables. These findings provide evidence that country-factors (i.e., regulation and enforcement) matter more in achieving convergence and increasing transparency in the region, than firm-level factors.

Morris et al. (2012) examine the influence of IFRS adoption on the firm-level disclosures of 265 companies in eight Asian countries[65]. A self-constructed disclosure checklist of 441 IFRS-based items is used to measure annual report disclosures in 2002 and 2007. In 2007, the highest mean disclosure score is obtained for the Philippines (0.508), followed by Australia (0.503), Hong Kong (0.499), Singapore (0.493), Malaysia (0.469), China (0.461), Japan (0.414), and India (0.383)[66]. The main finding demonstrates that firms in IFRS adopting countries are

[64] TRANSP1 consists of 441 items (the full checklist); TRANSP2 consists of 228 items (based on authors' judgments about which items are likely to be applicable to all firms sampled); whereas TRANSP3 consists of 206 items (the items which are more likely to have been accurately coded by most coders) (Morris & Gray, 2009, p. 19).

[65] Of the eight countries, four countries have adopted IFRS between 2002 and 2007 (Morris et al., 2012).

[66] The mean scores in 2002, from the highest to the lowest, are as follows: Hong Kong (0.430), Singapore (0.416), Australia (0.388), Malaysia (0.363), Japan (0.322), the Philippines (0.316), China (0.315), and India (0.290) (Morris et al., 2012, p. 33)

likely to have greater disclosures. This finding holds after controlling for country-level (i.e., legal system, rule of law, local standards, and secrecy), governance (i.e., auditor, independent director, audit committee, leverage and top shareholder ownership) and other firm-specific variables. With respect to country-factors, the findings (of the most comprehensive model) show that firms' disclosure is positively associated with IFRS adoption and rule of law, however there is no support for the legal system and local standards. Of the governance variables, firms' level of disclosure is positively associated with leverage, independent directors, and ownership concentration. In terms of culture, secrecy has a positive influence on the disclosure, which is the opposite of prediction. Based on these findings, Morris et al. (2012) argue that IFRS adoption led to greater levels of firms' disclosure, despite the country-level differences.

Overall, numerous studies have examined the link between the extent of disclosure and country-specific factors. However those studies tend to examine comprehensive disclosure, instead of specific disclosure or particular standard. Investigating overall financial disclosure can overlook the importance of specific disclosure items (Owusu-Ansah, 1998). Additionally, the previous discussion in Chapter 2 has highlighted that research in other areas indicates the influence of country legal origins, strength of enforcements, comprehensive investor protections, and control for corruption on the extent of corporate disclosures. Firms in countries with common law legal origins, stronger enforcements, more extensive regulations concerning investor protections, and stronger control for corruption tend to have more transparent disclosures of information.

3.3.4 Other Firm-Specific Factors Associated with Corporate Disclosure

In addition to the governance-specific factors, past disclosure studies have found firm-specific non-governance variables associated with firms' disclosure level. Those variables comprise size, profitability, and industry type (e.g., Beekes et al., 2012; Gallery, Cooper et al., 2008; Taplin et al., 2002).

An extensive line of studies consistently confirms that larger firms tend to disclose more information (Cerf, 1961; Cooke, 1989, 1992; Singhvi & Desai, 1971; Wallace & Nasser, 1995). Larger companies tend to attract more attention, therefore are more concerned about the potential political and litigation costs associated with poor

disclosure (Gallery, Cooper et al., 2008). Moreover, larger companies are more likely to have lower costs of compliance and information production since those companies tend to have a more developed and comprehensive internal reporting system (Gallery, Cooper et al., 2008). Prior studies find that firm size is positively associated with the level of mandatory disclosure (Owusu-Ansah & Yeoh, 2005), discretionary disclosure (Buzby, 1975; Eng & Mak, 2003; Firth, 1979), and AIFRS disclosure quality (Gallery, Cooper et al., 2008).

In addition to firm size, a number of studies find a relationship between profitability and the level of disclosure[67]. Agency theory suggests that more profitable companies tend to disclose externally to support their current financial positions and remuneration arrangements, and to avoid undervaluation of their company's shares (Inchausti, 1997). In Southeast Asia, Mitton (2002) finds that firms which have higher disclosure quality show higher performance during the 1997 – 1998 financial crisis. Gallery, Cooper et al. (2008) show a positive association between the change in profitability and disclosure quality. Likewise, Arshad et al. (2009) find that firms with higher profitability are more likely to have greater RP disclosure. Beekes et al. (2012) find that firm size is positively associated with greater disclosure.

Cerf (1961) finds that disclosure levels are higher in some industries than others. Firms in the resource, manufacturing, finance or service industries are found to have greater compliance with international accounting standards (Taplin et al., 2002). Beekes et al. (2012) argue that firms' industry characteristics are likely to affect the extent of firms' disclosures due to the differences in the costs of disclosure (e.g., proprietary costs) or regulatory requirements of disclosure in certain industry.

3.4 Conclusion

In summary, prior RP transaction studies propose two perspectives on the nature and effects of RP transactions in relation to corporate governance effectiveness. First, RP transactions are efficient transactions, or alternatively, they involve a conflict of interest between management and shareholders (i.e., an agency cost) that appears to be mitigated with certain governance mechanisms. Generally, the findings tend to

[67] See, for example: Gallery, Cooper and Sweeting (2008); Owusu-Ansah (1998); Owusu-Ansah and Yeoh (1995); Singhvi and Desai (1971); Taplin et al. (2002); Tower et al. (1999); Wallace et al. (1994); Wallace and Naser (1995).

provide stronger support for the conflict of interest perspective or agency cost argument.

Relevant to this study's objectives and research questions, a number of gaps are evident in the reviewed literature. Despite the documented variations in RP disclosures across countries, much of the RP transaction research is confined to a particular domestic context, such as the U.S. and China. There is little RP transaction research in other Asia-Pacific countries. Further, despite the allegation that companies' ownership and investor protection in Asian countries create higher risk of opportunistic RP transactions (OECD, 2009; CFA, 2009), both factors have received little attention. Nevertheless, the few extant studies find evidence in support of the influence of company ownership, country enforcement and legal origins on the extent of firms' disclosures.

Whether these results can be generalised beyond the countries examined remains an open question as there is no known research investigating the extent of RP disclosure across countries. This is despite the fact that IAS 24 *Related Party Disclosure* has been prescribed in most countries in the Asia-Pacific region and elsewhere for a number of years. In fact, information about RP transactions is likely to be very sensitive, therefore managers are likely to have a strong incentive to distort or withhold information about these transactions. Therefore understanding the nature and extent of compliance with disclosure rules within and across countries is an important area of research that has been neglected to date. The following chapter pursues this further, by developing a theoretical framework and research hypotheses to address the study's research questions.

CHAPTER 4: THEORETICAL FRAMEWORK AND HYPOTHESES DEVELOPMENT

This chapter develops a theoretical framework and hypotheses to address the research questions of the study. First, it reviews relevant disclosure theory, including theory derived from agency and information asymmetry theories, corporate governance research and research on firms' incentive to disclose. Second, it develops the theoretical arguments leading to expectations on the variation in the nature and extent of RP transactions and the disclosures of such transactions across countries in the Asia-Pacific region. Third, it develops the theoretical arguments leading to expectations on the extent of IAS 24 disclosure conformance by companies in the Asia-Pacific region. Finally, hypotheses are developed relating to the internal and external governance factors (including institutional factors) potentially associated with RP disclosure.

4.1 Theoretical Framework – Agency Theory

Jensen and Meckling (1976) characterise organisations as legal fictions, which serve as "a nexus for contracting" relationships among individuals. The legal fiction acts as a focus for a complex process, in which the conflicting objectives of individuals are brought into equilibrium within a framework of contractual relations. In the agency theory, an agency relationship is defined as "a contract under which the principal(s) engage the agent to perform some service on their behalf which involves delegating some decision-making authority to the agent" (Jensen & Meckling, 1976, p. 309). Since both the principal and the agent are assumed to be utility maximisers, the agent may not always act in the best interests of the principal.

Agency problems arise when agents opportunistically maximise their wealth at the expense of principals (Berle & Means, 1932; Fama & Jensen, 1983; Jensen & Meckling, 1976). It is argued that this problem occurs because of incongruence between owners and managers, or because of the information asymmetry between owners and managers that restricts the owners from fully monitoring the agents. The information asymmetry may lead to a moral hazard when managers, who are usually better informed than the owners, pursue their own interests which deviates from

those of the owners'. This situation of goal misalignment leads to agency costs (Jensen & Meckling, 1976).

To align the interests of managers and owners, owners have to bear monitoring costs, such as the costs of appointing independent directors and auditors, whereas managers have to bear bonding costs, such as the costs of establishing a performance-based compensation. Corporate managers, who are entrepreneurs in this model, have to reassure shareholders they will safeguard the company (Jensen & Meckling, 1976). Therefore, managers have an incentive to minimise agency costs, by implementing effective control mechanisms. One way to reduce such costs is through a commitment to greater disclosure. Such a commitment to disclose will enable shareholders to monitor their interests more efficiently and signal that managers are acting in the interests of the shareholders (Healy & Palepu, 2001). As discussed in the previous chapter, prior studies suggest corporate governance operates in combination with effective disclosure to mitigate information asymmetries and agency problems between managers and investors (Bushman & Smith, 2003; Farinha, 2003; Gillan, 2006; Larcker et al., 2007).

In the context of RP transactions, the prior literature indicates that, consistent with agency theory, those transactions may be either efficient or opportunistic. From the efficiency perspective, RP transactions are viewed as normal business transactions that fulfil a firm's economic needs and increase the firm's efficiency, or are a bonding mechanism between the agent (the manager) and the company (Gordon & Henry, 2005; Gordon et al., 2004a, 2004b). From the opportunistic perspective, RP transactions are viewed as a conflict-of-interest between management and shareholders (Gordon et al., 2004a, 2004b). Agency theory suggests that agency conflict between managers and shareholders can create a moral hazard for managers who may want to maximise their wealth at the expense of shareholders. Therefore, it is argued that opportunistic RP transactions can facilitate such a wealth transfer to managers, particularly given the non-arms-length nature of such transactions. In this case, firms' disclosures of RP transactions are argued to be one way to facilitate monitoring of such transactions (e.g., Healy & Palepu, 2001).

4.2 The Nature and Extent of RP Transactions and Disclosures across Countries (RQ1)

Companies will disclose more financial information if the benefits of disclosures outweigh the costs of withholding such information (Healy & Palepu, 2001). Given the sensitive nature of RP transactions, firms may refrain from disclosing opportunistic RP transactions to avoid the costs of releasing such information. Indeed, prior studies suggest that certain RP transactions are negatively associated with stock returns (Gordon et al., 2004b; Kohlbeck & Mayhew, 2010), financial performance (Munir & Gul, 2010; Wahab et al., 2011), and/or market values (Kohlbeck and Mayhew, 2010).

A firms' decision to disclose RP transactions may be influenced by the type of RP transactions. If the transactions are efficient, the benefits of fully disclosing them will outweigh the costs. Evidence by Cheung, Qi et al. (2009) based on Hong Kong firms indicates that for firms disclosing certain RP transactions associated with value losses/reduction, the ones that disclose greater information about the transactions are associated with positive excess returns. Importantly, "value-destroying" transactions tend to be associated with less information disclosure than "value-enhancing" transactions (Cheung, Qi et al., 2009).

Prior studies have also attempted to distinguish between the efficient and opportunistic RP transactions (Kahle & Shastri, 2004; Chen, Chen, & Chen, 2009; Gallery, Gallery et al. 2008). A U.S. study by Kahle and Shastri (2004) finds that executive loans for stock purchases are associated with an increase on executives' ownership, suggesting that the loans align managers' incentives with shareholders interest (i.e., efficient transactions). Additionally, Chen, Chen, and Chen (2009) show RP purchases are positively associated with financial performance in Chinese listed firms. In the case of Australian commitment-test entities, Gallery, Gallery et al. (2008) find that RP payments are positively associated with both operating and R&D cash outflows, which may imply that the transactions facilitate efficient/productive activities.

However, certain other transactions appear to be opportunistic (Berkman et al., 2009; Chen, Chen, & Chen; Aharony et al. 2010). Berkman et al. (2009) show that related loan guarantees in Chinese firms tend to be associated with lower performance. Also

in the Chinese context, Chen, Chen, & Chen, 2009) find that RP sales, loans, guarantees and leases are negatively associated with financial performance. In the case of IPO firms, Aharony et al. (2010) find that a number of Chinese parent companies do not repay the loans received from their newly listed subsidiaries, which may indicate that intercompany loans are used to facilitate "tunnelling"[68]. Moreover, RP sales of goods and services appear to be used by managers to facilitate income-increasing earnings management in the pre-IPO period (Aharony et al., 2010). RP sales also seem to be used by controlling owners to "prop-up" newly listed Chinese firms to maintain listing status or satisfy requirements for rights issues (Jian & Wong, 2010). Such incidence of "propping" is higher in state-owned firms and in Chinese regions with relatively weak economic institutions, (i.e., as measured by a market development index and a deregulation index) which suggests a regulatory influence (Jian & Wong, 2010).

Recall that Chapter 2 identifies institutional differences across countries in the Asia-Pacific region, including the legal systems, capital market development, and corporate governance principles. Based on the previous findings and given those institutional differences across countries, it is expected that there will be differences in the nature and extent of RP transactions and in disclosures about those transactions by companies in the Asia-Pacific region[69]. What these differences are has not been investigated in prior research. Accordingly, this thesis presents the following research question:

RQ1: What is the nature and extent of RP transaction and RP disclosures across countries in the Asia-Pacific region?

4.3 The Extent of RP Disclosure Conformance to IAS 24 within and between Countries (RQ2)

The second research question aims to investigate RP disclosures by companies in the Asia-Pacific region and to determine whether there are differences between practices at the firm level and the country level in relation to the IAS 24. As discussed in

[68] In China, listed firms may issue loan guarantees to their controlling blockholder (or to entities controlled by the controlling block holder), however, this practice was prohibited by Chinese Securities regulators from June 2000.
[69] The nature of RP transactions refers to the types of transaction; whereas the extent of RP transactions refers to the dollar amount and the number of transactions, as disclosed in companies' annual reports.

Chapter 2, the IAS 24 (2003) *Related Party Disclosure* standard is used as a benchmark to determine corporate disclosure levels.

Corporate disclosure is subject to varying regulatory intervention by regulatory bodies (Beyer et al., 2010; Arshad et al., 2009; Utama & Utama, 2012). Beyer et al. (2010, p. 316) point out that disclosure regulation is an effective way "to commit to frequent and detailed future disclosures". Subject to the extent of the regulators' power to enforce and impose sanctions, regulations are introduced to provide a "level playing field" and minimise information asymmetry between informed and uninformed investors which should in turn result in lower agency costs and greater shareholder wealth creation (Beyer et al., 2010; Shleifer, 2005). However, the regulator's power to enforce and impose sanctions may affect firms' disclosure compliance and ultimately, the level of wealth creation. In addition, firms' governance effectiveness may also influence firms' disclosure policy. For example, better governance is frequently found to be associated with greater disclosure (Arshad et al., 2009; Utama & Utama, 2012). In particular, Arshad et al. (2009) find greater disclosure of RP information following the adoption of IAS 24 in Malaysia, suggesting that better regulation affects corporate disclosures of RP information. Also, an Indonesian study by Utama and Utama (2012) shows that firms with better governance tend to disclose greater RP information.

Recall that Chapter 2 discusses the differences in the mandatory requirements of RP disclosure across countries as well as other institutional factors, including legal systems, capital market development, and corporate governance principles. Based on the previous findings and given those institutional differences across countries, it is expected that there will be similarities and differences in the nature and extent of RP disclosure conformance with IAS 24, by companies in the Asia-Pacific region. Such variation in conformance is unlikely to be desirable from a regulatory or an investor perspective. Hence it is important to document and analyse these variations. Accordingly, this thesis presents the following research question:

RQ2: To what extent do the RP disclosures by companies in the Asia-Pacific region conform to the IAS 24 Related Party Disclosure within and across countries?

4.4 Research Framework and Hypotheses Development (RQ3)

Research questions one and two lead to the important question about what factors determine the differences in RP disclosure in the region. The question is formally stated as follows:

RQ3: What are the country, governance, and other factors which explain the nature and extent of RP disclosures in the Asia-Pacific region?

The answer to this question is likely to be of particular interest to regulators and market participants who rely on RP disclosures in annual reports in making investment decisions.

Figure 4.1 presents the research framework to address RQ3 (i.e., agency theory supports the proposed potential factors that may influence the level of RP disclosure). The proposed categories of factors are: (1) internal governance characteristics, (2) external governance characteristics, and (3) control factors. Based on prior research, the same factors are expected to impact on mandatory and discretionary disclosures. Therefore, RP disclosure is classified into three categories: (1) mandatory, (2) discretionary, and (3) overall. The sub-classification will enable deeper analysis of the extent and nature of governance influence.

As previously noted the agency relationship may lead to information asymmetry and moral hazard, which increases firms' agency costs. Given the potential agency costs, both owners (i.e., shareholders) and managers of firms have incentives to strengthen corporate monitoring systems. Accordingly, corporate governance mechanisms represent a major monitoring system to minimise agency problems and ensure that managers act in alignment with shareholders' interests. Effective corporate governance can help strengthen and add validity to a firm's disclosure policies (Shleifer & Vishny, 1997). Assuming that effective corporate governance mechanisms can improve firms' monitoring systems, it is argued that such mechanisms will result in less opportunistic RP transactions and more transparent disclosure of such transactions. Generally, better-governed firms are associated with more frequent disclosures (Beekes & Brown, 2006) and, some evidence suggests, greater RP disclosures (Utama & Utama, 2012). Consistent with these previous findings, full disclosure of RP transactions enables shareholders to monitor their

interests more efficiently and can provide a signal that managers act in the interests of the shareholders.

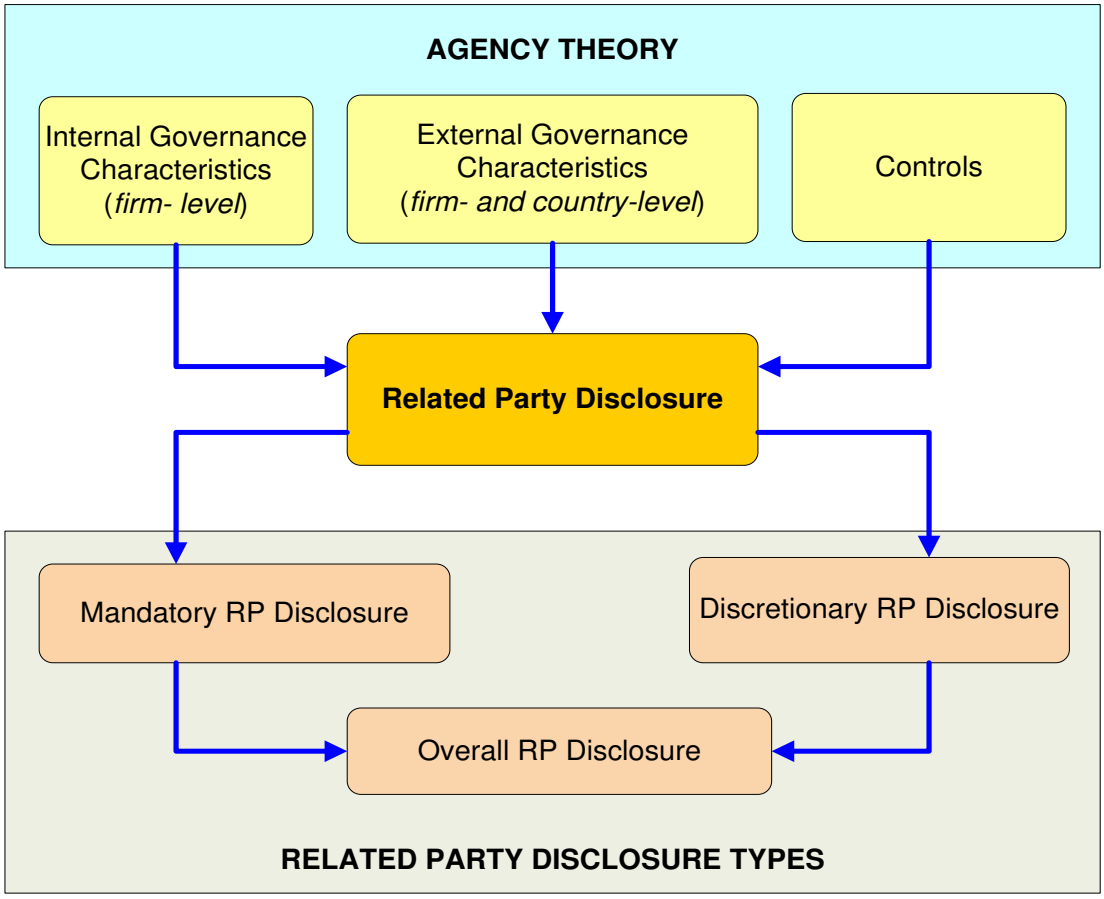

Figure 4.1 Research Framework

Theoretically, corporate governance mechanisms (i.e., internal and external corporate governance characteristics) may have complementary or substitutive relationships (Ho & Wong, 2001). When there is complementary influence, better governance mechanisms will provide a stronger corporate monitoring system and reduce opportunistic behaviour and information asymmetry, leading to a higher level of disclosure (Ho & Wong, 2001). Furthermore, in the presence of a strong monitoring system, managers are less likely to withhold information about opportunistic transactions; therefore a higher level of comprehensive disclosure can be expected about such transactions. However, when there is a substitutive relationship, the governance mechanisms may simply replace each other, hence greater disclosure may not be realised.

Therefore, in examining governance mechanisms, it is important to comprehensively consider the different types of mechanisms and their interaction. Accordingly, to address the third research question, a number of hypotheses are developed in the following sections for the wide variety of corporate governance mechanisms.

4.4.1 Internal Corporate Governance Mechanisms and RP Disclosure

Research reviewed in Chapter 3 reveals relationships between a number of internal and external corporate governance characteristics and firms' disclosures. Based on those previous studies, this thesis includes the internal and external governance mechanisms that potentially have direct or indirect influence on firms' disclosure of RP transactions. There are three general factors often included in the internal corporate governance research. First, a firm's board of directors is in charge of advising and monitoring management, as well as ensuring the distribution of information to outsiders (Fama & Jensen, 1983). Second, it is argued that the audit committee plays an essential role as a mechanism for reducing agency costs by monitoring firms' financial reporting process. The committee is responsible for ensuring the reliability of firms' financial reports. Third, ownership concentration is likely to influence the level of firms' financial disclosure, including information about RP transactions.

Board Characteristics

A board of directors as "the common apex of the decision control system" is in charge of advising and monitoring management, as well as ensuring the distribution of information to outsiders (Fama & Jensen, 1983, p. 311). The board of directors can therefore serve as a major mechanism to reduce agency problems through monitoring and disciplining management on behalf of external owners (Healy & Palepu, 2001). Previous studies show that the efficacy of the board in monitoring and disciplining managers is influenced by its independence, size and expertise. These influences are discussed below.

Board Independence

Fama and Jensen (1983) posit that a larger proportion of independent directors on the board will increase the effectiveness of monitoring management and limit managerial opportunism. Pincus, Rusbarsky, and Wong (1989, p. 246) point out that the

presence of independent directors on the boards "should increase the quality of monitoring because they are not affiliated with the company as officers or employees, and thus, are independent representatives of the shareholders' interests". Similarly, the presence of independent directors on boards will increase the quality of financial information disclosure and thus, firms will be less likely to withhold unfavourable information (Forker, 1992).

The evidence in previous studies on the effect of board independence and corporate disclosures is mixed. A Singapore study carried out by Eng and Mak (2003) finds a negative relationship between the proportion of outside directors and firms' voluntary disclosures. Similarly, Barako et al. (2006) document a negative association between board independence and voluntary disclosures of Kenyan firms. In an Australian context, Nelson et al. (2010) show board independence is negatively associated with firms' disclosure compliance on the executive stock option information. The findings of Eng and Mak's (2003) and Nelson et al.'s (2010) appear to suggest a substitute monitoring role between board independence and the level of disclosures. In addition to the substitutive role argument, Barako et al. (2006) argue that the negative association between the board independence and the extent of voluntary disclosure may also be explained by the lack of true independence of the outside directors (often called "grey" directors).

In contrast, other studies (Cheng & Courtenay, 2006; Chen & Jaggi, 2000; Morris & Gray, 2009; Morris et al., 2012) find a positive association between the proportion of independent directors and corporate disclosures. A Hong Kong study by Chen and Jaggi (2000) shows that a more independent board encourages firms' disclosures of financial information. Additionally, a Singapore study by Cheng and Courtenay (2006) finds that firms with a higher proportion of independent directors have greater voluntary disclosure.

Although the evidence is mixed, an Australian study on RP transactions by Gallery, Gallery et al. (2008) documents a negative association between board independence and RP payment, indicating the monitoring role of independent directors in constraining payments to related party. Also, a recent RP transaction study by Lo and Wong (2011, p. 609) shows that Chinese listed firms with a higher proportion of independent directors are more likely to voluntarily disclose the transfer pricing

method of their RP transactions. Lo and Wong (2011) also find that Chinese firms with higher board independence are less likely to be disciplined by the stock exchange regulatory bodies for non-compliance with mandatory disclosure requirements of RP transactions than those with a lower proportion of independent directors, suggesting that the more independent boards may promote better monitoring of corporate disclosures. Assuming Lo and Wong's findings extend to more general RP disclosures, the following is hypothesised:

H1: The proportion of independent directors on a firm's board is positively associated with the level of RP disclosure by companies in the Asia-Pacific region.

Board Size

The size of a board of directors influences its efficacy in monitoring and controlling managers (Lipton & Lorsch, 1992). Currently, there are contrasting arguments and empirical evidence of the influence of a board size on the levels of corporate disclosures.

In favour of larger board size, Williams, Fadil, and Armstrong (2005, p. 483 citing Amason & Sapienza, 1997) suggest that larger boards have "more specialized skills and opinions among its members than smaller boards, and are better equipped to obtain and process a greater deal of information about the firm and its environment. Moreover, with smaller boards, there may be a lack of checks and balances in the monitoring role due to limited resources (Williams et al., 2005). Consistent with this argument, Williams et al. (2005) find a lower possibility of an increase in the incidence of violations of regulations for U.S. firms with larger boards, compared to firms with smaller boards[70].

In contrast, other studies argue that smaller boards offer more benefits compared to larger boards (Lipton & Lorsch, 1992; Jensen, 1993; John & Senbet, 1998). Lipton and Lorsch (1992, p. 68) suggest that board size should not exceed ten directors, with the ideal number of eight to nine, because cautious selection of the board members should result in "the breadth of perspective and diversity required". Moreover, it is

[70] The regulations comprise those of the U.S. Department of Justice, the Federal Trade Commission, and/or the Securities and Exchange Commission (Williams et al., 2005, p. 485).

claimed that a smaller board allows its members to communicate and reach consensus more effectively (Lipton & Lorsch, 1992). In addition, Jensen (1993) argues that a smaller board size can improve its performance. A board with more than eight members might be less effective and can be captured by the CEO more easily (Jensen, 1993, p. 865). In addition, John and Senbet (1998, p. 385) argue that the increased monitoring capacity of large boards may outweigh the benefits because, as boards grow, the costs of communication and inaccurate decision-making increases, therefore limiting the size of a board is likely to increase its efficiency. Furthermore, a smaller board can have a higher efficacy due to its higher flexibility to move quickly and evade lengthy debates (Platt & Platt, 2012). Consistent with these arguments, a U.S. study by Yermack (1996) documents a negative association between board size and firm value. Additionally, Yermack finds that firms with smaller board size are more likely to dismiss CEOs with poor performance, suggesting that such boards exert more effective discipline on managers. In the RP transaction context, a U.S. study by Gordon et al. (2004b) finds that a smaller board is associated with fewer and less significant RP transactions. Additionally, findings by Mak and Kusnadi (2005) for Singapore and Malaysia firms show that smaller boards are associated with higher firm value, which is consistent with the findings of Yermack (1996).

Other studies are unable to find a relationship between the board size and the disclosure level. For example, Cheng and Courtenay (2006) find no relation between board size and the level of voluntary disclosure. Basset et al. (2007) find no relation between board size and the level of mandatory and voluntary disclosure. However, as this study focuses on RP transaction disclosures, the Gordon et al. (2004b) is likely to be the most relevant. Hence, the following negative relation is hypothesised:

H2: The size of a firm's board of directors is negatively associated with the level of RP disclosures by companies in the Asia-Pacific region.

Board Expertise

Financial expertise refers to financial and accounting knowledge which enables the directors to understand the financial reporting process and the capacity to monitor the quality of financial reports and disclosures. Beasley (1996) suggests that directors' expertise influences the board's ability to effectively monitor management actions.

The increase in monitoring expertise is expected to minimise managerial opportunism (Anderson, Mansi, & Reeb, 2004) since their expertise enables them to better understand complex financial reporting issues and advise management and auditors accordingly (A. Felo, 2010).

The association between board expertise and RP transactions or RP disclosures has been relatively unexplored. However, reports by OECD (2009) and CFA (2009) addressing RP transaction practices highlights the significance of financial expertise of board members in ensuring board monitoring effectiveness, particularly because transactions with related parties are typically complex ones. Consistent with this argument, Arshad et al. (2009) find a positive association between the proportion of board members with accounting professional affiliations and RP disclosure. Arshad et al. (2009) argue that board members with professional affiliations in accounting are more motivated to enhance monitoring effectiveness that potentially leads to a higher level of RP disclosure. Board members with a professional affiliation are required to meet their professional obligations and responsibilities to accounting professional bodies in order to maintain their reputations and professional membership. Extending the accounting professional affiliation into financial expertise to the RP disclosure context leads to the following hypothesis:

H3: *The financial expertise of the members of a firm's board of directors has a positive association with the level of RP disclosures by companies in the Asia-Pacific region.*

Audit Committee Characteristics

Prior studies suggest that the audit committee plays an important role as a mechanism for reducing agency costs by monitoring the effectiveness of the financial reporting process and output quality (Archambeault, Dezoort, & Hermanson, 2008; Dhaliwal, Naiker, & Navassi, 2010), and ensuring the objectivity of external audits (Uzun, Szewczyk, & Varma, 2004). Additionally, Uzun et al. (2004) find that companies with audit committees are associated with lower possibilities of corporate fraud, than companies without such committees. Furthermore, Cohen, Krishnamoorthy, and Wright (2004) note that certain audit committee characteristics contribute to the efficacy of the committee as a corporate governance mechanism.

Not surprisingly, many of these characteristics are the same as those previously discussed for the board of directors (i.e., independence, size and expertise).

Audit Committee Independence

The presence of an independent audit committee may reduce managers' opportunistic behaviour in their financial accounting choices (Cotter & Silvester, 2003). Abbott, Parker, and Peters (2004) argue that audit committee's independence facilitates a stronger monitoring role since the absence of a current or former member of management will strengthen the effectiveness of the internal audit function. Moreover, unlike non-independent members of an audit committee, the independent members are more likely to be penalised in the external market for outside directors, hence are likely to be more diligent and objective in monitoring management performance (Dhaliwal et al., 2010). Furthermore, independent audit committee members are likely to enhance firms' financial report accountability and audit relationships with internal and external auditors, and thus improve the monitoring efficiency of the financial reporting processes and internal control systems (Dhaliwal et al., 2010).

Empirically, a U.S. study by Anderson et al. (2004) finds that firms with a greater audit committee independence are associated with a lower cost of debt financing, suggesting that audit committee independence reassures creditors of the effectiveness of the corporate monitoring system. Similarly, Abbott et al. (2004) find that U.S. firms with a more independent audit committee are negatively associated with accounting restatements, which suggests that as the proportion of independent audit committee members increases, so does the efficacy of audit committees in monitoring the financial reporting process. Also in the U.S. context, Vafeas (2005) finds support for more insiders on the audit committee increasing the likelihood of lower earnings quality. Similarly, Dhaliwal et al. (2010) find that audit committee independence in U.S. firms is associated with better accruals quality, suggesting that the independent audit committee members are better monitors of the financial reporting process. Furthermore, a U.S. study on the antecedents of corporate bankruptcy by Plat and Plat (2012) finds that firms with more independent audit committee membership tend to be more solvent and less likely to file for bankruptcy than firms with less independent members. If audit committee independence can

facilitate a better monitoring and safeguarding role, they can be expected to encourage more transparent disclosure of RP disclosure. Hence, the following is hypothesised:

H4: The number of independent members on a firm's audit committee is positively associated with the level of RP disclosures by companies in the Asia-Pacific region[71].

Audit Committee Size

To achieve its efficiency, an audit committee requires sufficient number of members that will enable it "[T]o generate substantive discussion and to consider emerging issues, as well as access to management, external auditors, internal auditors, the full board, and legal counsel" (DeZoort, Hermanson, Archambeault, & Reed, 2002 p. 44). Similarly, Felo et al. (2003) argue that a larger audit committee has more capacity to ensure the reliability and accuracy of information disclosed in the financial statements. Anderson et al.(2004) argue that firms with larger audit committees are more likely to devote greater resources in monitoring the financial accounting process, for example, they may have more time in monitoring management, hiring external auditors and supervising the internal control processes. Given these arguments in support of larger audit committees, it could be expected that such committees are associated with greater disclosure transparency.

Despite the supporting arguments the evidence is mixed. Felo et al. (2003) investigate the impact of audit committee characteristics on the quality and credibility of financial reporting. They find a positive relationship between size of audit committee and a firm's financial reporting quality. Likewise, Anderson et al. (2004) investigate the relation between board structure and the cost of debt financing and find that firms with larger audit committees tend to obtain lower cost of debt financing, indicating that the larger committees may provide greater monitoring of the financial accounting process.

[71] This study uses the absolute number of independent members on the audit committee to represent AC independence due to the institutional differences of AC independence characteristics in the sample countries. For example, Indonesian companies tend to have a smaller size of audit committee, which in most cases consists of 100% independent members. In contrast, companies in other countries (e.g., Australia and Singapore) tend to have a larger size of audit committee, which in many cases have less than 100% independent members. In this case, the proportion of independent audit committee members may not be fully representing the degree of audit committee independence.

In contrast, Karamanou and Vafeas (2005) document a negative association between audit committee size and the disclosure of management forecasts for a sample of U.S. companies. They argue that a larger audit committee may create diffusion of responsibility and free riders as the committee members become more comforted by the presence of other members. In an Australian context, Kent and Stewart (2008) document a negative association between audit committee size and firms' disclosure of Australian equivalents to IFRS (AIFRS). Regarding the negative finding, Kent and Stewart (2008) contend that the smaller audit committees may place greater reliance on external auditors. Given the mixed findings and absence of RP disclosure research on this characteristic, the following non-directional hypothesis is proposed:

H5: The size of a firm's audit committee has an association with the level of RP disclosures by companies in the Asia-Pacific region.

Audit Committee Expertise

It is argued that accounting or financial expertise is an essential requirement of audit committees to enhance their monitoring roles in firms (DeZoort et al., 2002; Krishnan & Visvanathan, 2008). Audit committee expertise is expected to enhance the credibility of the firm's financial disclosures (Felo et al., 2003). Such expertise enables audit committee members to effectively monitor firms' financial reporting practices, since the committee is responsible for tasks that require a high degree of accounting knowledge and technical details in financial reporting issues (DeFond & Francis, 2005; Dhaliwal et al., 2010), thereby reducing potential agency costs (e.g., Krishnan & Visvanathan, 2008; Zhang, Zhou, & Zhou, 2007). From an RP transaction perspective, reports by OECD (2009) and Loon and De Ramos (2009) highlight the significance of audit committee financial expertise in ensuring effective monitoring of RP transactions and their disclosures, particularly given the complexity of such transactions.

As predicted, Felo et al. (2003) and Dhaliwal et al. (2010) both find a positive association between the proportion of audit committee members with the financial expertise and financial reporting quality in U.S. firms. Also in the U.S. context, Abbott et al. (2004) find the absence of financial expertise in the audit committee is positively related to the incidence of financial misstatements, and Krishnan and Visvanathan (2008) find the absence is associated with a higher possibility of

internal control problems. Additionally, U.S. studies by Davidson, Xie and Xu (2004) and DeFond and Francis (2005) both find positive market reactions following the appointment of new audit committee members with accounting expertise, but no reaction to the appointment of new audit committee members with non-accounting expertise. These results support the argument that the financial expertise of an audit committee is likely to enhance the monitoring role of the committee and be positively perceived by market participants.

If the financial expertise of a firm's audit committee enhances the quality of financial reporting, it is expected that this expertise can also encourage the transparency of RP disclosure, leading to the following hypothesis:

H6: Audit committee with at least one director having financial expertise is positively associated with the level of RP disclosures by companies in the Asia-Pacific region.

Ownership Concentration

Agency theory suggests that the separation of ownership and control potentially creates conflicts of interests between owners and managers (Jensen & Meckling, 1976). A greater conflict of interest may exist when ownership interests are widely dispersed than when they are concentrated in the hands of a few owners (Fama & Jensen, 1983). To reduce the conflict of interests, managers may choose to provide greater information disclosure. Alternatively, due to the lack of monitoring power, individual shareholders with low ownership stakes may have less influence on a company's financial disclosures (Barako et al., 2006 citing Zeckhauser & Pound, 1990). In this later context, concentrated owners may possess greater influence over corporate disclosures.

Empirical findings on the association between ownership concentration and corporate disclosure are mixed. A Malaysian study by Haniffa and Cooke (2002) documents a positive association between ownership concentration and corporate disclosures. Additionally, the findings of Chau and Gray (2002) on Singapore and Hong Kong listed firms show a positive association between ownership concentration and the extent of voluntary disclosure. In contrast, the study of Barako et al. (2006) on Kenyan companies finds a negative association, whereas the findings

by Eng and Mak (2003) on Singapore firms reports no relationship between ownership structure and voluntary corporate disclosure. However, as this study focuses on the Asia-Pacific countries, the Haniffa and Cooke (2002) and Chau and Gray (2002) findings are likely to be more relevant. Accordingly, the following positive association is proposed:

H7: The ownership concentration of a company is positively associated with the level of RP disclosures by companies in the Asia-Pacific region.

Family-Controlled

Chapter 2 highlighted the prevalence of family-controlled firms in Asian countries. The impact of family-controlled firms on the disclosure practices can be explained by the entrenchment or alignment effect. When the alignment effect dominates, family-controlled companies are "less likely to engage in opportunistic behaviour in reporting accounting earnings because it could potentially damage the family's reputation, wealth, and long-term firm performance" (Wang, 2006, p. 622). In this case, the family firm would tend to be more transparent in reporting financial information. In addition, due to the concentrated and under-diversified ownership of family controlling owners, they have longer-run investment horizons and higher concerns over reputation; hence they are more impacted by the benefits and costs of disclosure and the costs of non-disclosure (Chen et al., 2008). Since the benefits of disclosure (e.g., lower cost of capital) and the costs of withholding bad news are more important to family owners relative to other shareholders, family owners are more likely to provide greater disclosures. Alternatively, when the entrenchment effect dominates, owner-managers may choose to provide greater disclosure as they may want to reduce the costs of effective monitoring by outsiders.

The disclosure literature is consistent with these arguments. A U.S. study by Ali et al. (2007) finds that family firms report higher quality earnings than non-family firms. Chen et al.'s (2008) study on U.S. firms shows that, relative to non-family firms, family firms are more likely to issue bad news earnings warnings, as they are more concerned with the litigation-related and reputation costs of withholding bad news. In a Malaysian setting, Wan-Hussin (2009) finds that family-dominated firms are associated with higher level of disclosure. Additionally, a Hong Kong study by

Chau and Gray (2010) finds a positive association between high family ownership and the level of voluntary disclosures.

If family-controlled firms have greater concern over their reputation, wealth, and longer run financial performance, it is expected that controlling family owners are more likely to promote greater RP disclosure. Thus, the following hypothesis is proposed:

H8: Family-controlled firms in the Asia-Pacific region have higher levels of RP disclosures.

4.4.2 External Corporate Governance Characteristics and RP Disclosure

This section presents the external corporate governance factors that potentially influence the level of RP disclosure. The factors are leverage, external auditor, listing status, and importantly in this study, country-level factors.

Leverage

Agency theory posits that external debt creates agency costs between managers and debt holders (Jensen & Meckling, 1976). Given that debt holders have monitoring incentives, managers also have incentives to provide greater disclosures to ensure that managers safeguard debt-holder investments (Jensen & Meckling, 1976). However, debt holders can impose restrictive debt covenants in debt contracts to minimise the agency costs of debt (Jensen, 1986). Given this restriction option, debt can act as an internal monitoring mechanism on managers' usage of free cash flow which may reduce the need for greater disclosure to debt-holders (Jensen, 1986). In spite of these conflicting arguments, Gallery, Cooper et al. (2008) argue that companies with high leverage, or ones which may have technically violated debt covenant restrictions, may choose to either provide greater public disclosure or to have direct communication with debt holders to avoid public scrutiny. Therefore, higher debt levels can lead to either greater or lower levels of public disclosure.

Empirical findings by Eng and Mak (2003) for Singaporean firms and Hossain et al. (1995) for New Zealand firms both support a negative association between corporate disclosures and debt levels. In contrast, a Hong Kong study by Ferguson, Lam and Lee (2002) shows that debt levels are positively associated with greater disclosure of strategic, financial and non-financial information. Additionally, Taylor et al. (2012)

report a positive association between leverage and the level of mineral reserve disclosures by firms in the Australian extractive industry. Given these conflicting arguments and inconclusive findings, the following non-directional hypothesis is proposed:

H9: The leverage of a company is associated with the level of RP disclosures by companies in the Asia-Pacific region.

External Auditor

It is claimed that larger audit firms provide better quality audits as they are more concerned about maintaining their reputations (DeAngelo, 1981). The research tends to confirm this claim. Audits by larger firms have been associated with higher earnings response coefficients, indicating a higher level of credibility (Teoh & Wong, 1993). Also, compared to smaller audit firms, larger audit firms invest more to maintain their reputation for providing quality audits (Ahmed & Nicholls, 1994). Accordingly, larger audit firms have more incentives to ensure companies comply with regulations, including disclosure requirements (Owusu-Ansah, 2005).

Consistent with the auditor reputation argument, the research finds a positive relationship between the type of auditor and the extent of corporate disclosures. A Bangladesh study conducted by Ahmed and Nicholls (1994), a New Zealand study by Owusu-Ansah and Yeoh (2005), and an international study by Street and Gray (2002) all find supports for the positive association between auditor type and the firms' mandatory disclosure compliance. In the Australian context, studies by Basset et al. (2007), Kent and Stewart (2008), and Nelson et al. (2010) provide evidence that firms audited by a Big 4 auditor have greater disclosures. Also in the context of Australian firms, Gallery, Cooper et al. (2008) argue and find evidence that due to the technical difficulty of complying with IFRS principle-based standards, managers seem to rely on audit firms' guidance in order to comply with mandatory disclosure requirements, and this increases where the firm is audited by a large audit firm.

If the size of the audit firm gives an indication of the likely quality of its audits, Big 4 auditors are expected to provide more effective monitors of RP transactions. Following the preceding arguments on the influence of larger auditors (i.e., a Big 4 firm), the following hypothesis is proposed:

H10: Companies in the Asia-Pacific region which are audited by a Big 4 auditor have higher levels of RP disclosures.

Listing Status

There are several reasons to expect that firms with foreign listing status should have greater levels of disclosure. Agency theory suggests that companies are motivated to cross-list in foreign stock exchanges to bond themselves to more stringent requirements for disclosure, accounting and governance (Stulz, 1999). From a similar perspective, Leuz and Wysocki (2008, p. 54) argue that "firms in countries with weak institutional frameworks have difficulties in raising external finance because controlling insiders in these environments cannot sufficiently assure outside investors that they will not expropriate them". Given this problem, investors are likely to price protect themselves by increasing the costs of capital to the firm. As a consequence, firms have a stronger incentive to assure investors by bonding themselves to a more stringent market.

In addition, Karolyi (2012, p. 517) argues that companies may want to cross-list in a foreign market to raise additional capital by obtaining access to "a larger, deeper market for capital". Thus, to obtain the potential benefits of a foreign listing, firms have incentives to provide greater disclosure. Consistent with the above argument, Basset et al. (2007) find that firms cross-listing in the U.S. have higher voluntary disclosure of executive stock option (ESO) information. In the context of Asia-Pacific firms, Morris and Gray (2009) find a positive association between foreign listing status and firms' disclosures. Thus, this thesis proposes the following hypothesis:

H11: Companies in the Asia-Pacific region which are cross-listed in foreign exchange(s) have higher levels of RP disclosures.

Country-level Factors

Chapter 2 discussed the institutional factors and the reasons why the extent of RP financial statement disclosure could differ by country, while Chapter 3 outlined findings on the association between country-specific factors and the nature and extent of RP transactions and RP disclosure. The relevant country-specific factors

include a country's legal system, law enforcement, anti-director rights, and stock market development.

Legal Origin

The empirical evidence reveals that firms in common law countries are associated with greater disclosure than firms in code law countries (e.g., Hope, 2003b; Jaggi & Low, 2000). Moreover, the self-dealing regulations in common law countries tend to emphasise stronger scrutiny of RP transactions than in civil/code law countries (Djankov et al., 2008). For these reasons, companies from common law countries (e.g., Australia, Malaysia and Singapore) are more likely to have higher levels of RP disclosure than companies from code law countries (e.g., Indonesia, the Philippines and Thailand).

H12: Firms in countries with common law legal origins have higher levels of RP disclosures than those in countries with code law legal origins.

Enforcement

Differences in each country's enforcement mechanisms may lead to differences in the extent of RP disclosure. Chapter 2 described substantial differences in enforcement mechanisms between the countries. Australia, Singapore and Malaysia have relatively stronger enforcement than Indonesia, Philippines and Thailand. In addition, a number of studies reviewed in Chapter 3 demonstrate the relationship between enforcement and the extent of corporate disclosure. For example, based on an investigation of 12 Asian countries, Morris and Gray (2009) find that country regulation and enforcement matters more in achieving convergence and increasing transparency in the region, than firm-specific factors. Accordingly, it is expected that companies in countries with stronger enforcement practices (Australia, Malaysia and Singapore) are more likely to have more transparent RP disclosures than companies in countries with relatively weaker enforcement practice (Indonesia, Philippines and Thailand).

Accordingly, it is hypothesised that:

H13: Firms in countries with stronger enforcement have higher levels of RP disclosure than those in countries with weaker enforcement.

Investor Protection

In addition to a country's strength of enforcement, the strength of the legal environment in a country is influenced by investor protection (Durnev & Kim, 2005; Klapper & Love, 2004). In a stronger investor protection environment, insiders have fewer private control benefits and have lower motivation to hide firm performance from outsiders (Leuz et al., 2003). Therefore, it is likely that when outside (minority) owners have greater legal protection against opportunistic behaviour by insiders/controlling owners, firms have incentives to provide greater and more transparent RP disclosures than companies in countries with relatively weaker enforcement practice. It is therefore hypothesised that:

H14: Firms in countries with stronger investor protection have higher levels of RP disclosure than those in countries with weaker investor protection.

Control for Corruption

It is argued that a country's control for corruption is an important component of an effective institutional regulatory framework and necessary to mitigate corrupt acts in the public and private sectors (Transparency International, 2009b). The risks of corruption exist both inside and outside companies (Aldrighi, 2009). For example, controlling owners may exert their influence to expropriate wealth from minority shareholders through "self-dealing", "tunnelling" or "the private benefits of control", or managers may opportunistically pursue short-term profits to increase their bonuses at the expense of long-term profitability (Aldrighi, 2009, p. 16). Such risks of corruptions are more likely to be present in a country with poorer minority shareholder protection (Aldrighi, 2009).

Theoretically, the likelihood of corruptions is determined by both the incentives for corruption and the deterrent of corruption (Jain, 2001). The incentives for corruption are present when a person/company holds discretionary power and there are economic rents associated with this power, whereas the deterrent of corruption refers to the failure/inability of the legal system to detect or penalise wrongdoings (Jain, 2001, p. 77). Kimbro (2002) finds that less corrupt countries are associated with better laws, a more effective judiciary, better financial reporting standards, and a higher concentration of accountants. Additionally, in the Asia-Pacific setting, Morris

and Gray (2009) find that less corrupt countries tend to have greater financial transparency. Also, an international study by Malagueño et al. (2010) shows that the perceived quality of accounting is negatively related with the perceived corruption in a country.

Following the above theoretical arguments and empirical findings, in this study companies in a country with stronger control for corruption are expected to have higher levels of RP disclosure, as specified in the following hypothesis:

H15: Firms in countries with stronger control for corruption have higher levels of RP disclosure than those in countries with weaker control for corruption.

4.4.3 Other Firm-Specific Factors (Control Variables) and RP Disclosures

In addition to the governance factors and country factors discussed above, it is important to consider other firm-specific characteristics identified in prior research (e.g., as determinants of firms' financial disclosure practices (e.g., Botosan, 1997; Chau & Gray, 2002; Gallery, Cooper et al., 2008; Utama & Utama, 2012). These characteristics are likely to extend to RP disclosures and include company size, profitability, performance, and, specific to this study, the level of RP activity.

Company Size

Watts and Zimmerman (1978) posit that larger firms attract greater public attention, and therefore they are exposed to greater political and regulatory costs. Larger firms are expected to disclose more than smaller firms because they have greater resources to prepare more sophisticated financial statements (Ahmed & Nicholls, 1994; Buzby, 1975; Firth, 1979) and are less likely to have a more competitive disadvantage compared to smaller firms (Hossain et al., 1995). In addition, larger firms tend to have lower costs of collecting and disseminating information and have greater demand from financial analysts to disclose information (Hossain et al., 1995). Prior studies consistently find a positive associations between company size and firms' disclosures in various contexts (e.g., Gallery, Cooper et al., 2008; Jian & Wong, 2010; Owusu-Ansah, 1998; Owusu-Ansah & Yeoh, 2005).

Performance and Profitability

Extant literature suggests that a firm's performance is associated with its financial disclosure practices. In the context of RP disclosures, companies that have better performances are expected to more fully comply with the relevant regulations. In the U.S. context, Gordon et al. (2004b) document a negative association between firms' performance and RP transactions. Gallery, Gallery et al. (2008) also show that certain Australian firms with greater RP payments tend to have low profitability. These studies both appear to support a conflict of interest view of RP transactions. Additionally, unprofitable companies may be less transparent in their disclosures to avoid criticism over RP transactions, as previous studies indicate that high levels of RP transactions are associated with lower firm value (e.g., Kohlbeck & Mayhew, 2010). Similarly, Asian studies find that higher RP transactions activities are associated with lower performance for listed firms in China (Berkman et al., 2009) and Hong Kong (Cheung et al., 2006) than firms which do not disclose such transactions.

RP Transaction Activity

RP transactions may affect RP disclosures because firms with greater RP transaction activities are likely to have greater incentive to disclose more transparent RP information. Consistent with this argument, Lo and Wong (2011) investigate factors associated with firms' decisions to voluntarily disclose transfer pricing policies for RP transactions in China and find that RP transaction activity, measured by the natural logarithm of RP transactions, is positively associated with firms' disclosures. Similarly, Utama and Utama (2012) examine the influence of corporate governance practices on firms' RP disclosure for a sample of Indonesian firms and find that RP transaction activity is positively associated with RP disclosures[72]. Therefore, RP transaction activity is included as a control variable in this study.

[72] Utama and Utama (2012) argue that disclosure requirement relating to RP transactions by Indonesian regulatory body (Bapepam-LK) is expected to influence the levels of RP disclosure. That is, Bapepam-LK requires that RP assets and liabilities have to be presented separately in the balance sheet. Therefore, Utama and Utama (2012) use the log of RP transaction's assets plus liabilities to total equity to measure RP transactions as an independent variable, whereas the extent of RP disclosure is used to measure the dependent variable.

Industry Type

The level of business competition is likely to differ across industries and may influence firms' disclosure policies, in particular the disclosure of RP information (Lo & Wong, 2011). Moreover, industry regulation or convention may also influence firms' disclosure practices. Empirically, in the U.S. context, Cerf (1961) finds that disclosure levels are higher in some industries than others. An Australian study by Taplin et al. (2002) shows that firms in the resource, manufacturing, finance or service industries have a greater compliance with international accounting standards. Accordingly, the difference of RP disclosure practices across industries is also examined and controlled for in this study.

4.5 Conclusion

In summary, this chapter has developed theory and hypotheses to address the three research questions. There are a numbers of governance, country-, and firm-specific factors which may influence the nature, extent and compliance of RP disclosures within and between countries in the Asia-Pacific region. With respect to RQ1, given the substantial variation in institutional differences across the sample countries, it is expected that there will be differences in the nature and extent of RP transactions and in disclosures about those transactions by companies in the Asia-Pacific region. Similarly, relating to RQ2, it is expected that there will be similarities and differences in the extent of RP disclosure conformance in accordance to IAS 24 Related Party Disclosure, by companies in the Asia-Pacific region.

To address RQ3, hypotheses on the influence of internal and external corporate governance characteristics on the level of RP disclosures by companies in the Asia-Pacific region are developed. Those influences are likely to jointly explain the decisions made by managers about the nature and extent of RP transactions and their level of RP disclosures in financial statements about these transactions.

Three categories of influences are proposed. First, based on agency theory and prior empirical findings, effective internal governance characteristics are expected to enhance firms' RP disclosures. Second, external governance characteristics, including the country-level factors, are expected to influence firms' RP disclosure. Specifically, companies in a country with stronger enforcement, investor protection,

and importantly, better control for corruption are expected to have greater RP disclosures. Table 4.1 presents a summary of the hypotheses proposed and tested in this thesis.

Table 4.1 Summary of The Research Hypotheses (RQ3)

Hypotheses	Expected Sign
H1: The proportion of independent directors on a firm's board is positively associated with the level of RP disclosure by companies in the Asia-Pacific region.	+
H2: The size of a firm's board of directors is negatively associated with the level of RP disclosures by companies in the Asia-Pacific region.	-
H3: The financial expertise of the members of a firm's board of directors has a positive association with the level of RP disclosures by companies in the Asia-Pacific region.	+
H4: The number of independent members in a firm's audit committee is positively associated with the level of RP disclosures by companies in the Asia-Pacific region.	+
H5: The size of firm's audit committee has an association with the level of RP disclosures by companies in the Asia-Pacific region.	?
H6: Audit committee with at least one director having financial expertise is positively associated with the higher level of RP disclosures by companies in the Asia-Pacific region.	+
H7: The ownership concentration of a company is positively associated with the level of RP disclosures by companies in the Asia-Pacific region.	+
H8: Family-controlled firms in the Asia-Pacific region have higher levels of RP disclosures.	+
H9: The leverage of a company is associated with the level of RP disclosures by companies in the Asia-Pacific region.	?
H10: Companies in the Asia-Pacific region which are audited by a Big 4 auditor have higher levels of RP disclosures.	+
H11: Companies in the Asia-Pacific region which are cross-listed in foreign exchange(s) have higher levels of RP disclosures.	+
H12: Firms in countries with common law legal systems have higher levels of RP disclosure than those in countries with code law legal systems.	+
H13: Firms in countries with stronger enforcement have higher levels of RP disclosure than those in countries with weaker enforcement.	+
H14: Firms in countries with stronger investor protection have higher levels of RP disclosure than those in countries with weaker investor protection.	+
H15: Firms in countries with stronger control for corruption have higher levels of RP disclosure than those in countries with weaker control for corruption.	+

The next chapter presents the research design developed to address the research questions and test the hypotheses.

CHAPTER 5: RESEARCH DESIGN

The previous chapter developed the theoretical framework and hypotheses related to the study's research questions. This chapter presents the research design to address these questions. The first and second questions are addressed through analytical procedures, and the third question is addressed by testing the related hypotheses through multiple regression procedures. The chapter is organised as follows: first, the study period, sampling procedure and data sources are described; second, the overall research design framework is presented; third, the data classification, measurement and testing procedures for testing each research question are described, including the research model for jointly testing the hypotheses. The chapter concludes with a discussion of regression diagnostic issues and a summary of the research design.

5.1 Sample Selection and Data Sources

The year 2009 was selected as the time period for this study for a number of reasons. First, the 2009 annual reports were the most recent reports available in all six countries, at the time of data collection. Second, 2009 was selected to capture a time period in which there are differences in the institutional environment for RP disclosure. A one year study period was chosen due to the complexity of controlling for the changes in institutional differences and their consequences over time across countries[73].

This thesis covers corporate reporting pursuant to *IAS 24 Related Party Disclosure* and the equivalent standards in six countries in the Asia-Pacific region (i.e., Australia, Indonesia, the Philippines, Singapore, Malaysia and Thailand)[74]. The OSIRIS Bureau Van Dijk database was used to identify the population of firms listed on each country's Stock Exchange in 2009. The sampling approach is consistent with previous studies. One hundred of the largest non-financial companies were selected from each country (n=600). The selection was based on the OSIRIS-BVDEP

[73] A similar rationale is provided by Aerts and Tarca (2010) for the study period restriction in their study.

[74] This selection allows an investigation of RP transactions patterns and disclosure about those transactions where large companies have incentives to provide such information, but there are variances in their institutional setting, in particular, enforcement (Aerts & Tarca, 2010; Djankov et al., 2008; La Porta et al. 1998; Rahman, 2010; Tipton, 2009). Initially, this study includes the following countries in the Asia-Pacific region: Australia, China, Indonesia, Japan, Malaysia, the Philippines, Singapore, South Korea and Thailand. However, China, South Korea and Japan are removed from the study due to insufficient annual reports available in English.

list of the listed non-financial companies ranked by market capitalisation as at 31 December 2009. Financial companies were excluded because they are subject to separate corporate regulation (e.g., Banking Act, 1959 in Australia) and therefore, do not have comparable characteristics with non-financial companies, such as sales and liabilities. This approach is consistent with prior research. For all firms, the annual reports needed to be available in English. Seventeen companies were excluded because they used foreign GAAP, undertook corporate restructuring in fiscal year 2009, did not disclose RP transactions, and/or did not have a complete dataset needed in this study.

As shown in Table 5.1 (Panel A), the sample selection procedures resulted in a final sample of 582 firms. Panel B shows the number of companies representing each country of study. The selection of the largest listed companies is to ensure that the companies are likely to provide RP transaction disclosures and are likely to have various types of RP transactions. This procedure introduces a size bias, however, as large companies tend to be closely monitored by the investment community, regulators, and other interested parties, they are expected to provide more comprehensive disclosure (Cooke, 1996, p. 1).

Table 5.1 Sample Selection and Country Breakdown

Panel A:

Total listed companies selected			600
Less:	Companies undertaking corporate restructuring in FY 2009	2	
	Companies with foreign GAAP	5	
	Companies with incomplete data	11	(18)
Final sample			**582**

Panel B: Country Breakdown

Country	Stock Exchanges	N Listed Companies	N Sample	Percent
Australia	Australia Stock Exchanges	1,966	99	5
Indonesia	Indonesia Stock Exchanges	398	99	25
Malaysia	Bursa Malaysia	959	100	10
Philippines	Philippines Stock Exchanges	248	91	37
Singapore	Singapore Stock Exchanges	773	93	12
Thailand	Stock Exchanges of Thailand	535	100	19
Total		**4,879**	**582**	**12**

Table 5.2 presents the distribution of sample firms among the industry sectors. The table shows that all nine GICS non-financial sectors are represented in the sample. Sectors representation ranges from 23 (Health Care) to 131 (Industrials). Furthermore, the 2009 market capitalisation for companies in each industry varies from a mean (median) of US$796M (US$307M) for Consumer Discretionary to US$3,604M (US$2,144M) for Telecommunication Services.

Table 5.2 Sample Distribution across Industries

Industry Sector (GICS)	GICS Code	N	Percent	2009 Market Cap (Mil US$)	
				Mean	Median
Consumer Discretionary	25	106	18	796	307
Consumer Staples	30	94	16	1,949	371
Energy	10	61	10	2,756	922
Health Care	35	23	4	1,585	645
Industrials	20	131	23	1,689	466
Information Technology	45	33	6	2,211	869
Materials	15	83	14	2,290	301
Telecommunication Services	50	24	4	3,604	2,144
Utilities	55	27	5	3,149	1,252
Total		**582**	**100**		

Annual reports and consolidated financial statements of the sample companies were selected from each country as the source of RP disclosures. The annual reports were obtained from OSIRIS BVDEP database, the Morningstar FinAnalysis database, and the countries' stock exchanges. RP transactions, the disclosure of those transactions (RP disclosure), and corporate governance related data were hand-collected from the annual reports and consolidated financial statements. Market capitalisation data were obtained from OSIRIS database and the SIRCA Risk Measurement Database (for companies listed on the ASX). Other firm-level financial data were collected from OSIRIS BVDEP and Connect 4 Database.

5.2 Overall Research Specification

Figure 5.1 summarises the overall research specifications for the three research questions. It portrays each of the research questions in terms of types, objectives, and variable measurements. In relation to RQ1, a descriptive/exploratory procedure is selected to describe the nature and extent of RP transactions and the disclosures of such transactions by companies in the Asia-Pacific region. Similarly, for RQ2, a

descriptive/exploratory procedure is developed to investigate the conformance of RP disclosures by companies in the Asia Pacific region to IAS 24 Related Party Disclosure. For addressing RQ3 a multiple regression procedure is specified for testing the hypothesised associations between RP disclosures and country, governance, and other firm-specific factors.

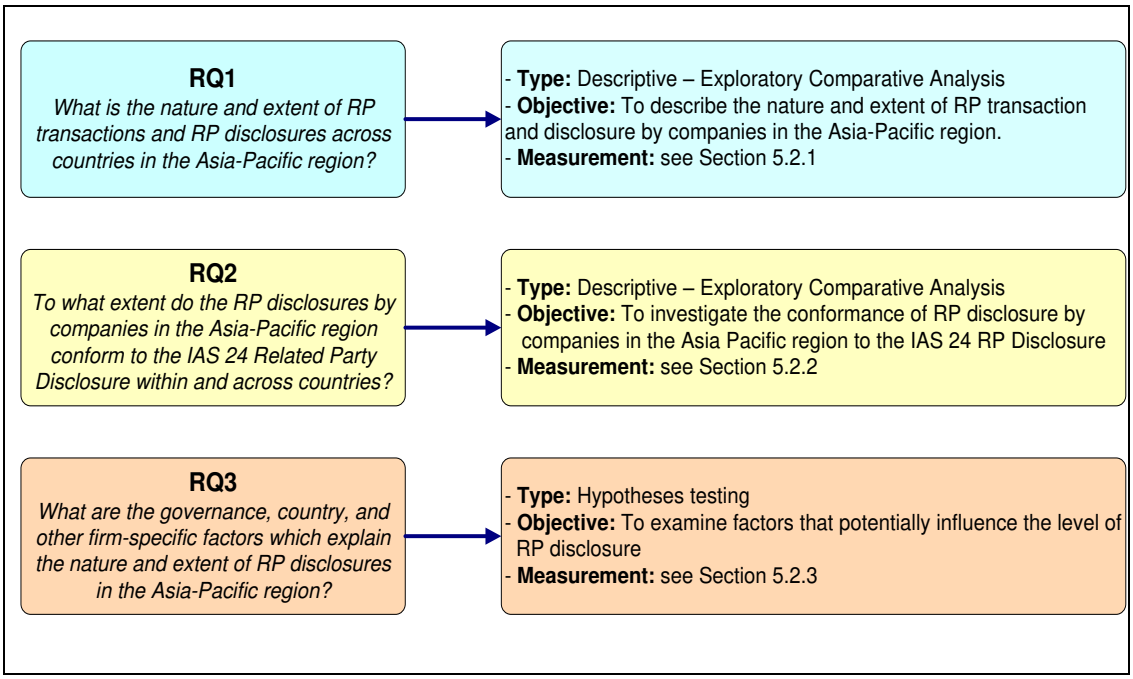

Figure 5.1 Overall Research Specification

5.2.1 RQ1: Classification and Measurement of the Information about RP Transactions

To address research question 1, RP transactions were hand-collected from the company annual reports for the fiscal year ending in 2009. The disclosures are typically provided in the Related Party Disclosures note, the Remuneration of Directors and Executives note or in the Directors' Report. The coding system takes into account both the *type of related party relationship*, and the *type of transaction* (and amount). The classification about the nature of RP transactions and RP relationships are guided by prior studies (Cheung et al., 2006; Gallery, Gallery et al., 2008; Gordon et al., 2004a) and IAS 24 (2003) *Related Party Disclosure*.

The types of related parties were classified according to the definition of "related party" in paragraph 9 of IAS 24 (2004), as follows: (1) a parent company or entity that has significant control or influence, (2) a subsidiary, (3) a joint venture in which

the entity is a venturer, (4) an associate of the entity, (5) entity under common control, (6) major shareholder, (7) holding company, (8) a member of the key management personnel (KMP) of the entity and the close member of the family of the KMP, (9) close member of family of KMP, (10) director-related entity, (11) director and commissioner (two-tier), and (12) other related party. This final category captures the types of related parties which are not commonly reported in all countries.

The types of transactions were classified according to the IAS 24 *Related Party Disclosure* and prior studies' classifications (Gordon, Henry, & Palia, 2004a, 2004b; Supranowicz, 2007). The transactions were classified as: (1) purchases of goods and services, (2) other purchases, (3) sales of goods and services, (4) other sales, (5) other income, (6) other expenses, (7) employment, (8) loans from related parties, (9) loans to related parties, (10) transfer of assets, (11) donations, and (12) other transactions. Purchases of goods and services transactions were further sub-categorised into ten major types (as shown in Table 5.3).

This classification approach captures the range of differences in the nature of related party relationships and transactions and is consistent with prior studies (Gallery, Gallery et al., 2008; Gordon et al., 2004a). Table 5.3 presents the full classification schemes by types of related parties and types of transactions.

The dollar amount of each transaction was recorded to measure the magnitude of RP transactions. In order to enable comparability of the magnitude of transactions across countries, all currencies were converted to US$ as the common currency[75].

The remuneration of directors in the ordinary course of business was not regarded as a RP transaction, consistent with prior studies (for example, Supranowicz, 2007). Remuneration includes directors' fees, salaries, bonuses, post-employment benefits, termination payments, allowances and the value of options and other equity investments granted. However, payments to a director or executive for services provided outside their normal duties (e.g., consultancy arrangements) are considered RP transactions and coded separately from director remuneration. Transactions without any monetary value are not coded.

[75]The exchange rates are collected from OSIRIS BVDEP database, which provides an individual exchange rate for each annual report investigated in this study.

Table 5.3 Classification of Related-Parties and Related-Party Transactions

Type of related party relationship	*Type of transaction*
1. Parent entity 2. Subsidiary 3. Joint-venture in which the entity is a venture 4. Associate 5. Entity under common control 6. Major shareholder 7. Holding company 8. Key management personnel - CEO - Executive chairman - Executive director - Non-executive chairman - Non-executive director - KMP (All) 9. Close member of family of KMP 10. Director-related entity 11. Director and commissioner (two-tier) 12. Other related party/company	1. Purchase of goods and services - management and administration - accounting - consulting - IT - legal services - marketing - personnel services - real estate property - research and development - operating service (service for day to day operation) - technical and managerial - travel - goods - inventory - goods and services (no additional information) 2. Purchases of property and other assets 3. Sales of goods or services 4. Sale of property and other assets 5. Other Income 6. Other Expenses 7. Employment 8. Loans made 9. Loans received 10. Transfer of assets 11. Donations 12. Other transactions

Adapted from: Gordon et al. (2004a, 2004b); Supranowicz (2007)

5.2.2 RQ2: Development of RP Disclosure Index

To address RQ2, an index of comprehensive RP disclosure based on IAS 24 *Related Party Disclosure* is constructed. Since the focus is the disclosure of RP transactions, both mandatory and discretionary items are included in the scoring. This approach is taken in order to capture both conformance to IAS 24 and the "richness" of variations in the RP disclosure practices by companies across six countries. A similar approach is used in previous studies (e.g., Cooke, 1996).

Table 5.4 presents the checklist of RP disclosures, based on IAS 24 disclosure requirements. The items included in the checklist are derived from the components of disclosure required by IAS 24 (2004) *Related Party Disclosure,* accounting standards

applicable in each country[76], and guided by previous disclosure studies in the disclosure literature[77].

Applicability of RP Disclosure Items across Countries

In November 2009, the International Accounting Standards Board (IASB) issued the amended *IAS 24 Related Party Disclosure* which would be effective from 1 January 2011. As mentioned in Chapter 2 (Section 2.3), this accounting standard, however, was firstly issued in 1984, reformatted in 1994 and revised in 2003. As the 2003 version remained applicable in 2009 it is used in this study subject to some variation in the domestic applicability of the standard across the six sample countries. The three main differences in mandatory RP disclosures across the six countries are:

1. Disclosure about the name of the parent, the ultimate controlling party/next most senior parent and details of key management personnel compensation are not mandated under Indonesian and Thai GAAP, but mandated in Australia, Malaysia, the Philippines and Singapore.
2. Disclosure on where the parent is incorporated and constituted, and the name of the ultimate controlling entity incorporated within Australia is mandated in Australia, but not mandated in Indonesia, Malaysia, the Philippines, Singapore and Thailand.
3. Disclosure about pricing policy is mandated under Indonesian and Thai GAAP, but not mandated in Australia, Malaysia, the Philippines and Singapore.

As a result of these differences, the checklist is divided into three parts: (1) items mandatory in all countries, (2) items discretionary in all countries, and (3) items mandatory in some countries (and are therefore discretionary in some countries).

Consistent with previous disclosure studies (e.g., Morris & Gray, 2009), the following procedures have been undertaken to ensure the applicability of each disclosure item in each country. First, IAS 24 (2003) *Related Party Disclosure* was used as a starting point to extract all items of disclosure. Second, the national accounting standard applicable in each of the six countries was reviewed to ensure

[76] These standards including AASB 124 (Australia), PSAK 7 (Indonesia), FRS 24 (Singapore), FRS 124 (Malaysia), TAS 47 (Thailand), PAS 24 (Philippines).

[77] This includes Botosan, 1997; Chalmers & Godfrey, 2004; Cheng & Courtenay, 2006; Cooke, 1989; Craig & Diga, 1998; Elsayed & Hoque, 2010; Gallery, Cooper, & Sweeting, 2008; Hossain, Perera, & Rahman, 1995; Jiang, Habib, & Hu, 2011; Morris & Gray, 2009; Yeoh, 2005.

the applicability of each item in the checklist. Those standards include AASB 124 (Australia), FRS 24 (Singapore), FRS 124 (Malaysia), PSAK 7 (Indonesia), TAS 47 (Thailand), PAS 24 (the Philippines). Third, Big 4 Accounting Firms' publications on the IFRS adoption/convergence status which includes all six countries were consulted. Fourth, relevant information from the professional accounting bodies in the six countries was reviewed. Lastly, extant studies addressing the convergence of IFRS and their applicability to each country were examined.

Validation of the Disclosure Index

To validate the disclosure index, the checklist was first checked against model accounts produced by the Big 4 Accounting Firms (Pricewaterhouse Coopers, Ernst and Young, KPMG and Deloitte) to ensure that all relevant items were captured in the checklist[78]. Second, the disclosure scoring sheet was pre-tested on five annual reports from each country to ensure the applicability of the checklist across the six countries. Third, the checklist was scrutinised by an experienced accountant from a Big 4 accounting firm and two researchers with coding experience. Lastly, 300 annual reports (50% of the sample) selected from all countries and a range of industries were scored by two independent raters who have an accounting degree[79]. Those scores were matched against the initial scores and results indicate no significant bias introduced by the scorers, suggesting that the disclosure checklist and the index for each company is reliable. This approach to the measurement of the extent of disclosure is consistent with previous studies (Al-Shammari et al., 2008; Cooke, 1989, 1996; Yeoh, 2005).

Weighting and Scoring the Disclosure Indices

A final list of 26 items was compiled and labelled as Overall Score of RP Disclosure. Table 5.4 presents the checklist of RP disclosures, based on the IAS 24 disclosure requirements. As shown in this table, the list is divided into three parts: (1) items mandatory in all countries; (2) items discretionary in all countries; and (3) items mandatory in some countries (a subset of (1)).

[78] The summary of model accounts for RP disclosure by Big 4 Accounting Firms is provided in Appendix 1. The model accounts were constructed according to the disclosure requirements of IAS 24 *Related Party Disclosure*, provided by Australian Big 4 accounting firms.

[79] One rater was an auditor in a Big 4 accounting firm and another rater was a researcher; both are experienced in analysing annual reports and financial statements. Both of the scorers have accounting qualifications.

Table 5.4 Related-Party IAS 24 Disclosure Checklist

Panel A. Items Mandatory in All Six Countries (Unweighted: "0" = not disclosed; "1"= disclosed.)							***Reference***
Information about Parent Company							
M1. Relationships between parent and subsidiaries.							IAS 24 para 12.1
Information about Key Management Personnel Compensation							
M2. KMP compensation in total.							IAS 24 para 16.1
Information about the Nature of Transactions							
M3. Information about the transaction.							IAS 24 para 17.1
M4. Quantitative amount of the transaction.							IAS 24 para 17.2
Information about the Outstanding Balances							
M5. Aggregate quantitative amount for the outstanding balances.							IAS 24 para 17.3
M6. Information on whether the balances are secured.							IAS 24 para 17.4
M7. Information on the nature of consideration to be provided in the settlement of the balance e.g., to be settled by cash.							IAS 24 para 17.5
M8. Details of any guarantees given or received.							IAS 24 para 17.6
M9. Information about provision for doubtful debts.							IAS 24 para 17.7
M10. Expense recognised for bad or doubtful debts due from related parties.							IAS 24 para 17.8
Information about the Nature of Relationship							
M11. Nature of relationships.							IAS 24 para 18.1
M12. Quantitative amount for the nature of relationships.							IAS 24 para 18.2
Panel B. Items Discretionary in All Countries ("3" = high; "2" = medium, "1" = low, and "0" = no information)*							***Extension of:***
D1. Nature of transaction details.							IAS 24 para 17.1
D2. Terms and conditions of transaction details.							IAS 24 para 17.2
D3. Related party details for the amount of balances.							IAS 24 para 17.3
D4. Nature of relationship details.							IAS 24 para 18.1
Panel C. Items Mandatory in Some Countries: (Unweighted: "0" = not disclosed; "1"= disclosed.)	**Aus**	**Ind**	**Mal**	**Phil**	**Sing**	**Tha**	***Reference***
MD1. The name of the parent.	M	D	M	M	M	D	IAS 24 para 12.2
MD2. The name of the ultimate controlling party/next most senior parent.	M	D	M	M	M	D	IAS 24 para 12.3
MD3. Short-term benefit.	M	D	M	M	M	D	IAS 24 para 16 (a)
MD4. Post-employment benefit.	M	D	M	M	M	D	IAS 24 para 16 (b)
MD5. Other long-term benefit.	M	D	M	M	M	D	IAS 24 para 16 (c)
MD6. Termination benefit.	M	D	M	M	M	D	IAS 24 para 16 (d)
MD7. Share-based payment.	M	D	M	M	M	D	IAS 24 para 16 (e)
MD8. Where the parent is incorporated/constituted. (AASB Aus12.1(a))	M	D	D	D	D	D	AASB Aus12.1 (a)
MD9. The name of the ultimate controlling entity incorporated within Australia.	M	D	D	D	D	D	AASB Aus12.1 (b)
MD10. Pricing Policy (Indonesia: PSAK 7; Thailand: TAS47)	D	M	D	D	D	M	PSAK 7 para 19 (c); TAS 47

Note: M = RP disclosure item which is mandatorily required in the particular country; D = RP disclosure item which is not mandatorily required (i.e., subject to discretion) in the particular country.

(1) Items Mandatory in All Countries

Table 5.4 (Panel A) includes items M1 – M12 which are mandatory in all countries[80]. Each item was scored "one" when disclosed in an annual report of a sample company, and "zero" otherwise. The full annual report was read thoroughly to verify the disclosure of RP transactions[81]. Items that were not disclosed and were not relevant in the particular company or in a particular country are coded as **"NA"** (not applicable) and excluded from the score total. If a particular item was not disclosed and there was not sufficient information in the annual report to conclude whether the item is relevant/irrelevant to the company, code **"UD"** was assigned and the item was excluded from the score total.

(2) Items Discretionary in All Countries

Table 5.4 (Panel B) presents the items which are discretionary in all countries. The checklist was used to capture the extent of RP disclosure on certain items of information requiring managers' discretion. These items consist of the details of information on the nature of transaction, the terms and condition of the transactions, the related party information for each amount of balances, and the nature of relationships with the related parties. Each of these four items was scored "0" for no disclosure, "1" for low, "2" for medium, and "3" for high level of details. Table 5.5 presents the detailed coding system for these four RP discretionary items.

The checklist was constructed after pre-testing five randomly selected annual reports of sample firms from each country. The checklist was accompanied by a guidance scoring sheet to assist in assigning the weight for each item. This guidance incorporated the different sub-items or wording that might be disclosed on an information item. This approach is consistent with previous studies in

[80] Of the 12 common mandatory items, 9 (75%) were mandatory to all six countries and 3 items (25%) were explicitly mandatory to four of them. The 3 items (i.e., items M6, M7, and M8) were not explicitly required by RP disclosure standards in Indonesia and Thailand, however, the items were part of the information regarding RP balances. The approach is consistent with Craig and Diga (1998).

[81] RP disclosures include information about parent company, subsidiaries, the ultimate controlling entity, where the parent is incorporated or constituted, key management personnel compensation in total and the breakdowns, nature of related-party transactions (including the amount and terms and conditions), outstanding balances of related-party transactions (including the amount, terms and conditions, and doubtful debts) and the nature of relationships of related-party transactions (including the amount in each type of relationship).

other disclosure contexts (e.g., Holder-Webb, 2007; Wallace, Naser, & Mora, 1994).

Table 5.5 Discretionary Disclosure Coding System

Score	Description
Item 1: Detailed disclosure of the nature of transaction (0-3)	
This item measures to what extent the company discloses the nature of transactions, as there are only examples of RP transactions provided and no specific guidance by RP disclosure standards, hence managers have to exercise their discretionary judgment relating to these items. Accordingly, additional points are assigned based on these following conditions:	
0	No information.
1 = low	The company discloses general lists of transactions with no amount.
2 = medium	The company discloses general lists of transactions (i.e., dividend, interests, reimbursement).
3 = high	The company discloses more sensitive transactions (i.e., sales, purchases, loans, rentals).
Item 2: Detailed disclosure of the terms and condition of transaction (0-3)	
Assign additional points for discretionary information, if the company discloses the terms and conditions of the transaction, based on these following conditions:	
0	No information.
1 = low	The company mentions normal commercial terms and conditions (or/with statement that they are arm's length/in the ordinary course of business/not more favourable than...).
2 = medium	The company mentions normal commercial terms and conditions and market value, or/with statement that they are under arm's length/in the ordinary course of business.
3 = high	The company mentions specific information about the price/interest rate/particular negotiation.
Item 3: Detailed disclosure of related party for each balances (0-3)	
This item captures to what extent the company discloses the balances of RP transactions. Accordingly, additional points are assigned based on the following conditions:	
0	No information.
1 = low	The disclosure and amounts are aggregated for all related parties.
2 = medium	The company discloses balances for only one specific related party.
3 = high	The company discloses balances for more than one related party, including a statement that there are no outstanding balances with the particular related party or parties.
Item 4: Detailed disclosure of the nature relationship (0-3)	
This item measures to what extent the company discloses the nature of related party relationships. Accordingly, additional points are assigned based on the following conditions:	
0	No information.
1 = low	The company discloses the relationship for only "subsidiary" and/or "related parties" (or only the names of the related parties) without any further information/details about the nature of relationships of the related parties.
2 = medium	The company discloses "subsidiary" and other specific parties (i.e., the nature of relationship, for example: associates/JV/holding company/ultimate holding company/director/KMP/etc.), including disclosures that there are no RP transactions with any of those specific parties.
3 = high	The company discloses subsidiary, any other specific parties (i.e., the nature of relationship, for example: associates/JV/holding company/ultimate holding company/director/KMP/etc.), and the names or additional information/narratives about related party relationship.

Note: the above coding and scoring system is used as the basis for developing the variables MSCORE, DSCORE and OSCORE which are standardised measures used as dependent variables in the subsequent regression modelling.

(3) Overall Score

As previously discussed, the overall RP disclosure score also includes items which are mandatory in some countries (hence, discretionary in the other countries). Each of these items was categorised as mandatory (M) or discretionary (D) according to its applicability in each country as shown in Panel C of Table 5.4 (items MD1 to MD10). Consistent with the scoring of *MSCORE,* each item was coded "one" when disclosed in an annual report of a sample company, and "zero" otherwise. The total RP disclosure score is therefore a comprehensive measure that includes all mandatory and discretionary RP disclosure items.

For statistical analysis purposes it is common for disclosure scores to be standardised. Accordingly, the raw scores obtained from the three scoring procedures described above are standardised for each sample company using the following formula (Cooke, 1996):

$$RP\_DISC_j = \frac{\sum_{i=j}^{n_j} X_{ij}}{n_j}$$

Where:

RP_DISC_j	RP Disclosure Score
n_j	The maximum possible RP disclosure scores for company *j*
X_{ij}	The RP disclosure scores for company *j* based on the applicability of item *i*

The formula produces standardised scores rang$_i$ng from 0 to 1. The standardised measures are used in the regression modelling describe below as dependent variables to capture RP disclosure *(RP_DISC).*

5.2.3 RQ3: Regression Model for Testing the Determinants of RP Disclosures

In addressing RQ3, the hypotheses developed in Chapter 4 are tested using multiple regression analysis to examine the internal and external governance characteristics which potentially explain the nature and extent of RP disclosures by companies in

the Asia-Pacific region. The alternative RP disclosure scores are the dependent variable in the regression model. A number of proxies are used to measure the internal and external corporate governance characteristics and other firm-specific (control) variables entering the linear regression models to jointly test the expected explanatory factors for the RP disclosures:

The generic form of the regression model is:

$$RP\_DISC = \beta_0 + \beta_1 BIND_{jk} + \beta_2 BSIZE_{jk} + \beta_3 BEXP_{jk} + \beta_4 ACIND_{jk} + \beta_5 ACSIZE_{jk} + \beta_6 ACEXP_{jk} + \beta_7 CONC_{jk} + \beta_8 FAM_{jk} + \beta_9 LEV_{jk} + \beta_{10} EXT_{jk} + \beta_{11} CROSS_{jk} + \beta_{12} LEGL_{jk} + \beta_{13} ENF_{jk} + \beta_{14} INVP_{jk} + \beta_{15} CORUP_{jk} + \beta_{16} SIZE_{jk} + \beta_{17} PROFIT_{jk} + \beta_{18} PERFORM_{jk} + \beta_{19} RPTN_{jk} + \beta_{+20} INDUS_{jk} + \varepsilon_{jk} \quad (1)$$

Where:

RP_DISC is represented by the three alternative measures of the RP disclosure score:

OSCORE = A measure of a company's overall RP disclosure index for firm *j* in country *k*. It is a ratio of a company's compliance and discretionary RP disclosure score to the maximum possible score of mandated and discretionary disclosure. The index ranges from 0 to 1.

MSCORE = A measure of a company's compliance index of RP disclosure firm *j* in country *k*. It is a ratio of a company's actual RP disclosure score to the maximum possible RP disclosure score based on the applicable mandated IAS 24 *Related Party Disclosure*. The index ranges from 0 to 1.

DSCORE = A measure of a company's discretionary index of RP disclosure firm *j* in country *k*. It is a ratio of a company's discretionary RP disclosure score to the maximum discretionary RP disclosure score. There are four weighted discretionary items of RP disclosure, with the total maximum score = 12 points. The index ranges from 0 to 1.

BIND = The ratio of independent directors to board size for fiscal year ending in 2009.

BSIZE = The size of the company's board of directors, measured as the number of a company's board members for fiscal year ending in 2009.

BEXP = The ratio of board member(s) with financial expertise to board size for fiscal year ending in 2009.

ACIND = The size of the company's audit committee, measured as the number of a company's audit committee members for fiscal year ending in 2009.

ACSIZE = The total number of audit committee members for fiscal year ending in

2009.

ACEXP = The AC financial expertise, measured as a binary variable with a value of one if a firm has at least one member with financial and accounting expertise on its audit committee and 0 otherwise.

CONC = The ownership concentration, which is a ratio of ordinary shares owned by the largest shareholders to total shares issued at year end.

FAM = A binary variable coded 1 if a firm is classified as family-controlled and 0 otherwise. Firm is classified as family-controlled if an individual/family owned >10% or more of outstanding shares and at least one family member was on the corporate board.

LEV = Leverage at the end of 2009, which is total debt/total assets.

EXT = The size of external auditor, measured as a binary variable coded 1 if firm *i* is audited by a Big 4 auditor in year 2009 and 0 otherwise.

CROSS = The firm's cross listing status, measured as a binary variable coded as "1" if a firm is listed in foreign stock exchange and "0" otherwise.

LEGL = The country legal origin, which is a binary variable coded as "1" if a country has common-law legal origin and "0" otherwise.

ENF = The enforcement index in Preiato et al. (2012). (Includes the existence, activity, involvement, and responsibility of a country's enforcement body or bodies in relation to the quality of financial reporting and standard setting outcomes. A higher index indicates stronger enforcement.)

INVP = The investor protection index in La Porta et al. (2006). (The index is a principal component of the indices of disclosure requirements, liability standards, and anti-director rights. A higher index indicates stronger investor protection.)

CORUP = The control for corruption index, measured by corruption perception index 2009 by Transparency International. (A higher index indicates stronger control for corruption (less corruption).

SIZE = Log of total assets at the end of 2009.

PROFIT = Firm profitability at the end of 2009, represented by return on assets which is earnings before tax / average total assets.

PERFORM = Firm performance at the end of 2009, represented by Tobin's Q and measured as the sum of total assets plus the market value of equity less book value of equity, over total assets.

NRPT = RP transaction activity measured by natural logarithm of total number of RP transactions reported in the annual report of fiscal year 2009.

INDUSTRY = Eight dummy variables representing the nine GICS sectors.

5.2.4 Explanation and Justification of Independent Variables

Internal Governance Characteristics

BIND: Board Independence (H1)

H1 predicts a positive association between the proportion of independent directors on a firm's board and the level of RP disclosure. Board independence was measured by a ratio of independent directors to total number of directors on the board. This measure was used in prior studies which investigated the relationship between board independence and RP transactions or RP disclosures (e.g., Aharony, Wang, & Yuan, 2010; Arshad et al., 2009; Cheung, Jing, et al., 2009; Cheung, Qi, et al., 2009; Gallery, Gallery, et al., 2008; Kohlbeck & Mayhew, 2010; Ryngaert & Thomas, 2012; Wahab et al., 2011).

BSIZE: Board Size (H2)

H2 predicts a negative association between the size of a firm's board of directors and the level of RP disclosures. Consistent with prior studies (Cheung et al., 2006; Gordon, Henry, & Palia, 2004a; Munir & Gul, 2010; Wahab et al., 2011), board size was represented by total number of directors on the board. This measure is consistent with previous disclosure studies (e.g., Barako et al., 2006).

BEXP: Board Expertise (H3)

H3 expects a positive association between the accounting or financial expertise of board members and the level of RP disclosure. Board expertise is measured as the proportion of board members with accounting and financial expertise to total number of board members. This measure has been used by previous research on the board efficacy (e.g., Arshad et al., 2009).

ACIND: AC Independence (H4)

H4 predicts a positive association between the independence of audit committee and the level of RP disclosure. AC independence is measured as the number of independent members on the audit committee[82].

ACSIZE: AC Size (H5)

H5 predicts an association between the size of audit committee and the level of RP disclosure. AC size is represented by the number of audit committee members. This measure is consistent with previous studies on the efficacy of audit committee (Anderson et al., 2004; Felo et al., 2003).

ACEXP: AC Expertise (H6)

H6 predicts a positive association between the accounting and financial expertise of audit committee members and the level of RP disclosure. AC expertise is measured using dummy variable coded 1 if a firm has at least one member with an accounting or financial expert on its audit committee and zero otherwise[83]. This measure has been used by Lo et al. (2010).

CONC: Ownership Concentration (H7)

H7 predicts a positive association between the concentration of ownership and the level of RP disclosures. The concentration of ownership was measured by a percentage ownership of the largest shareholder at year end. This measure is consistent with prior studies (e.g., Berkman et al., 2009; Cheung, Jing, et al., 2009; Cheung, Qi, et al., 2009; Jiang, Habib, & Hu, 2011; Lo et al., 2010).

FAM: Family-Controlled (H8)

H8 predicts that family-controlled firms have a higher level of RP disclosures. A family firm is represented by a dummy variable coded 1 if a firm is controlled by a

[82] This study uses the absolute number of independent members on the audit committee to represent AC independence due to the institutional differences of AC independence characteristics in the sample countries (refer to Table 6.7). For example, Indonesian companies tend to have a smaller size of audit committee, which in most cases, consists of 100% independent members. In contrast, companies in other countries (e.g., Australia and Singapore) tend to have a larger size of audit committee which, in many cases, have less than 100% independent members. In this case, the proportion of independent audit committee members may not be fully representing the degree of audit committee independence.

[83] The use of a dummy variable to measure ACEXP is mainly due to the unique data in this study. In this study, two companies do not have an audit committee whereas 213 companies have no financial expert on the committee.

family and 0 otherwise (Cheung, Qi et al., 2009). Consistent with Ali et al. (2007, p. 246), a firm was categorised as a family firm if "the founder and/or their descendants hold positions in the top management or on the board or are among the companies' largest shareholders." This definition is also consistent with previous studies on family firms (Anderson et al., 2004; Anderson & Reeb, 2003a, 2003b, 2004).

Family ownership data were collected from the section of Analysis of Shareholdings of the companies' annual reports. In addition, information from the directors' shareholding and profile of board of directors was also examined to ascertain the identity of the largest shareholders. A binary variable was used to represent family firms where it was coded as "one" if family shareholding in the firm is equal to or more than 10% and coded "zero" otherwise. Such an approach is consistent with Munir and Gul (2010)[84].

Firm-Level External Governance Characteristics

LEV: Leverage (H9)

H9 predicts an association between the leverage and the level of RP disclosures. Leverage was measured by the ratio of total debt to total asset at the end of fiscal year 2009. This measure is consistent with prior related party transaction studies (Berkman et al., 2009; Aharony et al., 2010; Kohlbeck & Mayhew, 2010; Wahab et al., 2011; Munir & Gul, 2010; Ryngaert & Thomas, 2012) and disclosure studies (Eng & Mak, 2003 and Gallery, Cooper et al., 2008) use a similar ratio (total liabilities to total assets) to measure leverage.

EXT: Type of External Auditor (H10)

H10 predicts that companies which are audited by a Big 4 auditor have higher levels of RP disclosures. Type of external auditor was represented by dummy variable coded 1 if a firm was audited by a Big 4 auditor in year 2009 and 0 otherwise. This approach is consistent with prior studies which examine relationships between types of external audit and RP transactions (Cheung et al., 2006; Gallery, Gallery et al., 2008; Munir & Gul, 2010; Wahab et al., 2011) or the extent of disclosure (Chau & Gray, 2010; Barako et al., 2006).

[84] An exception: Karoon Gas (Australia: KAR) is categorised as family-controlled firm, because Mr Robert Hosing (KAR's executive chairman) has 6.84% direct ownership (KAR's annual report, 2009).

CROSS: Cross-listing Status (H11)

H11 predicts a positive association between the cross-listing status and the level of RP disclosures. The cross-listing status was measured by a binary variable coded 1 if a firm is cross-listed in a foreign stock exchange and 0 otherwise. This measure is consistent with that of Morris and Gray (2009).

Country-level Governance Characteristics

To test the influence of the country-level governance characteristics on the level of firms' RP disclosures, four measures of the country level variables are employed. Those variables are a country's legal origin, enforcement, investor protection index, and corruption index.

LEGL: Legal Origin (H12)

H12 predicts that firms which reside in countries with common-law legal origins have higher levels of RP disclosures. The legal origin **(LEGL)** represents a country's predominant legal origin which distinguishes between common-law and code-law countries. A company is coded "1" if it resides in a country with common-law legal origin and "0" otherwise. Prior studies in international finance/accounting use the legal origin as a country-level explanatory factor or an instrument (e.g., La Porta et al., 2006). Legal origin is argued as "the most primitive" factor, relative to the other country legal factors in the extant international finance/accounting studies. That is, legal origin is considered to have the highest degree of exogeneity, particularly because it has been rooted for ages (Ball et al., 2000; Hope, 2003; Morris et al., 2012). The legal origin, however, is unlikely to be a sole explanatory factor of firms' disclosure (Morris et al., 2012).

ENF: Enforcement (H13)

H13 predicts that firms in countries with stronger enforcement have higher levels of RP disclosures. Prior study (Durnev & Kim, 2005) suggests that a country's strength of legal environment is represented by both de jure (i.e., investor protection) and de facto (i.e., enforcement) aspects of regulations, because a country cannot rely only on one aspect. A country may have a high investor protection index, but does not have a strong enforcement, hence the regulation will not be effective. Accordingly, this thesis includes both aspects of regulation, that is, the enforcement and the investor

protection index. A country's level of enforcement is measured by the enforcement index of Preiato et al. (2012) which measures a country's strength of enforcement, which emphasises on accounting enforcement (hereafter ***ENF***) [85]. The index captures the existence, activity, involvement, and responsibility of a country's enforcement body or bodies in relation to the quality of financial reporting and standard setting outcomes. The index measures seven enforcement items in a country, which are: whether a country has security market regulator or other body monitors financial reporting; whether the body regulates audit firms, has power to set accounting and auditing standards, reviews financial statements, provides a report about its review of financial statements, has taken enforcement action regarding financial statements, and what is the level of resourcing by the securities market regulator. The value of the index ranges between 0-12 with higher values for stronger enforcement.

INVP: Investor Protection (H14)

H14 predicts that firms in countries with stronger investor protection have higher levels of RP disclosures. With respect to the investor protection, La Porta et al.'s (2006) investor protection index (hereafter ***INVP***) was used to measure the strength of the investor protection in a country. The value of the index for each country is constructed from the principal component analysis of three indices: disclosure requirements, liability standards, and anti-director rights (La Porta et al., 2006, p. 10). A higher INVP score indicates a stronger investor protection in terms of disclosure requirements, liability standards and anti-director rights.

CORUP: Control for Corruption (H15)

H15 predicts that firms in countries with stronger control for corruption have higher levels of RP disclosures. Lastly and importantly, the control for corruption has been argued as an important component of a country's institutional framework to mitigate opportunistic behaviours by managers or controlling owners (e.g., Aldrighi, 2009; Jain, 2001; Transparency International, 2009b) and encourage firms' transparency (Morris & Gray, 2009). A country's control for corruption is measured by the Corruption Perception Index 2009 (hereafter ***CORUP***), published by Transparency

[85] Preiato et al. (2012, p. 22) compile the index based on the publicly available data including FEE, 2001; CESR, 2006, 2007, 2009; IFAC, 2011; and annual reports of the countries' enforcement bodies.

International. The higher *CORUP* index variable denotes stronger control for corruption (i.e., less corruption).

Table 5.6 shows all the country-level variables. It indicates that among the six countries, Australia, Malaysia, and Singapore's legal system originate from British common law. Those three countries have relatively higher corruption scores (less corrupt), compared to Indonesia, the Philippines, and Thailand whose legal system originated from the code (civil) law.

Table 5.6 Country-Level Governance Factors

PANEL A	LEGL	ENF	INVP	CORUP
Australia	Common Law	11.00	0.78	8.70
Indonesia	Code Law	4.00	0.51	2.80
Malaysia	Common Law	9.00	0.73	4.50
Philippines	Code Law	8.00	0.81	2.40
Singapore	Common Law	6.00	0.77	9.20
Thailand	Code Law	7.00	0.37	3.40

Note: ***LEGL*** is a country's predominant legal origin; ***ENF*** is a country's enforcement index (Preiato et al., 2012); ***INVP*** is a country's investor protection index (La Porta et al., 2006); **CORUP** is a country's control for corruption index (CPI 2009 of Transparency International). For each proxy of ENF, INVP and CORUP, a higher score represents a stronger enforcement.

5.2.5 Control Variables

Based on the hypothesis development, in addition to corporate governance, there are a number of other firm-level factors which may influence corporate related party transaction disclosures. These factors include company size, leverage, profitability, performance, listing status, and industry type (Aharony et al., 2010; Ryngaert & Thomas, 2012).

SIZE: Company Size

The company's size was measured by the reported total assets at the end of fiscal year 2009. This measure is commonly used in prior RP transaction studies (e.g., Chen, Chen, & Chen, 2010; Lo et al., 2010; Aharony et al., 2010; Cheung et al., 2006; Kohlbeck & Mayhew, 2010; and Gallery, Gallery et al., 2008) and disclosure studies (e.g., Gallery, Cooper et al., 2008; Al-Shammari et al., 2008).

PERFORM: Performance

A firm's performance was measured by using Tobin's Q ratio, which is a ratio of market capitalisation minus the book value of equity plus total assets, all divided by

total assets. This measure is consistent with prior studies (Brown & Caylor, 2004; Durnev & Kim, 2005; Klapper & Love, 2004; Ryngaert & Thomas, 2012).

PROFIT: Profitability

The company's profitability is measured using the return on assets at the end of 2009, which is the ratio of net income before tax to average total assets.

NRPT: RP Transaction Activity

A firm's RP transaction activity is represented by the natural logarithm of number of RP transactions reported in the annual reports in the fiscal year 2009 (Nekhili & Cherif, 2011).

INDUS: Industry Type

The disclosure of RP transactions is mandated for all types of industry. However, to control for the possibility of industry effect on firms' RP disclosure, the Global Industry Classification Standard (GICS) is used to control for the presence of such effect in the nine major sectors[86].

5.2.6 Summary of Dependent and Independent Variables (RQ3)

Table 5.7 presents the summary of the variables, measures and the related references.

[86] Global Industry Classification Standard consists of ten sectors (Energy, Materials, Industrials, Consumer Discretionary, Consumer Staples, Health Care, Financials, Information Technology, Telecommunication Services, and Utilities). As previously discussed in this chapter, companies in the Financials sector were excluded from the sample. Therefore, the eight dummy variables are used to cover each of the nine major sectors (The Health Care sector is the excluded sector).

Table 5.7 Summary of the Variables, Measures and References

Dependent Variable	Measure	Reference	Expected Sign
OSCORE: Overall RP Disclosure Score	Overall RP disclosure score (i.e., the maximum possible items of RP disclosure).		
MSCORE: Mandatory RP Disclosure Score	Mandatory RP disclosure score (i.e., disclosure items in IAS 24 (2003) commonly mandatory in all six countries).		
DSCORE: Discretionary RP Disclosure Score	Discretionary RP-disclosure score (i.e., disclosure items in IAS 24 (2003) commonly discretionary in all six countries).		
Independent Variables: Internal Governance Characteristics			
BIND: Board Independence (H_1)	Board independence was measured by a ratio of independent directors to total number of directors on the board.	Aharony et al. (2010); Arshad et al. (2009); Cheung, Jing et al. (2009); Cheung, Qi et al. (2009); Cheung et al. (2006); Gallery, Gallery et al. (2008); Kohlbeck & Mayhew (2010); Ryngaert & Thomas (2011); Wahab et al. (2011)	+
BSIZE: Board Size (H_2)	The total number of directors on the board.	Barako et al. (2006); Gallery, Gallery et al. (2008); Gordon et al. (2004a)	-
BEXP: Board Expertise (H_3)	The proportion of board members with financial expertise to total number of board members.	Arshad et al. (2009)	+
ACIND: Audit Committee Independence (H_4)	The number of independent AC members in the audit committee.		+
ACSIZE: Audit Committee Size (H_5)	The size of audit committee was represented by the number of audit committee members.	Anderson et al. (2004); Felo et al. (2003)	?
ACEXP: Audit Committee Expertise (H_6)	A dummy variable coded 1 if a firm has financial expert on its audit committee and 0 otherwise.	Lo et al. (2010)	+
CONC: Ownership Concentration (H_7)	The percentage ownership of the largest shareholder at year end.	Berkman et al. (2009); Cheung et al. (2006); Cheung, Qi et al. (2009); Jiang et al. (2011); Lo et al. (2010)	+
FAM: Family-Controlled (H_8)	A dummy variable coded 1 if a firm is controlled by a family and 0 otherwise.	Ali et al. (2007); Cheung, Qi et al. (2009)	+
Independent Variables: External Governance Characteristics			
LEV: Leverage (H_9)	The ratio of total debt to total asset at the end of fiscal year 2009.	Aharony et al. (2010); Berkman et al. (2009); Eng & Mak (2003); ; Gallery, Cooper et al. (2008); Kohlbeck & Mayhew (2010); Munir & Gul (2010); Ryngaert & Thomas (2012)	?
EXT: Type of External Auditor (H_{10})	A dummy variable coded 1 if a firm was audited by a Big 4 auditor in year 2009 and 0 otherwise.	Barako et al. (2006); Chau & Gray (2010); Cheung et al. (2006); Gallery, Gallery et al. (2008); Munir & Gul (2010); Wahab et al. (2011)	+
CROSS: Cross-listing Status (H_{11})	A binary variable coded 1 if a firm is cross-listed in a foreign stock exchange and 0 otherwise.	Morris & Gray (2009)	+
Independent Variables: Country-Level Governance Characteristics			
LEGL: Legal Origin (H_{12})	A binary variable coded as "1" if a country has British common-	La Porta et al. (1998); Nenova et al. (2000)	+

	law legal origin and "0" otherwise.		
ENF: Enforcement (H_{13})	An enforcement index of Preiato et al. (2012) which measures the strength of a country's enforcement body.	Preiato et al. (2012)	+
INVP: Investor Protection (H_{14})	An investor protection index of La Porta et al.'s (2006). The index represents principal component of the indices of disclosure requirements, liability standards, and anti-director rights (La Porta et al., 2006, p. 10).	La Porta et al. (2006); Chen, Chen, & Wei (2009); Mclean, Zhang, & Zhao (2012)	+
CORUP: Control for Corruption (H_{15})	The Corruption Perception Index 2009 of Transparency International. A higher CORUP score indicates a stronger control for corruption (less corrupt).	Transparency International (2009a); Malagueño et al. (2010)	+
Control Variables			
SIZE: Company Size	The log of company's total assets at the end of fiscal year 2009.	Aharony et al. (2010); Al-Shammari et al. (2008); Chen, Chen, & Chen, 2010); Cheung et al. (2006); Gallery, Cooper et al. (2008); Gallery, Gallery et al. (2008); Lo et al. (2010); Kohlbeck & Mayhew (2010)	+
PERFORM: Performance	A ratio of market capitalisation minus the book value of equity plus total assets, all divided by total assets (Tobin's Q ratio).	Brown & Caylor, 2004; Durnev & Kim, 2005: Klapper & Love, 2004; Ryngaert & Thomas, 2012	+
PROFIT: Profitability	The return on assets at the end of 2009, which is the ratio of net income before tax to average total assets.		+
RPTN: RP Transactions	The log of RP transaction numbers reported in the annual reports in the fiscal year 2009.	Lo & Wong (2011); Nekhili & Cheriff (2011); Utama & Utama (2012)	+
INDUSTRY DUMMIES: Industry Type	The Global Industry Classification Standard (GICS)		?
Dependent and Independent Variables -- Additional Tests			
MSCORE2 – Dependent Variable	An alternative Mandatory RP disclosure score (i.e., all mandatory disclosure items in IAS 24 (2003)).		
ADRI – Independent Variable as an alternative of INVP	Antidirector-right Index, an alternative of Investor Protection Index (INVP).		+
ASDI – Independent Variable as an alternative of INVP	An anti-self-dealing index *(ASDI)* by Djankov et al. (2008) is used to replace *INVP* in the models. The anti-self-dealing index measures a more specific legal protection of minority shareholders, that is, the control of self-dealing. The index represents an average indices of ex-ante and ex-post private control of self-dealing (Djankov et al., 2008, p. 437).	Djankov et al. (2008); Lel & Miller (2008); Mclean et al. (2012)	+
SECRECY – Additional Independent Variable	Gray's (1988) cultural dimension derived from Hofstede, calculated by Braun and Rodrigues (2008).	Braun & Rodriguez (2008); Morris et al. (2012)	-

5.2.7 Diagnostic and Sensitivity Tests

Normality and Other Regression Issues

All variables were examined for deviations from normality. Of the governance variables, ownership concentration *(CONC)* was normally distributed, whereas other variables including board independence *(BIND),* board expertise *(BEXP),* board size *(BSIZE),* audit committee independence *(ACIND)* and audit committee size *(ACSIZE)* required winsorising of a small number of outliers (less than 5% of the sample observations) to achieve normal distribution.

With regard to the firm-specific non-governance variable, large variance leads to the skewness distribution of company size *(SIZE)* and number of RP transactions *(RPTN)*. Accordingly, following Tabachnick and Fidell (2007), natural logarithmic transformations were performed in which the resulting data was then winsorised to remove outliers. Also, profitability *(PROFIT)* and performance *(PERFORM)* were winsorised to correct the small number of outliers (i.e., less than 5% of the sample observation).

As multicollinearity and heteroscedasticity may also be threats to the validity and reliability of regression results, these are examined as part of the estimating procedures and are discussed in the results chapter.

Sensitivity Analysis (RQ3)

To enhance the credibility of the findings in this study, a number of sensitivity analyses will be conducted. First, an alternative RP disclosure index will be used as an alternative of *MSCORE,* to include all items required by IAS 24 (2003) which is applicable in 2009. Second, given the potential risk of multicollinearity between country-level variables, a highly correlated country-level variable (i.e., legal origin) will be removed from the regression model. Third, two alternative measures of investor protection *(INVP)* will be examined. The first alternative measure is a revised anti-director right *(ADRI)*, which measures (La Porta et al., 2006). The second alternative measure is an anti-self-dealing index *(ASDI)* (Djankov et al., 2008).

As previously discussed in Chapter 2, the revised anti-director-right index measures shareholder rights according to the laws and regulations applicable to publicly traded

firms in May 2003. The index is a summative of six items: vote by mail, shares not deposited, cumulative voting, oppressed minority, pre-emptive rights, and capital to call a meeting (Djankov et al., 2008, p. 455). The anti-self-dealing index measures a more specific legal protection of minority shareholders, that is, the control against self-dealing by controlling owners. The index represents an average score of ex-ante and ex-post private control of self-dealing (Djankov et al., 2008, p. 437). Djankov et al. (2008) find that a higher anti-self-dealing-index score is associated with higher valued stock markets and lower benefits of control. The anti-self-dealing index has also been used in recent studies to measure investor protection (for example, Lel & Miller, 2008; Mclean et al., 2012). Also see a review by Claessens and Yurtoglu (2012).

Lastly, as discussed in Chapter 3, previous studies have examined the influence of culture on the corporate disclosures and find some mixed evidence on the influence of each cultural dimensions (e.g., Archambault & Archambault, 2003; Hope, 2003b; Jaggi & Low, 2000). Consistent with the argument present in Morris et al. (2012), the influence of the cultural dimension is examined by using *SECRECY*.

5.3 Conclusion

This chapter outlines the time period, sample selection, data sources and research model specifications to address the three research questions and test the hypotheses. Guided by previous studies on financial disclosure and RP transactions and based on IAS 24 *Related Party Disclosure*, self-constructed disclosure indices are developed to measure the level of corporate RP transaction disclosure. These indices and analytical procedures are designed to address research questions one and two. To test the research hypotheses (research question 3) a multiple regression model is developed which includes, as the dependent variable in the model, the standardised indices as (alternative) RP disclosure proxies. Based on the prior disclosure literature, variables to capture the hypothesised relationship are included in the model as the independent variables. They include firm governance and non-governance characteristics and country level investor protection variables. Furthermore, control variables are incorporated into the model to capture the expected influence of firm-specific factors (firm size, profitability, leverage, performance, listing status and industry category) on the levels of RP disclosure.

Alternative testing procedures are also outlined in the chapter. This rigorous research design should ensure that this study can appropriately address the research hypotheses and achieve reliable conclusions. The results of implementing this research design are discussed in the next chapter.

CHAPTER 6: RESULTS

This chapter presents the findings relating to the three research questions and the associated hypotheses. First, relating to RQ1, descriptive statistics are presented on the nature and extent of related party (RP) transactions and RP disclosures. Second, relating to RQ2, descriptive statistics are analysed on the extent of RP disclosure conformance to the IAS 24 *Related Party Disclosure*. Third, relating to RQ3, descriptive statistics for factors influencing the nature and extent of RP disclosures are examined, followed by a discussion of the bivariate tests of governance, country, and firm-specific factors influencing the nature and extent of RP disclosures. Fourth, the results of multivariate tests relating to the hypotheses (and RQ3) are analysed, followed by robustness tests and sensitivity analysis. The chapter concludes with a summary of findings.

6.1 The Nature and Extent of RP Transaction and RP Disclosures (RQ1)

Table 6.1 presents the descriptive statistics of the nature and extent of RP transaction and RP disclosures in the companies' annual reports in the six Asia-Pacific countries. The table shows that there are 8,727 RP transactions reported by the sample firms in the six countries. On average, firms disclose 14 transactions, with a range between zero and 120[87], suggesting that RP transactions are common in all six countries. The finding is relatively higher, compared to Gordon et al. (2004a)[88] who find the frequency of RP transactions in the U.S. are an average of 3.9. Furthermore, the RP transactions in this study have a mean (median) value of US$911.87 million (US$71.35 million), ranging from minimum zero to the maximum US$58,437 million. It should be noted, however, that the actual total RP transactions and the actual total values of those transactions are likely to be larger because some companies do not disclose transaction values in a number of cases. In addition, there are also possibilities that companies may not fully disclose all RP transactions, due to

[87] Three listed companies report zero RP transactions: David Jones (RP transactions are disclosed briefly and no amounts are provided), JB Hifi (discloses all required disclosure items: the name of parent entity, key management compensation, and terms and conditions of RP transactions, however, no RP transactions and amounts are mentioned), and Boart Long Year (discloses key management personnel compensation; no RP transactions and amounts are disclosed). Indosat, a government-linked company in Indonesia, reports 120 transactions. The company discloses detail RP transactions, including the related party involved for each type of transaction (with no aggregation).

[88] Gordon et al. (2004a) examine RP transactions of 112 U.S. listed companies from fiscal years 2000 and 2001 proxy statements and 10-Ks.

materiality reasons, eliminated transactions with subsidiaries, and poor disclosure practices.

Untabulated findings suggest that the higher frequency of RP transactions in some instances is due to corporate reporting policies. In the 2009 annual reports, most of the listed companies in Indonesia, Malaysia, the Philippines, and Thailand disclose RP transactions by using "the detailed approach". The listed companies in these countries disclose RP transactions by listing the name of each related party, the transactions undertaken with the respective related party, and the amount involved in the transactions. Listed companies in Singapore and Australia tend to report their RP transactions by using "the aggregated approach". They disclose RP transactions according to the aggregated type or nature of RP relationships, the categorised type of transactions, and the summative amount involved in the aggregated transactions.

Table 6.1 also presents the descriptive statistics of the RP transactions relative to the occurrence and magnitude of the transactions as reported by sample firms in the 2009 annual reports. The results show a number of similarities and differences on the extent and magnitude of RP transactions across countries. First, loans provided to related parties are the most common type of transaction, accounting for 21.15% of the total number of RP transactions. Loans also have a relatively higher magnitude with a mean (median) US$95 million (US$ 921,000). Compared to loans received, loans provided to related parties are consistently more frequent in Australia, Indonesia, the Philippines and Thailand. This finding suggests that RP loans are an important source of finance in the sampled companies. Among all six countries, Thailand and Indonesia report relatively higher numbers of both loans provided to and loans received from related parties. These RP loans raise issues because of the potential conflict of interest in determining the term of loans (i.e., interest rate, repayment date, and allowance provided/expenses for doubtful accounts). In a number of cases, the terms of loans are unsecured, interest-free, and repayable on demand. Furthermore, it is also possible for companies to provide a relatively high amount of allowance for doubtful loans; hence, the loans could have close to a zero balance.

Second, the purchases of goods and services are also of a high magnitude and frequent in all countries. Untabulated results show that purchases of goods and

inventory are the main driver in this category. Similarly, sales of goods and services transactions are mainly driven by sales of goods and inventory. The results are consistent in all six countries. Assuming the transactions are on commercial terms, these transactions may indicate "efficient transactions" to enhance overall competitiveness since they are part of operating activities (Chen, Chen, & Chen, 2009).

Third, purchases of property and other assets are also common in all six countries. These purchases may involve conflicts of interest, for example, in determining the price of the purchased property and assets. While this type of transaction only constitutes 2.1% of the total number of RP transactions, they are relatively higher amounts with the mean (median) value of US$171 million (US$432,000). Thailand, Malaysia and Indonesia have relatively higher numbers of such transactions compared to the other countries.

Table 6.1 Descriptive Statistics of RP Transactions by Nature Across Countries

Nature of Transactions	Pooled		Australia		Indonesia		Malaysia		The Philippines		Singapore		Thailand	
	N	Mean Median	N	Mean Median	N	Mean Median	N	Mean Median	N	Mean Median	N	Mean Median	N	Mean Median
	%	(‘000 U S$)	%	(‘000 US$)	%	(‘000 US$)	%	(‘000 US$)	%	(‘000 US$)	%	(‘000 US$)	%	(‘000 US$)
Purchases of goods and services	**1,028** **(11.78)**	81,339 (1,951)	85 (7.21)	103,782 (2,742)	180 (11.61)	25,106 (2,562)	342 (22.25)	54,896 (1,331)	87 (11.27)	15,576 (2,647)	115 (14.16)	84,267 (1,963)	219 (7.61)	184,731 (2,401)
Purchases of property and other assets	**187** **(2.14)**	171,284 (432)	8 (0.68)	228,668 (13,619)	34 (2.19)	4,686 (463)	58 (3.77)	3,839 (109)	5 (0.65)	11,777 (104)	23 (2.83)	25,440 (3,661)	59 (2.05)	494,489 (673)
Sales of goods and services	**1,022** **(11.72)**	90,782 (2,125)	68 (5.77)	92,174 (9,523)	163 (10.52)	21,044 (1,703)	299 (19.45)	32,119 (1,854)	61 (7.90)	21,192 (1,143)	149 (18.35)	66,194 (2,141)	282 (9.80)	220,999 (3,691)
Other Sales	**67** **(0.77)**	12,287 (570)	4 (0.34)	1,327 (939)	13 (0.84)	34,497 (440)	6 (0.39)	17,016 (981)	1 (0.13)	200 (200)	16 (1.97)	10,251 (2,374)	27 (0.94)	3,820 (570)
Other Income	**1,314** **(15.06)**	18,991 (554)	240 (20.36)	59,079 (7,633)	86 (5.55)	15,091 (500)	286 (18.61)	15,511 (417)	85 (11.01)	3,065 (257)	179 (22.04)	5,290 (450)	438 (15.22)	8,753 (358)
Other Expenses	**1,361** **(15.60)**	15,833 (489)	151 (12.81)	20,494 (2,753)	183 (11.81)	34,979 (571)	329 (21.41)	4,398 (310)	126 (16.32)	1,461 (219)	158 (19.46)	51,025 (314)	415 (14.42)	5,845 (660)
Employment	**13** **(0.15)**	236 (45)	2 (0.17)	437 (437)	1 (0.06)	2 (2)	2 (0.13)	17 (17)	1 (0.13)	459 (459)	0 (0.00)	0 (0)	7 (0.24)	243 (93)
Loans From	**1,337** **(15.33)**	689 (251)	175 (14.84)	321,822 (25,153)	337 (21.74)	5,188 (398)	55 (3.58)	35,566 (1,275)	114 (14.77)	6,997 (372)	60 (7.39)	31,865 (2,083)	597 (20.75)	15,319 (636)
Loans To	**1,845** **(21.15)**	94,927 (921)	331 (28.07)	444,974 (12,658)	406 (26.19)	4,571 (448)	112 (7.29)	22,741 (1,029)	215 (27.85)	6,224 (216)	88 (10.84)	26,039 (877)	695 (24.16)	28,617 (870)
Transfer of assets	**15** **(0.17)**	53,697 (743)	3 (0.25)	4,517 (4,382)	0 (0.00)	0 (0)	7 (0.46)	2,348 (1,349)	0 (0.00)	0 (0)	4 (0.49)	1,614 (753)	1 (0.03)	330 (330)
Donations	**5** **(0.06)**	2,451 (1,349)	0 (0.00)	0 (0)	0 (0.00)	(0) 0	1 (0.07)	1,301 (1,301)	4 (0.52)	150 (175)	0 (0.00)	0 0	0 (0.00)	0 (0)
Others	**529** **(6.06)**	53,800 (1,382)	112 (9.50)	201,042 (7,686)	147 (9.48)	14,919 (984)	40 (2.6)	51,133 (788)	73 (9.46)	5,641 (881)	20 (2.46)	4,256 (1,671)	137 (4.76)	8,817 (590)
Total	**8,727** (100)	**60,897** (880)	**1,179** (100)	**220,809** (8,114)	**1,550** (100)	**14,228** (651)	**1,537** (100)	**26,774** (672)	**772** (100)	**7,375** (388)	**812** (100)	**41,425** (853)	**2,877** (100)	**58,589** (738)
% of a country’s transactions to total transactions	100		13.51		17.76		17.61		8.85		9.30		32.97	

Further statistical analysis was performed on the RP relationships behind the transactions (Table 6.2). As expected, transactions with corporate combinations (i.e., subsidiaries, associates, and joint venture) are common in all countries. Overall, RP transactions with corporate combination account for 46% of total reported RP transactions. RP transactions with director-related entities (accounts for 6.27% of the total RP transactions) are less frequently disclosed and of lower magnitude in Indonesia, the Philippines and Singapore, compared to other countries. A relatively higher number of transactions with director-related entities is reported by Thai companies, whereas a relatively higher magnitude of transactions is reported by Australian companies with mean (median) value of US$24.7 million (US$ 404,000).

Transactions with director-related entities are of a much higher magnitude and prevalence than with key management personnel individually, with a mean (median) value of US$2.4 million (US$229,000), which may indicate that companies prefer to enter into transactions with entities familiar to the directors. However, it might also indicate that directors as individuals feel reluctant to be involved in the RP transactions[89].

Further, RP transactions with major shareholders are commonly reported in all countries (mean/median: US$151 million/US$1.5 million), with relatively higher values reported in Australia and Thailand (i.e., US$371 million and US$ 278 million, respectively). However, in terms of the prevalence, companies in Thailand and Malaysia report higher numbers of transactions with major shareholders than those in other countries. Furthermore, transactions with the parent or entity that has joint control or significant influence are also less frequent. Compared to other countries, Thailand has the highest frequency and magnitude[90] of transactions with a parent or entity that has joint control or significant influence (n=88, mean = US$64.9 million; median = US$676,000).

Transactions with entities under common control[91], however, are only reported by listed companies in Indonesia, Malaysia, the Philippines and Thailand. The

[89] Similar findings are reported in Supranowicz (2007, pp. 63–64).
[90] While Singapore has the highest magnitude (mean = median = US$484 million), only two transactions are reported within this category.
[91] The entities under common control include entity under common control, entity under common ultimate holding company, other entity within the group, entity under common key management, entity under common major shareholder, subsidiary of immediate holding, entity subject to common significant influence, wholly-owned subsidiaries of the company's immediate and ultimate holding company, subsidiaries of holding company.

prevalence and magnitude of transactions with this type of related party are mainly apparent in Indonesia and the Philippines. This result could be influenced by the existence of groups and the crossholdings structure of companies within the group in those countries. As discussed in Chapter 2 (Section 2.1.4), East-Asian corporations including Indonesia, Malaysia, the Philippines, and Thailand are largely dominated by family-controlling owners in which the separation of management from ownership control is uncommon. Those family-controlling owners may have incentives to enter into RP transactions between closely affiliated companies or between family members; given the lower transaction costs and reduced information asymmetry (Claessens et al., 2000).

Overall, the findings suggest that there are differences on the nature and extent of RP transactions across countries in the Asia-Pacific region. First, RP loans are more frequently reported by companies in Thailand and Indonesia. Second, RP purchases of property and other assets are more frequently reported by companies in Thailand, Malaysia and Indonesia. Third, RP transactions with corporate combinations are common in all six countries and account for almost half of the total number of reported RP transactions. Fourth, RP transactions with director-related entities are more frequently reported by companies in Australia and Thailand. Lastly, RP transactions with entities under common control are frequently reported by companies in Indonesia, Malaysia, the Philippines and Thailand.

In addition to those differences in the nature and extent of RP transactions, there are also differences in the nature and extent of RP disclosures. For example, companies in Indonesia, Malaysia, the Philippines and Thailand tend to disclose their RP transactions by detailed reporting information, whereas companies in Singapore and Australia tend to disclose RP transactions by reporting aggregated/summative information. It is important to note that as with previous studies on RP transactions, this study can only identify RP transactions which are disclosed in the companies' annual reports.

Table 6.2 Descriptive Statistics of RP Transactions by Nature of Related-Party Relationships Across Countries

Nature of RP Relationships	*Pooled*		Australia		Indonesia		Malaysia		The Philippines		Singapore		Thailand	
	N	Mean (Median)	N	Mean (Median)	N	Mean (Median)	N	Mean (Median)	N	Mean (Median)	N	Mean (Median)	N	Mean (Median)
	%	('000 US$)	%	('000 US$)	%	('000 US$)	%	('000 US$)	%	('000 US$)	%	('000 US$)	%	('000 US$)
Parent, or an entity that has joint control or significant influence	262 3.00%	39,683 (938)	26 2.21%	37,836 2,870	70 4.52%	29,251 751	26 1.69%	12,523 783	50 6.48%	7,160 1,139	2 0.25%	484,051 484,051	88 3.06%	64,931 676
Subsidiary	2,129 24.40%	132,270 (2,568)	548 46.48%	417,646 29,312	66 4.26%	9,044 929	356 23.16%	25,076 1,029	99 12.82%	14,134 522	134 16.50%	58,019 2,158	926 32.19%	36,755 1,300
Joint-venture in which the entity is a venturer	400 4.58%	28,098 (894)	117 9.92%	54,795 8,601	11 0.71%	1,532 555	41 2.67%	25,007 2,981	23 2.98%	3,309 216	60 7.39%	28,611 501	148 5.14%	13,468 286
Associate	1,479 16.95%	58,257 (900)	157 13.32%	24,801 3,732	319 20.58%	19,819 840	228 14.83%	47,016 1,647	175 22.67%	14,091 548	179 22.04%	54,737 1,295	421 14.63%	125,801 540
Entities under common control (fellow subsidiary)	432 4.95%	8,783 (561)	0 0.00%	0 0	236 16.97%	10,512 832	64 4.16%	10,808 850	27 3.50%	2,359 406	0 0.00%	0 0	78 2.71%	3,515 88
Major shareholder	419 4.80%	151,102 (1,513)	11 0.93%	317,334 7,000	64 4.13%	18,894 584	89 5.79%	52,478 850	24 3.11%	2,928 161	39 4.80%	8,975 1,313	192 6.67%	278,755 3,203
Holding company	177 2.03%	12,941 (253)	0 0.00%	0 0	0 0.00%	0 0	134 8.72%	13,709 201	2 0.26%	73,943 73,943	41 5.05%	7,455 530	0 0.00%	0 0
Key-management personnel	206 2.36%	2,431 (229)	45 3.82%	5,645 161	42 2.71%	1,641 332	63 4.10%	1,880 212	15 1.94%	537 149	18 2.22%	1,663 239	23 0.80%	929 356
Director-related entity	547 6.27%	19,533 (243)	81 6.87%	24,684 404	59 3.81%	2,578 281	149 9.69%	3,824 328	27 3.50%	919 97	45 5.54%	163,656 199	186 6.47%	3,087 197
Other related-party	2,676 30.66%	22,969 (698)	194 16.45%	74,388 4,179	656 42.32%	13,529 546	387 25.18%	31,697 841	330 42.75%	3,292 269	294 36.21%	18,165 619	815 28.33%	23,883 777
Total	8,727 100%	**60,897** (880)	1,179 100%	**220,809** (8,114)	1,550 100%	**14,228** (651)	1,537 100%	**26,774** (672)	772 100%	**7,375** (388)	812 100%	**41,425** (853)	2,877 100%	**58,589** (738)
% of each country's transactions to total transactions	100.00%		13.51%		17.76%		17.61%		8.85%		9.30%		32.97%	

6.2 The Extent of RP Disclosure Conformance to IAS 24 (RQ2)

International Financial Reporting Standard (i.e., *IAS 24 Related Party Disclosures, 2003*) is used as a benchmark in assessing the level of RP disclosure across the six countries. As previously mentioned, in the fiscal year ending in 2009, three countries in this study applied the newer version of IAS 24, one country applied the newer version plus additional paragraphs, and two countries conform to the older version. Table 6.3 shows proportions of companies in each country that conform with each item of mandatory disclosure under IAS 24 (2003). The items are clustered into five groups, which are (1) relationship and the name of parent, (2) key management personnel compensation (KMP), (3) nature and amount of transactions, (4) related-party balances, and (5) nature of relationships. Evident in the table are a number of variations in the level of compliance among the groups of disclosed items.

The first three groups, which are "relationship and the name of the parent", "KMP compensation", and "nature and amount of transactions" have high compliance levels at 98, 99, and 99%, respectively. The fourth group "related-party balances" has the lowest compliance (47.82%). While companies are inclined to disclose the "amount of the outstanding balances" and "whether the balances are secured", they are less likely to disclose other details about the balances. The lowest level of compliance within this category is for "bad or doubtful debts expenses" (14.49%). Surprisingly, Thailand shows the lowest compliance on disclosing "bad or doubtful debts expenses" (6.06%), despite its highest number of RP loans compared to the other five countries (as previously discussed).

The compliance level for the "provision for doubtful debt" is also very low (33.93%). The low compliance on these items for Thailand and the other countries may be due to the aggregation of such expense and provision in the notes to the accounts for overall receivables/loans. Thus users of financial statements may not be able to trace the particular information unless provided by way of cross-referencing. Alternatively, companies may not disclose such information because they do not have RP loans or do not recognise any expense/provision regarding the doubtful accounts. However, given the mandatory requirements of such disclosure, companies still need to disclose if such expense/provision was not made in the period.

Lastly, companies appear to be transparent in disclosing the "nature of relationship" and the "amount of transactions for each of the nature of relationships". However, unlike the other countries which have more than 85% compliance in this category, the Philippines has a very low compliance level of less than 40%. Companies in this country generally do not disclose the nature of related-party relationships and tend to only disclose the name of related parties, which in many cases means the nature of relationships cannot be identified in the annual reports. Given this disclosure policy, users of financial statements may not be able to fully assess the risks and benefits of the disclosed RP transactions.

Table 6.3 Corporate Conformance with the Mandatory RP Disclosure Items

Mandatory Items	Average Conformance of Mandatory Items						
	Pooled (N=582)	**Aust (N=99)**	**Ind (N=99)**	**Mal (N=100)**	**Phil (N=91)**	**Sing (N=93)**	**Thai (N=100)**
Relationship and the name of parent:							
1. Parent and subsidiaries relationship	0.9811	0.9798	1.0000	0.9600	1.0000	1.0000	0.9500
Total "Relationship and the Name of Parent"	**0.9811**	**0.9798**	**1.0000**	**0.9600**	**1.0000**	**1.0000**	**0.9500**
KMP Compensation:							
2. KMP compensation in total	0.9897	1.0000	0.9798	0.9900	0.9890	1.0000	0.9800
Total *"KMP Compensation in Total"*	**0.9897**	**1.0000**	**0.9798**	**0.9900**	**0.9890**	**1.0000**	**0.9800**
Nature and Amount of Transactions:							
3. Nature of transactions	0.9880	0.9596	0.9899	0.9800	1.0000	1.0000	1.0000
4. Amount of transactions	0.9863	0.9293	0.9899	1.0000	1.0000	1.0000	1.0000
Total "Nature and Amount of Transactions"	**0.9871**	**0.9444**	**0.9899**	**0.9900**	**1.0000**	**1.0000**	**1.0000**
Related-Party Balances:							
5. Amount of the outstanding balances	0.9053	0.8990	0.9798	0.9798	0.7692	0.8065	0.9800
6. Whether the balances are secured	0.7787	0.6263	0.5253	0.9200	0.9451	1.0000	0.6800
7. Nature of consideration in the settlement	0.1873	0.2424	0.0606	0.2700	0.1868	0.3656	0.0100
8. Details of guarantees given/received	0.5318	0.5612	0.4646	0.1500	0.8022	0.6452	0.6000
9. Provision for doubtful debts	0.3393	0.4362	0.3750	0.2800	0.3000	0.2903	0.3571
10. Bad or doubtful debts expenses	0.1449	0.3053	0.1236	0.0900	0.1778	0.1183	0.0606
Total "Related-Party Balances"	**0.4782**	**0.5051**	**0.4125**	**0.4468**	**0.5293**	**0.5376**	**0.4467**
Nature of Relationships:							
11. Nature of relationship	0.8797	0.9798	0.9697	0.9800	0.3407	0.9892	0.9800
12. Amount of transactions for each of the nature of relationships	0.8763	0.9293	0.9697	0.9800	0.3846	0.9892	0.9700
Total "Nature of Relationships"	**0.8780**	**0.9545**	**0.9697**	**0.9800**	**0.3626**	**0.9893**	**0.9750**
Total Mandatory Items	**0.7183**	**0.7415**	**0.7112**	**0.7148**	**0.6586**	**0.7670**	**0.7148**

Note: In coding disclosure items, companies are not penalised for non-disclosure, that is, the non-applicable items and the unable to determine items are excluded. In the year 2009, the following RP disclosure standards were based on IAS 24 (2003): AASB 124 (Australia), FRS 24 (Singapore), FRS 124 (Malaysia), PAS 24 (the Philippines); whereas the following RP disclosure standards were based on earlier version of IAS 24: PSAK 7 (Indonesia) was based on IAS 24 (1984) and TAS 47 (Thailand) was based on IAS 24 (1994).

Based on the version of IAS 24 adopted, each country has additional mandatory items with which companies must comply. Table 6.4 presents country averages of conformance with additional mandatory and discretionary items in each country. Panel A shows averages of conformance with additional-mandatory items and Panel B shows averages of conformance with additional-discretionary items. As shown in Table 6.4, the average conformance for the additional-mandatory disclosure items is 55%. Of all six countries, Australia shows the highest conformance in disclosing key management personnel compensation (items 3, 4, 5, 6 and 7) and identity of the parent company (items 1 and 2). The highest conformance could be influenced by the additional disclosures requirements for Australian companies. AASB 124 requires more information/disclosures of key management personnel compensation (i.e., para Aus 25.1 to Aus 25.9.3) and parent entities and/or ultimate controlling parties' identity (i.e., para Aus 12.1) than other countries.

Further, companies in the other five countries (i.e., Indonesia, Malaysia, the Philippines, Singapore, and Thailand), appear to be more willing to disclose "short-term benefit of KMP" and "post-employment benefit of KMP". Companies in these countries, however, have lower conformance to the other disclosure requirements for KMP compensation (i.e., "other long-term benefit of KMP", "termination benefit of KMP", and "share-based payment of KMP")[92]. The lower conformance could be due to the sensitive nature of compensation disclosure. Given the sensitive nature of KMP compensation, managers may want to withhold or obscure the information to avoid drawing undue attention and criticism.

Interestingly, the findings in Table 6.4 also indicate companies' lower conformance with item 1 (i.e., "the name of the parent") and item 2 (i.e., "the name of the ultimate controlling party/next most senior parent"), despite the relatively insensitive nature of such information. A small number of companies, however, disclose that they do not have any "parent" or "ultimate controlling party", or that they are the "ultimate controlling party" in the group. Disclosing the name of the parent/ultimate controlling party/next most senior parent is needed to obtain a more complete picture

[92] It should be noted that in coding disclosure items companies are not penalised for non-disclosure, that is, the non-applicable items and the unable to determine items are excluded. In the case that companies disclose that they do not have the particular type of KMP benefits, the items are coded as "1" ("disclosed").

of the nature of related party relationships, including all affiliated parties entering into RP transactions with the company.

Table 6.4 Corporate Conformance with Additional Mandatory/Discretionary Disclosure Items

Panel A. Additional Mandatory Items	Average Percentage of Additional Mandatory Items						
	Pooled*	**Aust**	**Ind**	**Mal**	**Phil**	**Sing**	**Thai**
1. The name of the parent	0.5326	0.6970		0.6200	0.3516	0.4409	
2. The name of the ultimate controlling party/next most senior parent	0.4058	0.4694		0.4800	0.2418	0.4194	
3. Short-term benefit of KMP	0.9765	1.0000		0.9900	0.9560	0.9570	
4. Post-employment benefit of KMP	0.8538	0.9899		0.8200	0.8242	0.7742	
5. Other long-term benefit of KMP	0.2658	0.7396		0.1400	0.1099	0.0645	
6. Termination benefit of KMP	0.2992	0.7526		0.1600	0.1868	0.0860	
7. Share-based payment of KMP	0.5733	0.9596		0.4000	0.2667	0.6452	
8. Where the parent is incorporated/constituted	0.3737	0.3737					
9. The name of the ultimate controlling entity incorporated within the country	0.3816	0.3816					
10. Pricing Policy	0.5930		0.2525				0.9300
Total Additional Mandatory Items	**0.5564**	**0.7173**	**0.2525**	**0.5157**	**0.4202**	**0.4839**	**0.9300**

*Total *pooled-N* and each *country-N* are based on the *n-applicable* of each item. Items shaded are discretionary and therefore are excluded.

Panel B. Additional Discretionary Items	Average Percentage of Additional Discretionary Items						
	Pooled*	**Aust**	**Ind**	**Mal**	**Phil**	**Sing**	**Thai**
1. The name of the parent	0.2211		0.2424				0.2000
2. The name of the ultimate controlling party/next most senior parent	0.1608		0.2525				0.0700
3. Short-term benefit	0.2362		0.1111				0.3600
4. Post-employment benefit	0.2613		0.0808				0.4400
5. Other long-term benefit	0.0603		0.0808				0.0400
6. Termination benefit	0.0151		0.0000				0.0300
7. Share-based payment	0.0854		0.0707				0.1000
8. Where the parent is incorporated/constituted	0.2521		0.0909	0.3800	0.3077	0.3511	0.1400
9. The name of the ultimate controlling entity incorporated within the country	0.1302		0.0000	0.3700	0.0000	0.2553	0.0200
10. Pricing Policy	0.1589	0.2424		0.1000	0.1978	0.0957	
Total Additional Discretionary Items	**0.2209**	**0.2424**	**0.1313**	**0.2833**	**0.1685**	**0.2366**	**0.2589**

*Total *pooled-N* and each *country-N* are based on the *n-applicable* of each item. Items shaded are mandatory and therefore are excluded. In coding disclosure items, companies are not penalised for non-disclosure, that is, the non-applicable items and the unable to determine items are excluded. In the case that companies disclose that they do not have the particular type of KMP benefits, the items are coded as "1" or "disclosed".

Table 6.4 Panel A also shows that short-term and post-employment benefits are more frequently disclosed than other long-term benefits, termination benefits, and share-based payments. Regarding pricing policy disclosures, which are only mandated in

Indonesia and Thailand, the results show that Thai companies provide higher levels of disclosure (i.e., 93%). This difference could be due to the additional guidance provided by the Stock Exchange of Thailand (SET), as mentioned in Chapter 2.

Panel B of Table 6.4 shows conformance with additional-discretionary items. The additional-discretionary items consist of three parts. First, items 1-7 are mandatory items in the IAS 24 (2003) which is applicable at 2009, but not mandatory in the earlier version of IAS 24, therefore, these items are considered discretionary for companies in Indonesia and Thailand. Second, items 8-9 are mandatory for companies in Australia, following the additional paragraph in AASB 124, therefore they are discretionary for companies in other countries. Third, item 10 is mandatory in the earlier version of IAS 24 but not mandatory in the IAS 24 (2003) which is applicable at 2009, therefore, it is considered as discretionary for Australia, Malaysia, the Philippines, and Singapore. Panel B of Table 6.4 highlights some interesting findings regarding these items. The overall conformance scores for the additional-discretionary items are all below 30%, which is relatively low compared to the conformance with the additional-mandatory disclosure items.

Furthermore, the information about parent entity (i.e., item 1 and 2) are rarely disclosed in Indonesia and Thailand, with an average of 24% and 20%, respectively. Financial statement users have to seek this information from sources other than annual reports, despite the importance of this information in determining "relatedness". This might cause difficulty in making use of information about RP transactions. With respect to the disclosure of KMP compensation (items 3 – 7), while the items are not required by the current GAAP, companies in Thailand show higher levels of disclosure than those in Indonesia. For item 10, "pricing policy", the overall conformance is very low (15.89%). Among the four countries in which the "pricing policy" is not mandatory, companies in Australia are more likely to disclose the information.

Table 6.5 presents the country averages for conformance with common extended-discretionary disclosure. The relatively higher scores of item 1 (i.e., nature of transaction details) and item 2 (i.e., terms and conditions of transactions details) by Thai listed companies could be influenced by the technical guidance provided by Stock Exchange of Thailand (SET), as discussed previously. The Philippines has the

lowest disclosure score for item 4 (i.e., nature of relationship), as most of its listed companies disclose considerably less information regarding the nature of relationship (29.30%).

Table 6.5 Companies Disclosure of Items that are Discretionary in All Countries

Discretionary Items	Average of Common-Discretionary for Each Item						
	Pooled (N=582)	Aust (N=99)	Ind (N=99)	Mal (N=100)	Phil (N=91)	Sing (N=93)	Thai (N=100)
1. Nature of transaction details	0.9771	0.9422	0.9765	0.9900	1.0000	0.9785	1.0000
2. Terms and conditions of transaction details	0.7325	0.7104	0.6263	0.4633	0.8681	0.9462	0.8067
3. Related party details for the amount of balances	0.8474	0.8182	0.9495	0.9293	0.6850	0.7025	0.9767
4. Nature of relationship details	0.7474	0.8754	0.8316	0.8367	0.2930	0.6767	0.9367
Total Discretionary Items	**0.8257**	**0.8367**	**0.8460**	**0.8025**	**0.7051**	**0.8235**	**0.9300**

The common-discretionary of related party disclosure measures the degree of details provided in the related party disclosure using four items. Each item is coded 1 for low, 2 for medium, and 3 for high level of details. A more detail explanation of coding system is provided in Table 5.5 (Chapter 5).

Overall, as expected, the results in Tables 6.3, 6.4 and 6.5 indicate that the mandatory scores are consistently higher than the discretionary scores. Companies appear to focus on the compliance with the mandated disclosure requirements, and are less likely to provide additional/discretionary RP information. Common-law countries (i.e., Australia, Malaysia and Singapore) tend to exhibit greater disclosures for both mandatory and discretionary information. In addition, technical guidelines provided by regulators seem to increase the level of RP disclosures, as in the case of The Stock Exchange of Thailand's Listed Companies Handbook. However, the enforcement level also appears to play a role in ensuring companies' disclosure of mandatory information. The results indicate that there are country-level and firm-level factors which are likely to influence RP disclosures across six countries. Those factors are discussed in the next section.

6.3 Factors Influencing the Nature and Extent of RP Disclosures (RQ3) – Descriptive

This section addresses the third research question: what are the governance, country, and other factors which explain the nature and extent of RP disclosures in the Asia-Pacific region. Prior to estimating the multivariate regression model, the data were examined to ensure that all the statistical assumptions including the ratio of cases to independent variables, absence of outliers, normality, homoscedasticity, and linearity are satisfied (Hair, Black, Babin, Anderson, & Tatham, 2010).

6.3.1 RP Disclosure Indices

As previously discussed in Chapter 5, a self-constructed RP disclosure index is used to measure companies' RP transaction disclosure. The index is derived from RP disclosures in the company's financial statements for fiscal year ending in 2009. The index provides a ratio of a firm's disclosure score, which is its maximum possible score if the firm fully discloses its RP transactions according to the applicable RP disclosure requirements based on IAS 24 *Related Party Disclosure (2003)*. Further, two subsets of the overall RP disclosure are also examined (i.e., the mandatory items and discretionary items of RP disclosures). Those overall, mandatory and discretionary RP disclosure indices are labelled as ***OSCORE, MSCORE,*** and ***DSCORE***, respectively. Each of the indices ranges from 0 to 1. All RP disclosure indices were examined for deviations from normality. Table 6.6 reports the descriptive statistics for the mandatory, discretionary, and total score of RP disclosure indices (i.e., ***MSCORE, DSCORE,*** and ***OSCORE***).

Table 6.6 Descriptive Statistics for the RP Disclosure Indices

	MSCORE		DSCORE		OSCORE	
	Mean (SD)	**Min (Max)**	**Mean (SD)**	**Min (Max)**	**Mean (SD)**	**Min (Max)**
All Countries (pooled)	0.7183 (0.1265)	0.3333 (1.0000)	0.8257 (0.1682)	0.2500 (1.0000)	0.6527 (0.1167)	0.2941 (0.9412)
Australia	0.7415 (0.1664)	0.3330 (1.0000)	0.8367 (0.1855)	0.2500 (1.000)	0.7537 (0.1201)	0.3824 (0.9412)
Indonesia	0.7112 (0.1047)	0.3333 (1.0000)	0.8460 (0.1521)	0.3330 (1.0000)	0.5790 (0.0801)	0.2941 (0.7353)
Malaysia	0.7148 (0.0886)	0.5000 (0.9167)	0.8025 (0.1223)	0.5000 (1.0000)	0.6667 (0.0811)	0.4118 (0.8529)
Philippines	0.6586 (0.1643)	0.4167 (1.0000)	0.7051 (0.2124)	0.25000 (1.0000)	0.5821 (0.1444)	0.3235 (0.8824)
Singapore	0.7670 (0.0948)	0.5833 (1.0000)	0.8235 (0.1322)	0.4167 (1.0000)	0.6818 (0.8585)	0.4706 (0.8529)
Thailand	0.7148 (0.0936)	0.3636 (0.9167)	0.9300 (0.1051)	0.5833 (1.0000)	0.6485 (0.0741)	0.4118 (0.8235)

Note: MSCORE is the mandatory RP disclosure score excluding NA and UD items. DSCORE is the discretionary RP disclosure. OSCORE is the overall RP disclosure score (combined mandatory and discretionary items excluding not-applicable (NA) and unable-to-determine (UD) items). All three indices range from 0 to 1. In coding disclosure items, companies are not penalized for non-disclosure, i.e. the non-applicable items and the unable to determine items are excluded. In the case that companies disclose that they do not have the particular type of KMP benefits, the items are coded as "1" or "disclosed".

Mandatory Index (MSCORE)

Table 6.6 reveals that there is a large variation in *MSCORE*. The scores range from a minimum of 0.3333 to the maximum of 1, with the mean of 0.7183. Companies in Singapore have the highest mean score (0.7670), whereas those in the Philippines

have the lowest (0.6586). As shown in Table 6.6, the mean *MSCORE* for companies in Australia, Malaysia and Singapore are above the overall average (i.e., 0.7183), whereas the mean for companies in Indonesia, the Philippines, and Thailand are below the average. A possible explanation for this result is that the stronger institutional framework in Australia, Malaysia, and Singapore provides greater incentives for companies to comply with disclosure requirements. Unlike Indonesia and Thailand, whose accounting standards are based on an earlier version of IAS 24, the Philippines has applied the newer IAS 24 (2003) version, however, it has the lowest compliance with RP disclosure requirements. This low compliance may also be influenced by the weak institutional framework in the Philippines, which possibly enables companies to maintain their opacity.

Discretionary Index (DSCORE)

Table 6.6 shows the mean of the discretionary RP disclosure *(DSCORE)* of all companies in this study is 0.8257, which ranges from the minimum of 0.2500 to the maximum of 1. The highest mean score is found in Thailand (0.9300), whereas the lowest score is reported in the Philippines (0.7051). Thailand and Indonesia have relatively higher *DSCORE* compared to other countries. The higher scores could be driven by the number of RP transactions, the numerous types/nature of RP transactions, and the RP relationships. As shown in Table 6.1 and Table 6.2, Thailand and Indonesia have a relatively higher number of RP transactions compared to the other countries (i.e., 32.97% and 17.76% respectively). Another possible explanation is that companies in Thailand and Indonesia may want to distinguish themselves from the other companies in their country by providing greater information above the mandatory requirements, particularly given their weak institutional frameworks and lower transparency in the region.

Overall Index (OSCORE)

The overall index of RP transaction disclosure *(OSCORE)* ranges from 0 to 1. Table 6.6 above shows that the *OSCORE* for all countries ranges from the minimum of 0.2941 to the maximum of 0.9412, with a mean *OSCORE* of 0.6527. The highest mean *OSCORE* is for Australia (0.7537), whereas the lowest mean is for Indonesia (0.5790). Except for Australia, the average *OSCORE* in each of the countries is less

than 0.7000 and there is no company in all countries with the maximum score (*OSCORE* = 1.00).

Furthermore, an analysis of variance (ANOVA) was conducted to explore the statistical significance on the difference among the means of RP disclosure indices across countries. According to Tabachnick and Fidell (2007 p. 37), "Analysis of variance is used to compare two or more means to see if there are any statistically significant differences among them". In addition, "While the independent sample t-test is limited to comparing the means of two groups, the one way ANOVA (Analysis of Variance) can compare more than two groups" (Park, 2009, p. 5). Therefore, a one-way ANOVA is used to examine the mean differences of *MSCORE, DSCORE,* and *OSCORE* across the six A-P countries. The results (untabulated) show that there are statistically significant differences across countries on the average of *MSCORE* ($p < 0.001$), *DSCORE* ($p < 0.001$), and *OSCORE* ($p < 0.001$). In addition, Table 6.7 shows the post-hoc comparisons of mean differences across countries using the Tukey HSD tests (Pallant, 2011). The table shows the significant differences of *MSCORE, DSCORE, and OSCORE* across countries ($p < 0.05$).

Table 6.7 Multiple Comparisons of Mean Differences for the RP Disclosure Indices

	Mean-Differences					
	Australia	**Indonesia**	**Malaysia**	**Philippines**	**Singapore**	**Thailand**
Panel A: MSCORE						
Australia		0.0302	0.0266	0.0829***	-0.0256	0.0267
Indonesia	-0.0302		-0.0036	0.0526**	-0.0558**	-0.0036
Malaysia	-0.0266	0.0036		0.0562**	-0.0522**	0.0000
Philippines	-0.0829***	-0.0526**	-0.0562**		-0.1084***	-0.0562**
Singapore	0.0256	0.0558**	0.0522**	0.1084***		0.0522**
Thailand	-0.0267	0.0036	0.0000	0.0562**	-0.0522**	
Panel B: DSCORE						
Australia		-0.0093	0.0342	0.1316***	0.0132	-0.0933***
Indonesia	0.0093		0.0435	0.1408***	0.0225	-0.0840***
Malaysia	-0.0342	-0.0435		0.0974***	-0.0210	-0.1275***
Philippines	-0.1316***	-0.1408***	-0.0974***		-0.1184***	-0.2249***
Singapore	-0.0132	-0.0225	0.0210	0.1184***		-0.1065***
Thailand	0.0933***	0.0840***	0.1275***	0.2249***	0.1065***	
OSCORE						
Australia		0.1746***	0.0870***	0.1716***	0.0718***	0.1051***
Indonesia	-0.1746***		-0.0877***	-0.0031	-0.1028***	-0.0695***
Malaysia	-0.0870***	0.0877***		0.0846***	-0.0151	0.0182
Philippines	-0.1316***	-0.1408	-0.0974***		-0.1184***	-0.2249***
Singapore	-0.0718***	0.1028***	0.0151	0.0998***		0.0333
Thailand	-0.1051***	0.0695***	-0.0182	0.0664***	-0.0333	

***, ** indicate significance at the 0.01 and 0.05 levels. The value denotes mean differences based on Tukey HSD tests with MSCORE, DSCORE, and OSCORE as the dependent variables.

Overall, Figure 6.1 below summarises the rank of means of the RP disclosure indices across countries in the Asia-Pacific region. Of the six countries, Australia has the highest mean total RP disclosure score *(OSCORE)*. Singapore has the highest mean of mandatory disclosure score *(MSCORE)* and Thailand exhibits the highest mean discretionary RP disclosure score *(DSCORE)*.

To identify the potential explanation on the differences of firms' RP disclosure practices, the next three sections explore the factors that potentially explain disclosure scores among the six countries.

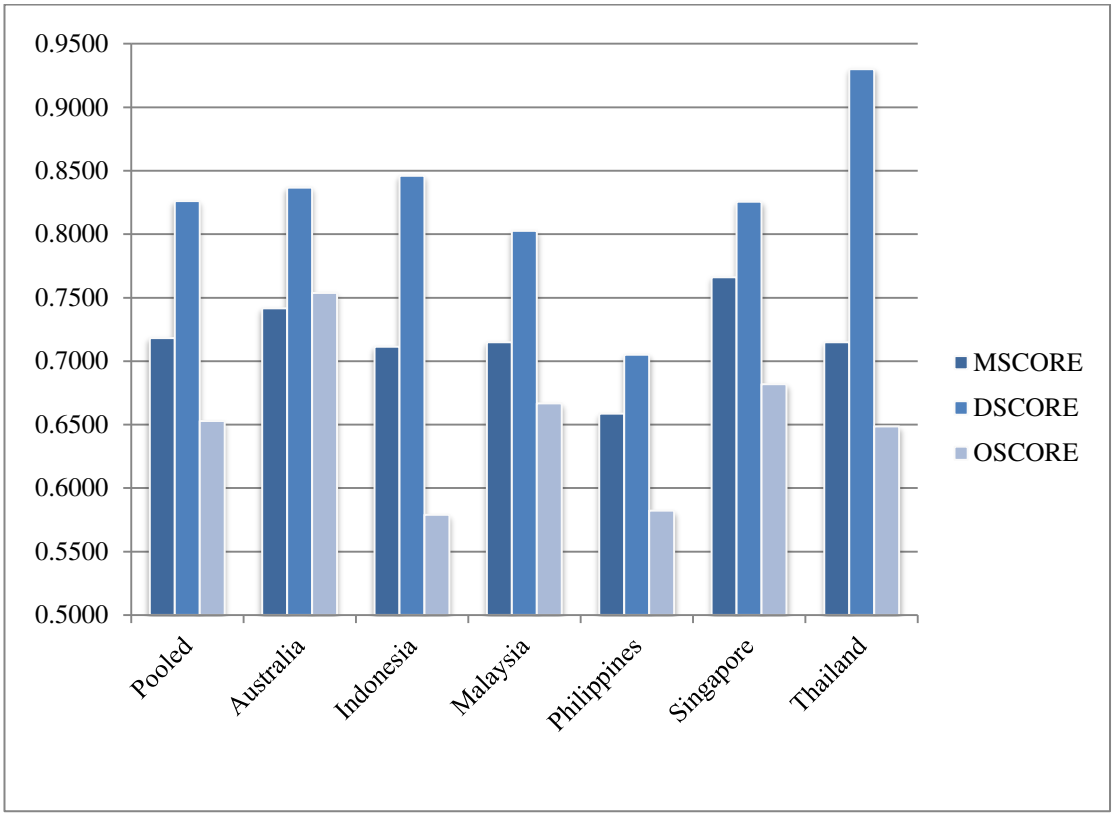

Figure 6.1 Mean of RP Disclosure Indices (Mandatory, Discretionary and Overall Index)

6.3.2 Independent Variables: Firm-Level Internal Governance Characteristics

Table 6.8 presents the descriptive statistics of the firm-level internal governance factors that are continuous variables for the full sample and for each country.

Board Independence (BIND)

Over the full sample, the mean independent director ratio, (i.e., the proportion of independent directors on the board), is 44%. Australia has the highest mean (65%), whereas the Philippines has the lowest (26%). The range of variation of independent director is consistent with previous studies in the region. For example, Eng and Mak's (2003) Singapore study and Connelly, Limpaphayom and Nagarajan's Thailand study (2012) report similar mean ratios.

Board Size (BSIZE)

The board size for the full sample ranged from 2 to 21, with a mean (median) 8 members. The mean of the board size for Thai listed companies is the highest[93] (12) and that of Indonesia is the lowest (5). The lower board size in Indonesia could be attributed to the two-tier system mandatory requirement. In Indonesia, the Indonesian Company Law[94] (1995, revised in 2007) requires a two-tier corporate governance structure for Indonesian listed companies, that is, the board of commissioners and the board of directors. According to the Company Law, the board of commissioners, which is equivalent to the independent non-executive directors in a one-tier governance structure, should consist of at least two independent members[95].

Board Expertise (BEXP)

Board expertise represents the ratio of board members with accounting and financial expertise to the total number of board members. The overall sample mean (median) is 0.20 (0.18) which ranges from 0.00 to 0.67. Malaysia has the highest mean (0.25), while the Philippines has the lowest (0.14). The findings show that while Thailand and the Philippines have substantially larger number of board members (with the median value of 12 and 9 for Thailand and the Philippines, respectively), very few of the members have financial expertise. The larger board size may be due to the domination of controlling families in the large companies in these countries.

[93] Connelly et al. (2012) investigate the corporate governance practices of Thai listed companies in 2005 and report a mean board size of 11.2.

[94] Article 94 (2) of the Company Law (1995), revised in Article 108 (5) of the Company Law (2007).

[95] For comparative purposes, following previous studies (e.g., Morris et al., 2004; Siregar & Utama, 2008) the term "board" or "directors" is used in reference to the Indonesian board of commissioner (in a two-tier structure) or board of directors (in a one-tier structure), unless stated otherwise.

Table 6.8 Descriptive Statistics for Firm-Level Governance Characteristics as Independent Continuous Variables

Country	*Variables*	Mean (Median)	Min. (Max.)	Std. Dev.
Pooled (N=582)	BIND	0.44 (0.40)	0.08 (1.00)	0.18
	BSIZE	8.40 (8.00)	2.00 (21.00)	3.02
	BEXP	0.20 (0.18)	0.00 (0.67)	0.14
	ACIND	2.79 (3.00)	0.00 (7.00)*	0.86
	ACSIZE	3.34 (3.00)	0.00 (7.00)*	0.75
	CONC	39.12 (40.41)	0.02 (100)	21.75
	LEV	0.41 (0.34)	0.00 (5.11)	0.41
Australia (N=99)	BIND	0.65 (0.67)	0.17 (1.00)	0.2
	BSIZE	7.67 (7.00)	3.00 (14.00)	2.08
	BEXP	0.24 (0.23)	0.00 (0.50)	0.14
	ACIND	3.10 (3.00)	0.00 (6.00) *	0.91
	ACSIZE	3.41 (3.00)	0.00 (7.00)*	0.88
	CONC	18.42 (23.2)	5.85 (87.86)	14.64
	LEV	0.44 (0.37)	0.00 (2.57)	0.39
Indonesia (N=99)	BIND	0.42 (0.40)	0.20 (1.00)	0.13
	BSIZE	5.02 (5.00)	2.00 (11.00)	1.82
	BEXP	0.16 (0.14)	0.00 (0.67)	0.17
	ACIND	3.03 (3.00)	0.00 (7.00)*	0.68
	ACSIZE	3.26 (3.00)	0.00 (7.00)*	0.79
	CONC	55.00 (53.28)	10..09 (98.55)	22.47
	LEV	0.47 (0.43)	0.00 (1.72)	0.37
Malaysia (N=100)	BIND	0.45 (0.43)	0.15 (0.88)	0.13
	BSIZE	8.72 (8.00)	4.00 (15.00)	2.23
	BEXP	0.25 (0.25)	0.00 (0.67)	0.12
	ACIND	2.91 (3.00)	2.00 (5.00)	0.70
	ACSIZE	3.41 (3.00)	2.00 (6.00)	0.70
	CONC	32.31 (34.49)	0.02 (100.00)	21.36
	LEV	0.39 (0.39)	0.00 (1.32)	0.33
Philippines (N=91)	BIND	0.26 (0.22)	0.11 (0.60)	0.09
	BSIZE	9.36 (9.00)	5.00 (15.00)	1.92
	BEXP	0.14 (0.13)	0.00 (0.57)	0.13
	ACIND	1.63 (2.00)	1.00 (4.00)	0.61
	ACSIZE	3.47 (3.00)	2.00 (6.00)	0.89
	CONC	47.84 (49.32)	15.19 (99.85)	18.32
	LEV	0.37 (0.21)	0.00 (5.11)	0.64
Singapore (N=93)	BIND	0.50 (0.46)	0.17 (0.89)	0.16
	BSIZE	7.85 (8.00)	4.00 (16.00)	2.16
	BEXP	0.23 (0.20)	0.00 (0.60)	0.14
	ACIND	2.92 (3.00)	1.00 (5.00)	0.75
	ACSIZE	3.37 (3.00)	2.00 (6.00)	0.70
	CONC	42.61 (37.98)	7.10 (88.98)	21.13
	LEV	0.33 (0.28)	0.00 (1.18)	0.27
Thailand (N=100)	BIND	0.38 (0.35)	0.08 (0.80)	0.13
	BSIZE	11.77 (12.00)	5.00 (21.00)	2.97
	BEXP	0.16 (0.14)	0.00 (0.46)	0.12
	ACIND	3.07 (3.00)	1.00 (5.00)	0.52
	ACSIZE	3.14 (3.00)	2.00 (5.00)	0.49
	CONC	39.75 (40.62)	8.25 (89.93)	17.77
	LEV	0.42 (0.35)	0.00 (1.44)	0.36

Note: * Two companies of the sample do not have audit committees for the period ending in 2009 (i.e., Andean Resources in Australia and Nusantara Infrastructure in Indonesia). The variables are defined as follows: **BIND** is ratio of the number of independent director(s) to board size; **BSIZE** is total number of directors on the board; **BEXP** is the ratio of board member(s) with financial expertise to board size; **ACSIZE** is total number of audit committee members; **ACIND** is the total number of independent members on the audit committee; **CONC** is the percentage a company's largest shareholding; **LEV** is the ratio of total debt to total asset at the end of fiscal year 2009.

Audit Committee Independence (ACIND) and Audit Committee Size (ACSIZE)

On the average, the mean of AC independence (i.e., measured as the total number of independent members on the audit committee), is 2.79, with the lowest mean of 1.63 in the Philippines and the highest mean of 3.10 in Australia. In terms of audit committee size *(ACSIZE)*, which is measured by the number of audit committee members, the overall mean is 3.34 with the maximum of 7.00 members. The findings reveal that while the Philippines has a substantially larger audit committee size (with the mean 3.47), very few of the members are independent.

Ownership Concentration (CONC)

Ownership concentration is measured as the percentage of shareholdings held by the largest shareholder. Consistent with the prior discussion in Chapter 2, the ownership concentration is relatively higher in Indonesia, the Philippines and Thailand than the other countries. On average, the largest owners of companies in those three countries account for almost 40% of shares in companies. In contrast, Australia has the lowest mean for ownership concentration (18.42%).

Leverage (LEV)

Financial leverage is measured as a ratio of total debt to total assets. Table 6.8 shows that for the full sample, leverage ranges from zero to 5.110 with a mean of 0.405. The zero leverage implies that some companies have no debt, whereas the ratio of 5.110 indicates that the company has a very low book value of assets related to debt levels[96]. Of all six countries, Indonesia has the highest mean leverage (0.473), which may indicate that companies in Indonesia rely more on debt financing, rather than equity financing, consistent with the country's relatively low stock market capitalisation. In contrast, Singapore has the lowest mean leverage (0.333), suggesting that companies have a low reliance on debt financing in that country.

6.3.3 Control Variables

The descriptive statistics on the raw data of the control variables are presented in Table 6.9. The table reveals that total assets *(SIZE)* of the sample companies vary greatly across the six countries, ranging from US$0.23 million to US$78,770 million

[96] One company in the Philippines has leverage of 5.11.

with an average of US$1,946.52 million. On average, companies in Australia have the largest assets in the sample (US$4,589 million), while those in the Philippines have the lowest (US$640 million)[97].

Table 6.9 Descriptive Statistics for Continuous Control Variables

Country	Variables	Mean (Median)	Min. (Max.)	Std. Dev.
Pooled (N=582)	SIZE (US$ million)	1,946.52 (594.21)	0.23 (78,770.00)	4,805.61
	PROFIT	0.09 (0.08)	-0.92 (1.26)	0.16
	PERFORM	1.76 (1.23)	0.41 (44.83)	2.33
	RPTN	8.99 (7.00)	0.00 (44.00)	0.78
Australia (N=99)	SIZE (US$ million)	4,589.30 (2,387.70)	59.68 (78,770.00)	9,253.53
	PROFIT	0.10 (0.07)	-0.40 (1.26)	0.21
	PERFORM	2.09 (1.40)	0.72 (11.58)	1.79
	RPTN	8.33 (7.00)	0.00 (23.00)	4.90
Indonesia (N=99)	SIZE (US$ million)	923.21 (390.56)	46.17 (10,405.75)	1,538.73
	PROFIT	0.13 (0.10)	-0.32 (0.70)	0.15
	PERFORM	1.73 (1.28)	0.57 (11.77)	1.38
	RPTN	7.20 (6.00)	1.00 (23.00)	4.39
Malaysia (N=100)	SIZE (US$ million)	2,171.10 (715.90)	55.70 (20,265.00)	3,491.84
	PROFIT	0.10 (0.09)	-0.23 (90.69)	0.11
	PERFORM	1.63 (1.25)	0.63 (9.17)	1.24
	RPTN	9.64 (9.00)	1.00 (30.00)	5.59
Philippines (N=91)	SIZE (US$ million)	640.12 (90.53)	0.23 (7,370.01)	1,366.00
	PROFIT	0.05 (0.07)	-0.92 (0.93)	0.23
	PERFORM	2.32 (1.17)	0.41 (44.83)	5.10
	RPTN	5.62 (4.00)	1.00 (16.00)	3.78
Singapore (N=93)	SIZE (US$ million)	1,772.48 (629.90)	72.43 (23,448.79)	3,481.48
	PROFIT	0.08 (0.08)	-0.23 (0.31)	0.08
	PERFORM	1.44 (1.24)	0.54 (3.05)	0.60
	RPTN	6.48 (6.00)	1.00 (16.00)	3.85
Thailand (N=100)	SIZE (U.S.$ million)	1,486.90 (436.00)	30.74 (33,121.00)	3,657.64
	PROFIT	0.10 (0.10)	-0.18 (0.33)	0.09
	PERFORM	1.34 (1.15)	0.49 (4.06)	0.66
	RPTN	16.49 (16.00)	1.00 (44.00)	8.21

The variables are defined as follows: **SIZE** is the fiscal year-end total assets; **PROFIT** is the return on assets (ROA) at the end of fiscal year 2009, which is earnings before tax/average assets **PERFORM** is Tobin's Q (fiscal year-end market value of assets divided by fiscal year-end book value of assets, in which market value of assets = market value of equity + book value of assets – book value of equity); **RPTN** is the number of RP transactions reported in the annual report of fiscal year 2009.

Over the full sample, profitability *(PROFIT)* as measured by return on assets ranges from -0.92 to 1.26, with a mean of 0.09[98]. Indonesian companies show the highest mean (0.13), followed by Australia (0.10), Malaysia (0.10), Thailand (0.10), Singapore (0.08), and the Philippines (0.05). With regard to performance

[97] Island Information & Technology Inc., a Philippines' company, had been experiencing cumulative losses which eroded its assets (investing.businessweek.com, 2009). This number is far below the asset average of assets Filipino companies.

[98] Further inspection of the minimum value of -0.92 reveals that the company (it was in the Philippines) has been experiencing operating losses due to the industry downturn; nonetheless, the auditor report on the company's financial statement ending in 2009 provides a going-concern opinion.

(PERFORM), which is measured by Tobin's Q, the value ranges from 0.41 to 44.83 with the mean (median) of 1.76 (1.23)[99].

Lastly, RP transaction activity *(RPTN)* is measured by the number of transactions reported in the annual report of fiscal year 2009. For the pooled data, the mean *RPTN* ranges from 0 to 44, with a mean of 8.99 transactions. Thai companies have the highest mean (16.49), followed by Malaysia (9.64), Australia (8.33), Indonesia (7.20), Singapore (6.48), and the Philippines (5.62)[100].

The nature of across countries' variations for firm size, financial leverage, and ownership concentration are consistent with Astami and Tower (2006) who examined 442 companies across five nations (Australia, Hong Kong, Indonesia, Malaysia, and Singapore). The variations for leverage and total assets are also consistent with those of Morris and Gray (2009) who investigated 12 countries in the Asia-Pacific region[101].

Table 6.10 shows that 486 (83.5%) of the firms are audited by Big 4 auditors. In terms of the presence of a financial expert serving on the board of directors *(ACEXP)*, 424 (72.90%) of the firms have financial experts on the board. Malaysia has the largest number of firms with financial experts on the board (90), whereas the Philippines has the smallest (40). Regarding family-controlled firms, there are 211 (36.30%) firms which are controlled by family. The Philippines has the largest number of family-controlled firms (47), whereas Australia has the smallest number of firms (9).

Regarding the number of firms audited by Big 4, the variation across countries is consistent with Morris and Gray (2009). With respect to the cross-listing status, very few companies in Thailand and Malaysia are cross-listed in foreign stock exchanges (7% and 8%, respectively) whereas a large number of companies in Australia have foreign cross-listing status (94.9%). The pattern is consistent with previous studies

[99] The highest value (44.83) implies that the company has a very low book value (refer to note 91).

[100] The RP transaction activity (RPTN) is calculated using the aggregated approach, due to the differences in RP disclosure among the six sample countries. In the previous discussion (Section 6.1), listed companies in Indonesia, Malaysia, the Philippines, and Thailand tend to disclose RP transactions by using "the detailed approach", whereas listed companies in Singapore and Australia tend to report their RP transactions by using "the aggregated approach".

[101] Morris and Gray (2009) investigated Australia, China, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, the Philippines, Singapore, Taiwan and Thailand. In their study, the ratio of liabilities to total assets was used as a proxy for leverage; therefore the means are slightly higher.

which include cross-listing status across countries. For example, Morris and Gray (2009) find that Australia, Indonesia, Singapore and Thailand have a higher number of cross-listed firms than Malaysia and the Philippines. Whereas a Malaysian study by Morris et al. (2011, p. 228) finds that only three companies in their sample (n=188) are cross-listed in foreign stock exchanges.

Table 6.10 Descriptive Statistics for Dichotomous Control Variables

	Pooled (n=582)		Australia (n=99)		Indonesia (n=99)		Malaysia[102] (n=100)		Philippines (n=91)		Singapore (n=93)		Thailand (n=100)	
Variables	**1**	**%**	**1**	**%**	**1**	**%**	**1**	**%**	**1**	**%**	**1**	**%**	**1**	**%**
ACEXP	424	72.90	81	81.80	82	82.80	90	90.00	40	44.00	69	74.20	62	62.00
FAM	211	36.30	9	9.10	21	21.20	46	46.00	47	51.60	46	48.40	43	43.00
EXT	486	83.50	94	94.90	62	62.60	86	86.00	75	82.40	83	89.20	86	86.00
CROSS	241	41.40	94	94.90	62	62.60	8	8.00	9	9.90	61	65.60	7	7.00

ACEXP is a binary variable coded "1" if a firm has one/more financial expert(s) on its audit committee and "0" otherwise; **FAM** is a binary variable coded "1" if a firm is family-controlled and "0" otherwise **; EXT** is a binary variable coded "1" if a firm is audited by Big 4 auditor and "0" otherwise; **CROSS** is a binary variable coded "1" if a firm is cross-listed in a foreign stock exchange and "0" otherwise.

6.4 Univariate Analysis

Table 6.11 presents the list of dependent and independent test and control variables used in the research model, whereas Table 6.12 shows the correlations between RP disclosure indices and independent (continuous) variables. Panel A of Table 6.12 presents the Pearson and Spearman correlations between the dependent variables (i.e., RP disclosure indices) whereas Panel B of Table 6.12 shows the correlations among all independent variables included in the multivariate regressions. The internal governance variables that have positive and significant associations with *MSCORE* and *DSCORE* include board independence *(BIND),* board expertise *(BEXP)*, AC independence *(ACIND)*, and AC expertise *(ACEXP).* As for *DSCORE*, only AC independence *(ACIND)* shows a positive and significant correlation. For the firm-level external governance factors, all variables: leverage *(LEV),* type of external auditor *(EXT),* and crosslisting status *(CROSS)* are positively correlated with *MSCORE.* In addition, type of external auditor *(EXT)* and crosslisting status *(CROSS)* are positively correlated with *OSCORE.* The results on country-level variables indicate that all variables: legal origins *(LEGL),* enforcement *(ENF),* investor protection *(INVP)* and control for corruption *(CORUP)* show positive and

[102] In Munir and Gul's study which investigated 462 listed companies in Malaysia at the fiscal year end 2005 and 2004, there are 343 companies (74.2%) audited by a Big 4 auditor.

significant associations with *OSCORE.* Whereas for *MSCORE*, legal origin *(LEGL)* and control for corruption *(CORUP)* are positively correlated. Contrary to the expectation, investor protection (INVP) shows negative and significant correlation with DSCORE. Of the control variables, firm size *(SIZE)* and RP transaction activity *(RPTN)* show positive and significant correlations with *MSCORE, DSCORE,* and *OSCORE.* The findings indicate initial supports of the expected associations between governance-specific, country-specific, and other firm-specific factors and corporate RP disclosures. However, the correlation results should be interpreted cautiously as they do not consider the joint effect of other variables.

Table 6.11 List of Variables Used in the Model of RP Disclosures

Variable	Measurement
Dependent Variables	
OSCORE	Overall RP-disclosure index score
MSCORE	Mandatory RP-disclosure index score
DSCORE	Discretionary RP-disclosure index score
Independent Variables	
BIND	The ratio of the number of independent director(s) to board size
BSIZE	The total number of directors on the board
BEXP	The ratio of board member(s) with financial expertise to board size
ACIND	The total number of independent members on the audit committee
ACSIZE	The total number of audit committee members
ACEXP	A binary variable coded "1" if a firm has one/more financial expert(s) on its audit committee and "0" otherwise
CONC	The percentage of shareholding of a company's largest shareholder
FAM	A binary variable coded "1" if a firm is family-controlled and "0" otherwise
LEV	The ratio of total debt to total asset at the end of fiscal year 2009
EXT	A binary variable coded "1" if a firm is audited by Big 4 auditor and "0" otherwise
CROSS	A binary variable coded "1" if a firm is cross-listed in a foreign stock exchange and "0" otherwise
LEGL	A country's predominant legal origin, coded "1" for common law legal origin and "0" otherwise
ENF	A country's enforcement index (Preiato et al., 2012). A higher value represents stronger enforcement
INVP	A country's investor protection index (La Porta et al., 2006). A higher score implies stronger investor protection
CORUP	A country's control for corruption index (CPI 2009 of Transparency International). A higher value denotes stronger control for corruption
Control Variables	
SIZE	A natural logarithm of total assets at the end of fiscal year 2009
PROFIT	The return on assets (ROA) at the end of fiscal year 2009, which is earnings before tax/average assets
PERFORM	Tobin's Q (market-to-book value of assets) at the end of fiscal year 2009, which is market value of equity plus book value assets minus book value of equity divided by book value of assets
RPTN	A natural logarithm of total number of RP transactions reported in the annual report of fiscal year 2009

Table 6.12 Correlations of Independent and Dependent Variables

PANEL A: DVs and IVs	Pearson's Correlation			Spearman's Rank Correlation		
	1	2	3	1	2	3
RPT Disclosure Indices						
MSCORE (1)	1	0.450**	0.681**	1.00**	0.388**	0.646**
DSCORE (2)		1	0.689**		1.00**	0.635**
OSCORE (3)			1.00**			1.00**
Governance Variables						
BIND	0.084*	0.015	0.238**	0.107**	-0.001	0.211**
BSIZE	-0.075	0.064	0.053	-0.101*	0.058	0.071
BEXPR	0.103*	0.032	0.157**	0.105*	0.034	0.149**
ACIND	0.102*	0.213**	0.165**	0.067	0.173**	0.104*
ACSIZE	-0.050	-0.032	0.056	-0.059	-0.027	0.048
ACEXP	0.111**	0.058	0.116**	0.095*	0.042	0.102*
CONC	-0.047	0.025	-0.081	-0.059	0.014	-0.082*
FAM	0.069	0.024	-0.017	0.079	0.007	-0.012
LEV	0.103*	0.072	0.064	0.102*	0.067	0.062
EXT	0.120**	0.075	0.221**	0.108**	0.079	0.206**
CROSS	0.127**	0.064	0.220**	0.113**	0.063	0.186**
Country-Level Variables						
LEGL	0.175**	-0.028	0.417**	0.178**	-0.078	0.412**
ENF	0.004	-0.079	0.366**	-0.017	-0.079	0.334**
INVP	0.011	-0.310**	0.170**	-0.045	-0.296**	0.127**
CORUP	0.217**	0.046	0.437**	0.245**	0.068	0.426**
Firm-Specific Variables						
SIZE	0.155**	0.172**	0.343**	0.120**	0.127**	0.303**
PROFIT	-0.056	0.036	-0.035	-0.055	0.046	-0.045
PERFORM	-0.031	-0.033	0.046	-0.019	0.002	0.051
RPTN	0.174**	0.426**	0.288**	0.150**	0.412**	0.263**

Notes: * and ** significant at the 0.05 and 0.01 level (2-tailed). The variables are defined in Table 6.11.

Table 6.12 Correlations of Independent and Dependent Variables*

PANEL B	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22
BIND (4)	1	**-0.219**	**0.152**	**0.472**	**0.085**	**0.155**	**-0.254**	**-0.189**	0.063	**0.089**	**0.419**	**0.488**	**0.285**	**0.158**	**0.540**	**0.412**	**-0.093**	0.058	0.017
BSIZE (5)	**-0.257**	1	**-0.172**	0.040	**0.136**	**-0.143**	-0.063	0.017	0.045	**0.171**	**-0.256**	**-0.101**	**0.238**	**-0.149**	**-0.110**	**0.187**	-0.019	**-0.099**	**0.274**
BEXP (6)	**0.178**	**-0.168**	1	**0.103**	0.022	**0.504**	-0.063	-0.022	0.030	0.011	**0.086**	**0.262**	**0.096**	**0.110**	**0.197**	**0.123**	-0.015	-0.041	0.029
ACIND (7)	**0.474**	0.023	**0.089**	1	**0.398**	**0.197**	**-0.150**	**-0.100**	**0.123**	0.080	**0.269**	**0.232**	-0.032	**-0.279**	**0.261**	**0.415**	0.080	-0.012	**0.227**
ACSIZE (8)	0.065	**0.170**	0.015	**0.401**	1	**0.120**	-0.013	-0.053	0.066	**0.101**	**0.148**	**0.092**	**0.094**	**0.163**	0.062	**0.213**	0.059	0.024	0.000
ACEXP (9)	**0.161**	**-0.133**	**0.521**	**0.185**	**0.114**	1	**-0.096**	0.007	0.050	-0.054	**0.107**	**0.207**	0.024	-0.001	**0.127**	**0.218**	0.025	-0.065	0.039
CONC (10)	**-0.239**	-0.048	-0.077	**-0.164**	-0.025	**-0.096**	1	**-0.082**	-0.057	-0.038	**-0.113**	**-0.332**	**-0.396**	**-0.148**	**-0.293**	**-0.205**	0.070	0.031	0.022
FAM (11)	**-0.172**	0.021	-0.030	**-0.117**	-0.063	0.007	-0.065	1	-0.011	**-0.087**	**-0.193**	-0.040	-0.066	0.024	**-0.090**	**-0.245**	**-0.109**	**-0.140**	-0.010
LEV (12)	**0.125**	0.027	0.063	**0.164**	**0.092**	**0.088**	-0.052	0.013	1	-0.062	**0.099**	-0.033	-0.030	**-0.104**	-0.028	**0.356**	**-0.209**	**-0.154**	**0.081**
EXT (13)	0.077	**0.184**	0.023	0.073	**0.092**	-0.054	-0.054	**-0.087**	-0.059	1	0.053	**0.178**	**0.219**	**0.126**	**0.182**	**0.175**	**0.106**	0.039	**0.109**
CROSS (14)	**0.404**	**-0.267**	**0.098**	**0.266**	**0.147**	**0.107**	**-0.126**	**-0.193**	**0.128**	0.053	1	**0.292**	0.049	**0.190**	**0.495**	**0.429**	0.036	**0.194**	-0.076
LEGL (15)	**0.496**	**-0.087**	**0.266**	**0.207**	**0.100**	**0.207**	**-0.347**	-0.040	-0.004	**0.178**	**0.292**	1	**0.542**	**0.620**	**0.830**	**0.406**	-0.058	**0.086**	-0.040
ENF (16)	**0.190**	**0.248**	**0.102**	-0.048	**0.108**	0.033	**-0.391**	-0.063	-0.034	**0.199**	0.002	**0.507**	1	**0.523**	**0.375**	**0.242**	**-0.103**	0.065	0.055
INVP (17)	-0.007	-0.035	0.014	**-0.381**	**0.162**	**-0.107**	**-0.108**	0.002	**-0.111**	**0.111**	**0.187**	**0.327**	**0.492**	1	**0.490**	0.048	**-0.111**	0.076	**-0.359**
CORUP (18)	**0.539**	**-0.046**	**0.223**	**0.343**	**0.039**	**0.181**	**-0.309**	-0.046	0.021	**0.178**	**0.363**	**0.878**	**0.231**	0.070	1	**0.383**	-0.064	**0.094**	-0.054
SIZE (19)	**0.402**	**0.188**	**0.118**	**0.362**	**0.221**	**0.202**	**-0.197**	**-0.230**	**0.406**	**0.180**	**0.432**	**0.399**	**0.248**	-0.014	**0.405**	1	0.000	**-0.115**	**0.259**
PROFIT (20)	-0.068	-0.010	-0.013	0.075	0.028	0.006	0.063	**-0.122**	**-0.207**	**0.096**	0.035	-0.053	**-0.102**	**-0.130**	-0.024	-0.048	1	**0.408**	-0.024
PERFORM (21)	0.062	-0.067	-0.022	0.060	0.038	-0.051	0.006	**-0.166**	**-0.137**	0.061	**0.187**	**0.109**	0.066	0.044	**0.091**	-0.057	**0.426**	1	**-0.093**
RPTN (22)	0.035	**0.283**	0.017	**0.229**	-0.005	0.039	0.020	-0.017	**0.101**	**0.099**	**-0.085**	-0.050	0.055	**-0.393**	0.061	**0.237**	-0.014	-0.063	1

*This table presents bivariate correlations among all independent variables entered into multivariate regression tests. Bold text denotes significance at the 0.01 and 0.05 levels (two-tailed). Below the diagonal presents Spearman's correlation and above the diagonal presents Pearson's correlation of the independent variables. For variables' definitions, refer to Table 6.11.

6.5 Multivariate Test: Results of Hypothesis Testing (RQ3)

The third research question aims to examine the influence of internal and external governance characteristics on the level of RP disclosures. The following sections report the regression results based on the model developed in Chapter 5 to test the predictions for RP disclosure scores. Table 6.13 reports the results of estimating the models using all variables to explain the level of RP disclosures. The RP disclosures are measured by the mandatory score *(MSCORE)* in Model 1, the discretionary *score (DSCORE)* in Model 2, and the overall score *(OSCORE)* in Model 3. The regressions for all of these three dependent variables *(MSCORE, DSCORE and OSCORE)* have also been estimated separately on a country-by-country basis, and the results are presented in Appendix 3A, Appendix 3B, and Appendix 3C[103].

Table 6.13 indicates that the independent and control variables are significant in explaining the level of overall RP disclosure (F=13.860, $p < 0.001$). The adjusted R^2 indicates that the variables examined in the models explain 37.4% of the variations in the level of overall RP disclosure. A review of the variance inflation factors (VIF) shows that the highest VIF are below 10 in all models, hence, there is no serious risk of multicollinearity in the regression models. Lastly, Breusch-Pagan test of heteroscedasticity indicates that *MSCORE* and *OSCORE* Models reject the heteroscedasticity assumption; however, *DSCORE* Model confirmed the presence of heteroscedasticity in the residuals. Accordingly, White's robust standard errors are used to calculate t-statistics in the regression tests.

[103] The results of the country-by-country regressions are weaker than the main results presented in Table 6.13 and are likely due to the lower sample size for each country (Maximum N=100) and lower within-country variation in the dependent variables. The correlations among independent and dependent variables for each country is presented in Appendix 2 (i.e., Appendix 2A – Appendix 2F)

Table 6.13 Results of Regression Analysis on the Association between RP Disclosures and Governance Characteristics (N=582)

$$RP\_DISC = \beta_0 + \beta_1 BIND_{jk} + \beta_2 BSIZE_{jk} + \beta_3 BEXP_{jk} + \beta_4 ACIND_{jk} + \beta_5 ACSIZE_{jk} + \beta_6 ACEXP_{jk} + \beta_7 CONC_{jk} + \beta_8 FAM_{jk} + \beta_9 LEV_{jk} + \beta_{10} EXT_{jk} + \beta_{11} CROSS_{jk} + \beta_{12} LEGL_{jk} + \beta_{13} ENF_{jk} + \beta_{14} INVP_{jk} + \beta_{15} CORUP_{jk} + \beta_{16} SIZE_{jk} + \beta_{17} PROFIT_{jk} + \beta_{18} PERFORM_{jk} + \beta_{19} RPTN_{jk} + \beta_{+20} INDUS_{jk} + \varepsilon_{jk}$$

Variables	Predicted Sign.	Model 1 - MSCORE		Model 2 - DSCORE		Model 3 - OSCORE	
		Std. Coeff.	*t*-stat	Std. Coeff.	*t*-stat	Std. Coeff.	*t*-stat
(Constant)		0.691	9.580***	0.833	10.250***	0.356	6.810***
BIND	+	-0.070	-1.620	-0.102	-2.090**	-0.050	-1.690*
BSIZE	-	-0.005	-2.410**	-0.006	-2.020**	-0.004	-2.490**
BEXP	+	0.002	0.050	0.010	0.190	0.033	0.970
ACIND	+	0.004	0.400	0.007	0.530	-0.003	-0.370
ACSIZE	?	-0.013	-1.480	-0.004	-0.300	0.002	0.220
ACEXP	+	0.019	1.320*	0.003	0.190	0.006	0.540
CONC	+	<0.001	0.160	0.000	1.000	0.001	4.420***
FAM	+	0.028	2.530***	0.029	2.170**	0.024	2.950***
LEV	?	0.020	1.240	-0.014	-0.680	-0.001	-0.100
EXT	+	0.040	3.200***	0.024	1.340*	0.027	2.580***
CROSS	+	0.004	0.270	0.017	0.970	0.007	0.650
LEGL	+	-0.001	0.030	-0.007	-0.230	0.002	0.110
ENF	+	-0.003	-0.880	0.003	0.570	0.016	6.160***
INVP	+	-0.020	-0.310	-0.333	-4.360***	-0.096	-1.890**
CORUP	+	0.011	3.390***	0.014	3.320***	0.016	5.820***
SIZE	+	0.003	0.650	0.004	0.610	0.008	2.040**
PROFIT	+	-0.067	-1.060	0.011	0.130	-0.026	-0.510
PERFORM	+	0.004	0.390	0.002	0.130	0.009	1.260
RPTN	+	0.030	4.080***	0.069	6.740***	0.035	5.780***
INDUSTRY DUMMIES			Included		Included		Included
Max. VIF			6.854		5.525		6.854
F-Statistic			3.937		8.330		13.860
p-value			<0.001		<0.001		<0.001
Adjusted R^2			0.120		0.254		0.374

, **, * indicate significance at the 0.01, 0.05, and 0.1 levels (one-tailed test when coefficient is predicted, two-tailed when coefficient sign is not predicted or not in the predicted direction), respectively. Models are estimated using linear regression and White robust standard errors are used to calculate *t*-statistics. ***RP_DISC is the measure of RP disclosure scores, which is Mandatory Score (MSCORE) in Model 1, Discretionary Score **(DSCORE)** in Model 2, and Overall Score **(OSCORE)** in Model 3. For brevity, the results for industry dummy variables are not shown in the table, but are reported in the text. **MSCORE** is the mandatory RP-disclosure index score; **DSCORE** is the discretionary RP-disclosure index score; **OSCORE** is the overall RP-disclosure index score; **BIND** is ratio of the number of independent director(s) to board size; **BSIZE** is total number of directors on the board; **BEXP** is the ratio of board member(s) with financial expertise to board size; **ACINDP** is the total number of independent members on the audit committee; **ACSIZE** is total number of audit committee members; **ACEXP** is a binary variable coded "1" if a firm has one/more financial expert(s) on its audit committee and "0" otherwise; **CONC** is the percentage a company's largest shareholding; **FAM** is a binary variable coded "1" if a firm is family-controlled and "0" otherwise; **LEV** is the ratio of total debt to total asset at the end of fiscal year 2009; **EXT** is a binary variable coded "1" if a firm is audited by Big 4 auditor and "0" otherwise; **CROSS** is a binary variable coded "1" if a firm is cross-listed in a foreign stock exchange and "0" otherwise**;** **LEGL** is a country's predominant legal origin, coded "1" for common law legal origin and "0" otherwise; **ENF** is a country's enforcement index (Preiato et al., 2012); **INVP** is a country's investor protection index (La Porta et al., 2006); **CORUP** is a country's control for corruption index (CPI 2009 of Transparency International); **SIZE** is the natural logarithm of total assets at the end of fiscal year 2009; **PROFIT** is the return on assets (ROA) at the end of fiscal year 2009, which is earnings before tax/average assets; and **PERFORM** is Tobin's Q (market-to-book value of assets) at the end of fiscal year 2009, which is market value of equity plus book value assets minus book value of equity divided by book value of assets; **RPTN** is the natural logarithm of total number of RP transactions reported in the annual report of fiscal year 2009.

6.5.1 Board Characteristics (H1-H3)

Hypothesis 1 predicts that a company's board independence is positively associated with the level of RP disclosures. Contrary to the hypothesised prediction, Table 6.13 shows that the *BIND* coefficient is significant but negative in Model 2 *(DSCORE)* and Model 3 *(OSCORE)*. The finding may indicate that independent directors on a board serve as a substitutive role, rather than a complementary role, of internal monitoring system, which is also consistent with the findings of Eng and Mak (2003) and Nelson et al. (2010). Alternatively, the result could be driven by the presence of "grey" directors in the board independence variable (Barako et al., 2006).

Hypothesis 2 predicts a negative association between the size of a company's board of directors and the level of RP disclosures. Table 6.13 shows that the *BSIZE* variable coefficient is negative and significant in all models. The significant and negative sign for the board size may indicate that too many board members could lead to redundancy and ineffective communication. As shown in the descriptive statistics in Table 6.8, the overall mean (median) of board size of companies in the Asia-Pacific region is 8.40 (8.00) and ranges from 2.00 to 21.00. A board size of more than eight members is claimed to be less effective and can be easily captured by the CEO (Jensen, 1993; Lipton & Lorsch, 1992). The finding may also infer that a smaller board encourages greater internal monitoring system, which is consistent with Gordon et al. (2004a).

Hypothesis 3 predicts that the financial expertise of the members of a firm's board of directors has a positive association with the level of RP disclosures. As shown in Table 6.13, the *BEXP* variable coefficient is positive and not significant. The insignificant result on the *BEXP* may be due to the narrow definition of board expertise, that is, formal accounting and financial expertise. In addition to the formal financial and accounting expertise of board members, their financial experience may also influence their monitoring capacity.

6.5.2 Audit Committee Characteristics (H4-H6)

Hypotheses 4 and 6 predict that the level of RP disclosure is positively associated with AC independence and AC expertise; whereas H5 posits that the level of RP disclosure is associated with AC size. Table 6.13 shows that, contrary to the

prediction, the *ACIND* coefficients are positive and not significant in Model 1 and Model 2, and negative and not significant in Model 3. Table 6.13 also reveals that the coefficients of variables *ACSIZE* are negative and not significant in Model 1 and Model 2, and positive and not significant in Model 3. With respect to the AC expertise, the *ACEXP* coefficient is positive and not significant in Model 2 and Model 3, but positive and marginally significant in Model 1 ($p < 0.1$).

The non-significance for *ACIND* could be that the independent members of audit committee are simply representing the independent members of the board (in many cases, the independent members of the board of directors also serve as independent members of audit committee)[104]. With respect to the non-significance of *ACSIZE,* a possible explanation could be that the size of audit committee has no influence on the efficacy of the committee in encouraging more transparent RP disclosures. The positive and significant association between board expertise *(ACEXP)* and *MSCORE* indicates that board members with financial and accounting expertise appear to put more emphasis in encouraging firms' compliance with RP disclosure requirements, however, they may not have the same concern regarding broader disclosure of RP information. Alternatively, the non-significance of *ACEXP* may be due to the narrow definition of audit committee expertise, that is, formal accounting and financial expertise. The financial and accounting experience, in addition to the formal expertise of audit committee members, may also influence the efficacy of the audit committee as an internal monitoring mechanism. Another possible explanation is that a board of directors plays a more significant role in companies' internal monitoring systems, than the audit committee. Morris and Gray (2009) also find no significant association between the presence of audit committee and the level of firms' overall disclosures after controlling for country-level factors.

6.5.3 Ownership (H7-H8)

Hypothesis 7 predicts that the ownership concentration of a company is positively associated with the level of RP disclosures. Consistent with the predicted hypothesis, Table 6.13 shows that the *CONC* coefficient is significantly associated ($p < 0.001$) with the overall RP disclosure in only Model 3, indicating that controlling owners

[104] A regression test (untabulated) using an alternative measure of AC independence (i.e., the proportion of independent AC members) has also been conducted and the results are qualitatively similar.

encourage the disclosure of RP information. Thus the concentration of ownership is relevant for monitoring overall RP disclosure, but not as relevant for monitoring the more specific items of RP disclosure.

Hypothesis 8 predicts that family-controlled firms are likely to have a higher level of RP disclosures. Consistent with the prediction, Table 6.13 reveals that the *FAM* coefficient is significantly associated with mandatory RP disclosure ($p < 0.01$), discretionary RP disclosure ($p < 0.05$), and overall RP disclosure ($p < 0.01$). The finding indicates that family owners are more inclined to provide greater disclosure of RP information, given the longer-run investment horizon and higher concerns over reputation, which is consistent with Ali et al. (2007), Chen et al. (2008), Wan-Hussin (2009), and Chau and Gray (2010). This finding is also consistent with the notion that family firms are less likely to engage in opportunistic behaviour because they want to preserve a family's reputation, wealth and long-term under-diversified investment (Wang, 2006).

6.5.4 Firm-Level External Governance Characteristics (H9 - H11)

Hypothesis 9 predicts that the leverage of a company is associated with the level of RP disclosures. Table 6.13 shows that the *LEV* coefficient is positive but not significant in Model 1 and negative and not significant in both Model 2 and Model 3. Hypothesis 10 predicts that companies which are audited by a Big 4 auditor have higher levels of RP disclosures. As predicted, the *EXT* coefficient is positive and significant ($p < 0.01$ in Model 1 and Model 3, and $p < 0.1$ in Model 2), thus companies audited by Big 4 auditor are associated with higher levels of RP disclosures. These findings support the notion that Big 4 auditors have reputation concerns, which motivates them to encourage greater transparency in RP disclosures.

Hypothesis 11 predicts that companies which are in foreign stock exchange(s) have higher levels of RP disclosures. As shown in Table 6.13, the crosslisting *(CROSS)* coefficient is positive but not significant, which is inconsistent with bonding hypothesis. This insignificant finding may be due to the specific type of disclosure examined in this study, that is, the RP transaction disclosure. Foreign stock exchanges may not specifically require a more comprehensive disclosure of RP information, compared to the existing requirement in the home-based stock exchanges.

6.5.5 Country-Level External Governance Characteristics (H12 - H15)[105]

Hypothesis 12 predicts that firms in countries with common-law legal origins have higher levels of RP disclosures. Contrary to the prediction, Table 6.13 shows that *LEGL* coefficient is negative and not significant in Models 1 and 2, and positive and not significant in Model 3[106].

Hypothesis 13 predicts that firms in countries with stronger enforcement have higher levels of RP disclosures. Consistent with the hypothesis, *ENF* is positively associated with the overall RP disclosure ($p < 0.01$, Table 6.13, Model 3), suggesting that stronger enforcement encourages greater disclosure of overall RP information. However, the *ENF* coefficient is negative and not significant in Model 1 and positive and not significant in Model 2. These findings indicate that the enforcement variable *ENF* is relevant for the overall transparency of RP disclosure, but not as relevant for encouraging the more specific items of RP disclosure (i.e., both mandatory and discretionary components).

Hypothesis 14 predicts that firms in countries with stronger investor protections have higher levels of RP disclosures. Contrary to the prediction, Table 6.13 shows *INVP* is negatively associated with the overall disclosure ($p < 0.05$, Model 3) and discretionary disclosure ($p < 0.01$, Model 2) of RP information. A possible explanation for this result is that the investor protections may not act as an effective external monitoring mechanism to ensure greater transparency of RP information disclosure. Alternatively, a country's investor protection mechanism may represent a substitute for disclosure transparency, particularly since the investor protection index is a summative of a country's anti-director right index, disclosure index, and liability standard index (La Porta et al., 2006)[107].

Hypothesis 15 predicts that firms in countries with stronger control for corruption have higher levels of RP disclosures. As predicted, results in Table 6.13 show that *CORUP* is positively associated with RP disclosure in all models ($p < 0.01$), indicating that firms which reside in a country with stronger control for corruption

[105] A regression test has been performed by replacing all country level factors (i.e., LEGL, ENF, INVP, and CORUP) with dummy variables for the countries (i.e., 5 dummy variables). The results are qualitatively similar with the main model (refer to Appendix 4).
[106] Further examination and discussion on the influence of legal origin is provided in Section 6.6.2.
[107] A further examination on the alternative measures for investor protection is conducted in the robustness tests in Section 6.6.3.

tend to disclose greater disclosure of RP information. The findings also confirm that, after controlling for firm-level and country-level governance characteristics, stronger controls for corruption are consistently associated with greater disclosure of RP information, possibly because the underlying transactions are less likely to be opportunistic in such settings.

6.5.6 Control Variables

With respect to the control variables, Table 6.13 reveals that the RP transaction activity *(RPTN)* coefficient is positive and significant ($p < 0.01$). Thus, not surprisingly, companies having more RP transaction activity tend to have a more detail disclosures of RP information. The *SIZE* coefficient is significant in Model 3 but not in the other models, suggesting that larger companies are more likely to disclose higher levels of overall RP information as found in many other disclosure studies. Untabulated results reveal that industry dummies for the Utility and Industrial sectors have negative and significant coefficients ($p < 0.05$), suggesting that companies in these sectors tend to have lower compliance with mandatory RP disclosure requirements. The other control variables *(PROFIT* and *PERFORM)* show insignificant coefficients, suggesting that these variables do not provide any influence on the level of RP disclosure compliance after controlling for other variables included in the models.

6.6 Robustness Tests and Sensitivity Analysis

6.6.1 Alternative RP Disclosure Indices (MSCORE2)

As previously discussed in the main discussion, the mandatory RP disclosure score (*MSCORE*) only includes the disclosure requirements which are commonly mandated in all six countries in the year 2009. As an alternative, a new disclosure index is created to include all disclosure requirements in IAS 24 applicable in 2009. The index (*MSCORE2)* consists of 22 dichotomous items; hence equal weight is assigned for each item. Companies are not penalised for non-disclosure, as the non-applicable and unable-to-determine items are excluded from calculating the *MSCORE2*. The *MSCORE2* is then used in new estimates of the model and the results are presented in Table 6.14.

Table 6.14 reveals that results are stronger than those reported for *MSCORE* and are more consistent with the previous results for *OSCORE*. Ownership concentration *(CONC)* now shows a positive and significant coefficient. For the external governance characteristics, the legal origin *(LEGL)* and investor protection *(INVP)* coefficients are now negative and significant, whereas the coefficient of enforcement *(ENF)* is now positive and significant ($p < 0.01$). Lastly, for the control variables, firm size *(SIZE)* coefficient is positive and significant. The model's explanatory power has also improved considerably (adjusted $R^2 = 24.6\%$).

Table 6.14 Additional Regression Analysis – Alternative MSCORE (N=582)

RP_DISC (MSCORE2) = $\beta_0 + \beta_1 BIND_{jk} + \beta_2 BSIZE_{jk} + \beta_3 BEXP_{jk} + \beta_4 ACIND_{jk} + \beta_5 ACSIZE_{jk} + \beta_6 ACEXP_{jk} + \beta_7 CONC_{jk} + \beta_8 FAM_{jk} + \beta_9 LEV_{jk} + \beta_{10} EXT_{jk} + \beta_{11} CROSS_{jk} + \beta_{12} LEGL_{jk} + \beta_{13} ENF_{jk} + \beta_{14} INVP_{jk} + \beta_{15} CORUP_{jk} + \beta_{16} SIZE_{jk} + \beta_{17} PROFIT_{jk} + \beta_{18} PERFORM_{jk} + \beta_{19} RPTN_{jk} + \beta_{+20} INDUS_{jk} + \varepsilon_{jk}$

Variable	Predicted Sign	Coefficient	t-Statistics
(Constant)	?	0.598	10.030***
BIND	+	-0.039	-1.160
BSIZE	-	-0.005	-2.590***
BEXP	+	0.009	0.220
ACIND	+	0.002	0.210
ACSIZE	?	-0.006	-0.810
ACEXP	+	0.015	1.220
CONC	+	0.018	1.920**
FAM	+	0.001	2.270**
LEV	?	0.013	0.890
EXT	+	0.030	2.460***
CROSS	+	0.008	0.600
LEGL	+	-0.047	-2.130**
ENF	+	0.013	4.420***
INVP	+	-0.310	-5.410***
CORUP	+	0.017	5.610***
SIZE	+	0.012	2.680***
PROFIT	+	-0.045	-0.800
PERFORM	+	0.011	1.330
RPTN	+	0.017	2.600***
INDUSTRY DUMMIES			Included
F-Statistic			8.030
p-value			<0.001
Adjusted R^2			0.246

, **, * indicate significance at the 0.01, 0.05, and 0.1 levels (one-tailed test when coefficient is predicted, two-tailed when coefficient sign is not predicted or not in the predicted direction), respectively. ***RP_DISC is the measure of RP disclosure scores, which is the alternative Mandatory Score **(MSCORE2)**; all other variables are as described in Table 6.13.

6.6.2 The Influence of Legal Protection (LEGL)

The findings reported in the main regression (Table 6.13) indicate that the *LEGL* coefficient is not significant in any of the models. Table 6.15 reports the re-examination on the regressions by removing the *LEGL* variable from the equation.

Table 6.15 Additional Regression Analysis – Excluding Legal Origin (LEGL) (N=582)

$$RP\_DISC = \beta_0 + \beta_1 BIND_{jk} + \beta_2 BSIZE_{jk} + \beta_3 BEXP_{jk} + \beta_4 ACIND_{jk} + \beta_5 ACSIZE_{jk} + \beta_6 ACEXP_{jk} + \beta_7 CONC_{jk} + \beta_8 FAM_{jk} + \beta_9 LEV_{jk} + \beta_{10} EXT_{jk} + \beta_{11} CROSS_{jk} + \beta_{12} ENF_{jk} + \beta_{13} INVP_{jk} + \beta_{14} CORUP_{jk} + \beta_{15} SIZE_{jk} + \beta_{16} PROFIT_{jk} + \beta_{17} PERFORM_{jk} + \beta_{18} RPTN_{jk} + \beta_{+19} INDUS_{jk} + \varepsilon_{jk}$$

Variable	Predicted Sign	Model 1 - MSCORE		Model 2 - DSCORE		Model 3 - OSCORE	
		Std. Coeff.	t-stat	Std. Coeff.	t-stat	Std. Coeff.	t-stat
(Constant)	?	0.692	11.850***	0.843	12.710***	0.353	12.580***
BIND	+	-0.070	-1.620	-0.101	-2.090**	-0.050	-1.690*
BSIZE	-	-0.005	-2.440***	-0.005	-2.000**	-0.004	-2.530***
BEXP	+	0.002	0.050	0.010	0.180	0.033	0.980
ACIND	+	0.004	0.420	0.006	0.480	-0.003	-0.360
ACSIZE	?	-0.013	-1.500	-0.003	-0.260	0.001	0.210
ACEXP	+	0.019	1.330*	0.003	0.160	0.006	0.550
CONC	+	<0.001	0.160	0.000	1.010	0.001	4.4200***
FAM	+	0.028	2.540***	0.029	2.140**	0.024	2.970***
LEV	?	0.020	1.240	-0.014	-0.670	-0.001	-0.110
EXT	+	0.040	3.200***	0.024	1.350*	0.027	2.580***
CROSS	+	0.004	0.300	0.019	1.140	0.007	0.640
LEGL			***Excluded***		***Excluded***		***Excluded***
ENF	+	-0.003	-0.940	0.002	0.540	0.016	6.450***
INVP	+	-0.021	-0.380	-0.341	-5.350***	-0.093	-2.240**
CORUP	+	0.011	4.080***	0.013	3.820***	0.016	7.170***
SIZE	+	0.003	0.680	0.004	0.590	0.009	2.220**
PROFIT	+	-0.067	-1.060	0.011	0.130	-0.026	-0.510
PERFORM	+	0.004	0.390	0.001	0.100	0.010	1.280
RPTN	+	0.030	4.100***	0.069	6.720***	0.035	5.780***
INDUSTRY DUMMIES			Included		Included		Included
Durbin-Watson			1.712		1.728		1.797
F-Statistic			4.138		8.821		13.622
p-value			<0.001		<0.001		<0.001
Adjusted R^2			0.123		0.259		0.361

, **, * indicate significance at the 0.01, 0.05, and 0.1 levels (one-tailed test when coefficient is predicted, two-tailed when coefficient sign is not predicted or not in the predicted direction), respectively. ***RP_DISC is the measure of RP disclosure scores, which is Mandatory Score (MSCORE) in Model 1, Discretionary Score **(DSCORE)** in Model 2, and Overall Score **(OSCORE)** in Model 3. For brevity, the results for industry dummy variables are not shown in the table. All variables are as described in Table 6.13.

The table shows that all findings are consistent with those in the main regressions results (Table 6.13). These findings suggest that the more specific country-level proxies, including the enforcement, control for corruption, and investor protection index dominate over legal origin. A re-estimation of the Model 1, 2 and 3

(untabulated), which retains *LEGL* and removes all other country-level factors (i.e., *ENF*, *INVP*, and *CORUP*) shows that the *LEGL* coefficient is positive and significant, suggesting that legal origin appears to capture a more general institutional framework instead of a more specific measure of the framework (i.e., *ENF*, *INVP*, and *CORUP).* Similarly, more recent literature criticises the legal origin hypothesis for not capturing the most significant aspect of the law (Brown et al., 2011, p. 117 citing Lele & Siems, 2007; Siems, 2007). In addition, a longitudinal study by Armour, Deakin, Lele and Siems (2009, p. 627) finds evidence that civil law countries appear to have been improving their legal framework over the time, suggesting that the effect of legal origin may have dissipated over time (Brown et al., 2011).

6.6.3 Alternative Measures for Investor Protection (ADRI and ASDI)

Contrary to the expectation, the previous regression results show negative and significant *INVP* coefficients. To check whether the negative results are driven by measurement error, the existing investor protection score is replaced by alternative measures which only focus on the minority shareholder protection. Accordingly, a revised anti-director right index (*ADRI*) by La Porta et al. (2006) is used to replace *INVP* in the models. However, the results (untabulated) are substantially the same as those reported for *INVP*.

As an alternative, an anti-self-dealing index *(ASDI)* by Djankov et al. (2008) is used to replace *INVP* in the models. As previously discussed in Chapter 2, the anti-self-dealing index measures a more specific legal protection of minority shareholders, that is, the control against self-dealing by controlling owners. The index represents an average of ex-ante and ex-post private control of self-dealing (Djankov et al., 2008, p. 437). Djankov et al. (2008) find that a higher anti-self-dealing score is associated with a higher valued stock market and lower benefits of control. The anti-self-dealing index has also been used in recent studies in finance to measure investor protection (for example, Lel & Miller, 2008; Mclean et al., 2012) and also reviewed in Claessens and Yurtoglu (2012).

The results of re-estimating the regression model by replacing the *INVP* with the *ASDI* are presented in Table 6.16. The results in Table 6.16 show that *ASDI* coefficient is positive and significant in Model 2 ($p < 0.01$) and 3 ($p < 0.05$), but not

significant in Model 1. The positive and significant coefficients indicate that the more specific investor protection measure appears to be associated with higher transparency of RP disclosures by companies in the Asia-Pacific region, consistent with H14.

Table 6.16 Additional Regression Analysis – Replacing INVP with ASDI (N=582)

$$RP\_DISC = \beta_0 + \beta_1 BIND_{jk} + \beta_2 BSIZE_{jk} + \beta_3 BEXP_{jk} + \beta_4 ACIND_{jk} + \beta_5 ACSIZE_{jk} + \beta_6 ACEXP_{jk} + \beta_7 CONC_{jk} + \beta_8 FAM_{jk} + \beta_9 LEV_{jk} + \beta_{10} EXT_{jk} + \beta_{11} CROSS_{jk} + \beta_{12} LEGL_{jk} + \beta_{13} ENF_{jk} + \boldsymbol{\beta_{14} ASDI_{jk}} + \beta_{15} CORUP_{jk} + \beta_{16} SIZE_{jk} + \beta_{17} PROFIT_{jk} + \beta_{18} PERFORM_{jk} + \beta_{19} RPTN_{jk} + \beta_{+20} INDUS_{jk} + \varepsilon_{jk}$$

Variable	Predicted Sign	Model 1 - MSCORE		Model 2 - DSCORE		Model 3 - OSCORE	
		Std. Coeff.	t-stat	Std. Coeff.	t-stat	Std. Coeff.	t-stat
(Constant)	?		10.630***		6.000***		5.321***
BIND	+	-0.102	-1.768*	-0.108	-2.022**	-0.077	-1.564
BSIZE	?	-0.137	-2.573***	-0.125	-2.563**	-0.106	-2.345**
BEXP	+	0.005	0.098	0.002	0.039	0.029	0.722
ACIND	+	0.033	0.527	0.052	0.897	-0.013	-0.236
ACSIZE	?	-0.071	-1.439	-0.026	-0.569	0.000	0.002
ACEXP	+	0.059	1.243	0.017	0.389	0.031	0.773
CONC	+	0.014	0.316	0.043	1.034	0.142	3.671***
FAM	+	0.102	2.411***	0.073	1.856**	0.099	2.729***
LEV	?	0.051	1.098	-0.026	-0.598	0.011	0.287
EXT	+	0.116	2.790***	0.050	1.301*	0.084	2.361***
CROSS	+	0.011	0.187	0.064	1.191	0.048	0.963
LEGL	+	-0.026	-0.217	-0.530	-4.735***	-0.218	-2.099**
ENF	+	-0.043	-0.575	0.138	1.986**	0.352	5.462***
ASDI	+	**0.033**	**0.350**	**0.363**	**4.233*** **	**0.138**	**1.732****
CORUP	+	0.217	2.552***	0.222	2.839***	0.408	5.607***
SIZE	+	0.064	0.996	0.052	0.869	0.096	1.750**
PROFIT	+	-0.059	-1.254	0.004	0.085	-0.013	-0.319
PERFORM	+	0.024	0.504	0.015	0.351	0.049	1.222
RPTN	+	0.185	3.933***	0.331	7.618***	0.245	6.074***
Industry Dummies			Included		Included		Included
F-Statistic			3.981		8.380		13.046
p-value			<0.001		<0.001		<0.001
Adjusted R^2			0.121		0.255		0.358

, **, * indicate significance at the 0.01, 0.05, and 0.1 levels (one-tailed test when coefficient is predicted, two-tailed when coefficient sign is not predicted or not in the predicted direction), respectively. ***RP_DISC is the measure of RP disclosure scores, which is Mandatory Score **(MSCORE)** in Model 1, Discretionary Score **(DSCORE)** in Model 2, and Overall Score **(OSCORE)** in Model 3. For brevity, the results for industry dummy variables are not shown in the table. **ASDI** is a country's investor protection as measured by the anti-self-dealing index (La Porta et al., 2006); all other variables are as described in Table 6.13.

6.6.4 The Influence of Culture (SECRECY)

Past studies examining corporate disclosures indicate that culture affects disclosure practices (e.g., Hope, 2003b; Morris et al., 2012). Hope (2003b) argues and provides evidence that, internationally, the level of firms' overall disclosures are associated with country legal origins and cultural dimensions. In measuring culture, extant international studies rely on Hofstede's (1980) and Gray's (1988) cultural

dimensions. While the findings of the influence of cultural dimensions on the level of disclosures have been mixed (e.g., Archambault & Archambault, 2003; Jaggi & Low, 2000), Hope (2003b) argues and provides evidence that culture has an important influence on the level of disclosures, particularly in a rich information environment.

Following the work of Morris et al. (2012), the Gray's (1988) cultural dimension of "secrecy" is added to the models, to test the influence of a key cultural value on RP disclosures by companies in the Asia-Pacific region. The cultural dimension is represented by the secrecy index in the Braun and Rodriguez (2008) study, which measures the index based on Gray's (1988) cultural dimensions derived from Hofstede's (1980) cultural values. A higher index of secrecy is thus expected to be associated with less transparent RP disclosure. The results of tests for the influence of secrecy to the RP disclosures *(MSCORE, DSCORE* and *OSCORE)* are reported in Table 6.17.

The results show that the *SECRECY* coefficients are negative and not significant in all models. The insignificant findings may indicate that *SECRECY* has no influence after controlling for other country-level factors, particularly the control for corruption *(CORUP)*. Further examination (untabulated) reveals that, when *CORUP* is removed from the model, the *SECRECY* coefficients are negative and significant in all models ($p < 0.01$ in Model 1 and Model 3; $p < 0.05$ in Model 2), suggesting the influence of secrecy on the level RP mandatory, discretionary, and overall RP disclosures. However, as shown in Table 6.17, the influence of secrecy does not hold after controlling for corruption. Thus, secrecy is unlikely to be captured by elements of corruption.

Table 6.17 Additional Regression Analysis – Inclusive of *SECRECY* (N=582)

$$RP\_DISC = \beta_0 + \beta_1 BIND_{jk} + \beta_2 BSIZE_{jk} + \beta_3 BEXP_{jk} + \beta_4 ACIND_{jk} + \beta_5 ACSIZE_{jk} + \beta_6 ACEXP_{jk} + \beta_7 CONC_{jk} + \beta_8 FAM_{jk} + \beta_9 LEV_{jk} + \beta_{10} EXT_{jk} + \beta_{11} CROSS_{jk} + \beta_{12} LEGL_{jk} + \beta_{13} ENF_{jk} + \beta_{14} INVP_{jk} + \beta_{15} CORUP_{jk} + \beta_{16} SIZE_{jk} + \beta_{17} PROFIT_{jk} + \beta_{18} PERFORM_{jk} + \beta_{19} RPTN_{jk} + \beta_{+20} INDUS_{jk} + \boldsymbol{\beta_{21}\ SECRECY_{jk}} + \varepsilon_{jk}$$

Variable	Predicted Sign	Model 1 - MSCORE		Model 2 - DSCORE		Model 3 - OSCORE	
		Std. Coeff.	t-stat	Std. Coeff.	t-stat	Std. Coeff.	t-stat
(Constant)	?		4.270***		5.102***		3.897***
BIND	+	-0.103	-1.773*	-0.105	-1.978**	-0.075	-1.525
BSIZE	?	-0.145	-2.318**	-0.079	-1.377	-0.070	-1.319
BEXP	+	0.004	0.081	0.006	0.145	0.033	0.809
ACIND	+	0.039	0.578	0.021	0.345	-0.037	-0.647
ACSIZE	?	-0.074	-1.457	-0.011	-0.242	0.012	0.268
ACEXP	+	0.061	1.264	0.007	0.156	0.024	0.572
CONC	+	0.014	0.302	0.046	1.116	0.144	3.736***
FAM	+	0.099	2.233**	0.091	2.229**	0.113	2.992***
LEV	?	0.052	1.114	-0.031	-0.731	0.007	0.174
EXT	+	0.116	2.753***	0.056	1.439*	0.089	2.473***
CROSS	+	0.016	0.256	0.035	0.628	0.026	0.491
LEGL		-0.017	-0.114	0.045	0.332	0.064	0.515
ENF	+	-0.034	-0.372	-0.008	-0.100	0.262	3.379***
INVP	+	-0.011	-0.128	-0.348	-4.299***	-0.163	-2.166**
CORUP	+	0.254	1.741**	0.153	1.140	0.315	2.528***
SIZE	+	0.067	1.021	0.037	0.615	0.085	1.524*
PROFIT	+	-0.060	-1.258	0.005	0.120	-0.012	-0.291
PERFORM	+	0.025	0.528	0.008	0.178	0.043	1.071
RPTN	+	0.186	3.936***	0.328	7.557***	0.243	6.019***
SECRECY	**-**	**0.040**	**0.310**	**-0.079**	**-0.666**	**-0.102**	**-0.926**
Industry Dummies			Included		Included		Included
F-Statistic			3.834		8.186		12.656
p-value			<0.001		<0.001		<0.001
Adjusted R^2			0.120		0.257		0.359

, **, * indicate significance at the 0.01, 0.05, and 0.1 levels (one-tailed test when coefficient is predicted, two-tailed when coefficient sign is not predicted or not in the predicted direction), respectively. ***RP_DISC is the measure of RP disclosure scores, which is Mandatory Score (MSCORE) in Model 1, Discretionary Score **(DSCORE)** in Model 2, and Overall Score **(OSCORE)** in Model 3. For brevity, the results for industry dummy variables are not shown in the table. **SECRECY** is Gray's (1988) cultural dimension derived from Hofstede, calculated by Braun and Rodriguez (2008); all other variables are as described in Table 6.13.

6.7 Conclusion

This chapter has presented the results of tests designed to address the research questions and test the research hypotheses. In relation to the research question 1, the findings indicate that RP transactions are very common across the sample countries. Of the six countries, companies in Thailand report the highest number of RP transactions, followed by Indonesia, Malaysia, Australia, Singapore and the Philippines. Furthermore, among all types of RP transactions, RP loans are the most common type of transaction. Thailand and Indonesia report relatively higher numbers of RP loans, which in many cases are unsecured, interest-free, and repayable on

demand. As expected, RP transactions with corporate combinations (i.e., subsidiaries, associates and joint venture) are common in all six countries and account for 46% of all reported RP transactions. RP transactions with entities under common control are only reported by companies in Indonesia, Malaysia, the Philippines and Thailand, indicating the dominance of family-controlled firms in these countries. RP transactions with director-related entities are more frequently reported in Thailand and Australia.

With respect to research question 2, the findings show some variations on the extent of RP disclosures conformance to IAS 24 by companies in the Asia-Pacific region. Of the six countries, Singapore shows the highest conformance to the mandatory requirements, followed by Australia, Malaysia, Thailand, Indonesia and the Philippines. Whereas for the common-discretionary part of the IAS 24 disclosure requirements, Thailand shows the highest average, followed by Indonesia, Australia, Singapore, Malaysia and the Philippines. As for overall disclosures, Australia has the highest average, followed by Singapore, Malaysia, Thailand, Indonesia and the Philippines. Of the required RP disclosure items, companies tend to have lower compliance levels in disclosing information on related-party balances. This finding is concerning given the high number of related-party loans reported by companies in the Asia-Pacific region and raises questions about what factors might be driving those transactions.

To address the third research question, a series of regression tests were conducted to examine the association between corporate RP disclosures and hypothesised governance, country and firm-specific factors. Following the regression analysis, a number of findings can be inferred in accordance with the research hypotheses. First, the findings indicate that for internal governance characteristics, a smaller board of directors is associated with higher levels of RP disclosure, consistent with H2. However, contrary to the H1 prediction, a less independent board of directors is more likely to encourage greater RP disclosures. With regard to the ownership structure, a company with a higher ownership concentration is associated with greater RP disclosures, which supports H7. In addition, a family-controlled company is also more inclined to provide greater RP disclosure, consistent with H8 prediction. The findings on ownership may indicate that family firms appear to maintain their

reputation and longer-run investment perspective by providing greater assurance through more transparent disclosure of RP information.

The findings also indicate that an external governance characteristic, as represented by the size of external auditor, is likely to encourage greater disclosure of RP information. Consistent with predicted hypothesis H10, a larger audit firm is associated with higher levels of RP disclosures. The larger external audit firms are considered to have greater concern over their reputation; hence appear to influence the extent of disclosure in this study. With respect to the country-level governance characteristics, the findings indicate that companies which reside in a country with stronger control for corruption are associated with more transparent disclosure of RP information, providing support for H15. Furthermore, companies in a country with stronger enforcement are also more likely to provide a higher level of overall RP disclosure, consistent with H13. However, the strength of a country's investor protection has an inverse relationship with RP disclosure, which is contrary to the H14 prediction. A possible explanation is that the investor protection index only captures the *de jure* legal system in a country, thus it will not be effective without effective law enforcement. Therefore, it appears that the enforcement mechanisms work better, particularly in Asian countries, than the investor protection mechanisms.

Robustness tests indicate that the main findings are supported when all the independent variables are regressed against an alternative *MSCORE* index *(MSCORE2)*. The findings are also consistent when legal origin variable, *LEGL,* is excluded from the model and when a cultural variable, *SECRECY,* is added to the model. With respect to the investor protection, two alternative measures are examined, that is, La Porta et al.'s (2006) anti-director-right index *(ADRI)* and Djankov et al.'s (2008) anti-self-dealing index *(ASDI)*. The results show that the anti-self-dealing index *(ASDI)* is positively associated with the level of RP disclosures, suggesting that companies in a country with a higher anti-self-dealing score tend to be more transparent in disclosing RP information. This finding may indicate that the more specific nature of this measure, that is, focusing on the examination of countries' laws in protecting minority shareholders from the self-dealing practices by controlling owners, may better capture cross-country differences in the investor protection relating to the self-dealing practices. Thus, most of the hypothesised

relationships are supported and are robust to the use of alternative measures and testing procedures.

The next chapter presents a summary and discussion of the key findings with respect to the research questions, together with the limitations, recommendations for future studies, implications, and contributions of the study.

CHAPTER 7: CONCLUSIONS

This thesis has examined the nature and extent of related party (RP) transactions, the extent of their disclosures and the association with firm-level and country-level governance characteristics of companies in the Asia-Pacific region (i.e., Australia, Indonesia, Malaysia, the Philippines, Malaysia and Thailand). This thesis is motivated by the increasing significance of RP transactions, the considerable impacts of those transactions, and the lack of empirical evidence on the extent of corporate RP disclosures in the region. Based on the motivations and gaps in the literature, three key research questions have been proposed and addressed: (1) what is the nature and extent of RP transactions and RP disclosures across countries in the Asia-Pacific region?, (2) to what extent do the RP disclosures by companies in the Asia-Pacific region conform to the IAS 24 *Related Party Disclosure* within and across countries? and (3) what are the governance, country and other factors which explain the nature and extent of RP transaction disclosures in the Asia-Pacific region? This chapter presents a summary of the preceding chapters and discussion of key findings, contributions and implications of the thesis. This chapter concludes with the study's limitations and recommendations for future research.

7.1 Summary and Discussion of Findings

Chapter 2 discussed the institutional factors that potentially influence RP disclosures and the extent of IAS 24 adoption in the selected Asia-Pacific countries. Countries in the Asia-Pacific region provide an important setting to investigate RP disclosures for at least two reasons. First, companies in some Asian countries are commonly characterised by dominant shareholders and family-controlled ownership. Second, Asia-Pacific countries differ in legal origin, capital market development, enforcement, control for corruption, and corporate governance structures. While those country factors provide an important setting to investigate the nature and extent of corporate RP disclosures, there is no known empirical evidence on the influence of these country factors on the extent of RP disclosures. Chapter 2 highlighted the potential influences of these country factors on the extent of RP disclosures. First, legal origin is likely to influence the financial reporting system. Specifically, common-law countries tend to have greater disclosures than civil law countries.

Second, there are differences in the strength of enforcement between the six countries. The effectiveness of the enforcement of accounting standards may influence the quality of financial information, in which stronger enforcement can ensure that disclosure requirements enhance access to financial information. Third, the countries also differ in the strength of protection of minority shareholders. Fourth, family-controlled firms are common in many Asian countries. Greater family-concentrated ownership may potentially lead to less opportunistic RP transactions; however, it may prove less effective in settings of weak enforcement and weak control for corruption. Fifth, despite differences on the extent of adoption in the year 2009, IAS 24 had been used as the basis for the development of national accounting standards of RP disclosures in all six sample countries. In the year 2009, Australia, Malaysia, the Philippines and Singapore had fully adopted IAS 24 (2003), whereas Indonesia and Thailand were still conforming to an earlier version of the standard. Last, regulators in all of the six countries have recommended listed companies to comply with their domestic Codes of Corporate Governance which generally recommend a minimum number of board members, independent board members, and financial expertise of the board of directors and audit committee. Effective corporate governance mechanisms are likely to mitigate opportunistic RP transactions and lead to more transparent RP disclosures.

Chapter 3 presented a review of the literature on corporate financial disclosures, in particular the disclosure of RP transactions, and the extant studies addressing the influence of corporate governance on the disclosure of information in annual reports. The literature on disclosure compliance indicates that, despite mandatory requirements, managers have incentives to withhold information, particularly unfavourable or sensitive information. Furthermore, the empirical findings of studies investigating RP transactions generally indicate a strong support for the opportunism or conflict of interest perspective than the efficient transaction perspective. That is, RP transactions are generally associated with value loss or wealth reduction. Given the conflict of interest in RP transactions, the information about RP transactions is likely to be sensitive, therefore, managers may have a strong incentive to distort or withhold information about these transactions.

The literature on the determinants of corporate financial disclosures reveals that the corporate financial disclosures in annual reports are influenced by internal and external governance characteristics. Studies on the role of the board of directors and audit committees in relation to the extent of corporate disclosures provides mixed findings, which may be explained by differences in the country-settings, time periods, measurement methods, and the nature of the disclosures examined. Research examining the influence of external governance characteristics on the extent of corporate disclosures demonstrates consistent findings with respect to the role of independent audit firms in encouraging greater disclosures. Furthermore, a stream of literature investigating the influence of country-level governance factors on financial reporting practices and disclosures suggests the importance of country legal origins, enforcement, minority shareholder protection and controls for corruption. However, in the more specific context of RP transactions, it was evident that there is a lack of studies which systematically address the influence of internal and external governance on the RP transactions and RP disclosures.

Based on the prior literature and the identified gaps, Chapter 4 developed the theoretical framework encompassing the research questions and hypotheses to examine the association between the extent of RP disclosures and internal and external corporate governance characteristics. Agency theory was used as a framework to explain the association between disclosure and corporate governance. RQ1 aimed to explore differences in the nature and extent of RP disclosures about those transactions by companies in the Asia-Pacific region. RQ2 focused on variations in the extent of RP disclosure conformance in accordance to IAS 24 *Related Party Disclosure*, by companies in the Asia-Pacific region. RQ3 sought to investigate the governance, country, and other firm-specific factors which explain the nature and extent of RP disclosures in the Asia-Pacific region. Hypotheses were proposed on the associations between internal and external corporate governance characteristics and the extent of RP disclosures by companies in the Asia-Pacific region. First, effective internal governance characteristics were expected to enhance firms' RP disclosures. In particular, it was hypothesised that the independence, size and expertise of board of directors (H1, H2, H3) and audit committee (H4, H5, H6) are associated with the extent of RP disclosures. Further, ownership concentration (H7) and family-controlled ownership (H8) were hypothesised to influence the extent

of RP disclosures. Second, external governance characteristics, encompassing the firm-level and country-level factors, were also predicted to influence the extent of RP disclosure. For the firm level, it was hypothesised that leverage (H9), external auditor size (H10) and cross-listing status (H11) are positively associated with the level of RP disclosures. As for the country-level factors, companies in a country with common law legal origin (H12), stronger enforcement (H13), investor protection (H14), and control for corruption (H15) were hypothesised to have greater RP disclosures.

Chapter 5 outlined the research design to address the research questions and hypotheses developed in Chapter 4. Guided by previous studies on financial disclosure and RP transactions and based on IAS 24 *Related Party Disclosure*, a self-constructed disclosure index was developed to measure the level of corporate RP transaction disclosure. The fiscal year 2009 was selected as the study year, which preceded the changes in the disclosure requirements in the six countries (i.e., following the amendment of IAS 24 in November 2009) and represented the most recent reports available at the data collection period. A one-year study period was selected due to the complexity of controlling for changes in institutional differences and their consequences over time across countries. The sample comprised 582 companies selected from the Top 100 largest non-financial companies by market capitalisation as at 31 December 2009 from each of the six countries. The sample was limited to companies which have RP disclosure in the annual report to allow for comparisons of the extent of RP disclosures. Data for RP transactions, the disclosure of such transactions, and firm-level governance characteristics were hand-collected from the information disclosed by the sample companies. The descriptive analysis addressed RQ1 and RQ2, whereas multivariate procedures were developed to jointly test the hypotheses and address RQ3.

7.1.1 Findings on the Nature and Extent of RP Transactions (RQ1)

Chapter 6 presented the study's findings including an examination of the nature and extent of RP transactions, the disclosure about those transactions, and the determinants of the disclosures by companies in the Asia-Pacific region. In relation to the RQ1, the findings indicate that RP transactions are common across sample countries. Of the six sample countries, companies in Thailand report the highest

number of RP transactions, followed by Indonesia, Malaysia, Australia, Singapore and the Philippines. Among all types of RP transactions, RP loans are the most common type of transaction. RP loans are more frequently reported by companies in Thailand and Indonesia, which in many cases are unsecured, interest-free, and repayable on demand. With respect to the nature of RP relationships, RP transactions with corporate combinations (i.e., subsidiaries, associates and joint venture) are common in all six countries and account for 46% of all reported RP transactions. RP transactions with director-related entities are more frequently reported in Thailand and Australia, whereas transactions with entities under common control are only reported by companies in Indonesia, Malaysia the Philippines, and Thailand. These findings may indicate the dominance of family-controlled firms in these four countries.

7.1.2 Findings on the Nature and Extent of RP Disclosures (RQ2)

With respect to RQ2, the findings show variations in the extent of RP disclosure conformance to IAS 24 by companies in the Asia-Pacific region. Of the six countries, Singapore shows the highest conformance to the mandatory requirements, followed by Australia, Malaysia, Thailand, Indonesia and the Philippines. This finding is likely due to the influence of countries institutional factors on the extent of disclosure conformance. For the discretionary disclosures that are common to all countries, Thailand shows the highest average level of discretionary disclosures, followed by Indonesia, Australia, Singapore, Malaysia and the Philippines, suggesting that in the weaker institutional frameworks, managers may want to signal their superior safeguarding of investors' assets. As for overall disclosure, Australian firms have the highest average scores, followed by Singapore, Malaysia, Thailand, Indonesia and the Philippines. Of the RP disclosure requirement items, companies have lower compliance level scores in disclosing the information regarding the outstanding items pertaining to related-parties (i.e., related-party balances), again suggesting the influence of institutional factors.

7.1.3 Findings on the Determinants of RP Disclosures (RQ3)

The multivariate regression analysis provides support for a number of the proposed hypotheses in addressing RQ3. The findings indicate that a number of the internal governance characteristics of a smaller board of directors is associated with a higher

level of RP disclosure, consistent with the H2 prediction. The finding holds for all subsets of RP disclosure: mandatory, discretionary, and overall RP disclosures. However, contrary to the H1 prediction, the results show that fewer independent directors are associated with higher levels of mandatory, discretionary and overall RP disclosures. With regard to the ownership structure, companies with higher ownership concentration tend to have higher levels of RP disclosures, which supports the H7 prediction. In addition, family-controlled companies are more likely to provide greater RP disclosure, consistent with the H8 prediction. The findings on ownership may indicate that family-controlled and firms with high ownership concentration seek to enhance their reputation and their longer-run investment prospects by providing greater assurance through more transparent disclosure of RP information.

The findings also support the predicted influence of external governance characteristics on the extent of RP disclosures. Specifically, the findings show that firms with a Big 4 auditor tend to disclose higher levels of RP information, consistent with the H10 prediction. This finding holds for all types of mandatory, discretionary, and overall RP disclosures. Larger external audit firms may have a greater concern over their reputation and hence encourage client firms to be more transparent in their RP disclosures. With respect to the country-level governance characteristics, the findings indicate that companies which reside in a country with a stronger control for corruption are associated with a more transparent disclosure of RP information, providing support for the H15 prediction. Furthermore, companies in a country with stronger enforcement are also more likely to provide higher levels of overall RP disclosure, consistent with H13. However, the strength of a country's investor protection has an inverse relationship with RP disclosure, which is contrary to the H14 prediction. A possible explanation is that the investor-protection index only captures the *de jure* legal system in a country, thus it will not be effective without effective law enforcement. Therefore, the enforcement mechanism works better, particularly in Asian countries, than the investor protection mechanism. Table 7.1 presents a complete summary of the hypotheses findings for this study.

Table 7.1 Summary of Hypotheses and Findings

Research Questions and Hypotheses	Findings
What are the governance, country, and other firm-specific factors which explain the nature and extent of related-party disclosures by companies in the Asia-Pacific region?	
H_1: The proportion of board independence is positively associated with the level of RP disclosures by companies in the Asia-Pacific (AP) region	Not supported
H_2: The size of a firm's board of directors is negatively associated with the level of RP disclosures by companies in the AP region	Supported
H_3: The financial expertise of the members of a firm's board of directors has a positive association with the level of RP disclosures by companies in the AP region	Not supported
H_4: The number of independent members in a firm's audit committee is positively associated with the level of RP disclosures by companies in the AP region	Not supported
H_5: The size of a firm's audit committee has an association with the level of RP disclosures by companies in the AP region	Not supported
H_6: Audit committee with at least one director having financial expertise is positively associated with the level of RP disclosures by companies in the AP region	Supported (MSCORE)
H_7: The ownership concentration of a company is positively associated with the level of RP disclosures by companies in the AP region	Supported
H_8: Family-controlled firms in the AP region have higher levels of RP disclosures	Supported
H_9: The leverage of a company is associated with the level of RP disclosures by companies in the AP region	Not supported
H_{10}: Companies in the AP region which are audited by a Big 4 auditor have higher levels of RP disclosures	Supported
H_{11}: Companies in the AP region which are cross-listed in foreign exchange(s) have higher levels of RP disclosures	Not supported
H_{12}: Firms in countries with common law legal origins have higher levels of RP disclosures than those in countries with code law legal origins	Not supported
H_{13}:Firms in countries with stronger enforcement have higher levels of RP disclosures than those in countries with weaker enforcement	Supported
H_{14}: Firms in countries with stronger investor protection have higher levels of RP disclosures than those in countries with weaker investor protection	Not supported (Main Analysis) Supported (Additional Analysis)
H_{15}: Firms in countries with stronger control for corruption have higher levels of RP disclosures than those in countries with weaker control for corruption	Supported

Lastly, robustness tests indicate that the findings are consistent when all the independent variables were examined using an alternative *MSCORE* index in the regression modelling. The findings were also consistent when the legal origin variable, *LEGL*, was excluded from the model or when a cultural variable, *SECRECY*, was added to the model. With respect to the investor protection, two alternative measures, that is, La Porta et al.'s (2006) anti-director-right index (ADRI) and Djankov et al.'s (2008) anti-self-dealing index *(ASDI)* were examined in separate regression procedures. The results showed that the anti-self-dealing index was positively associated with the level of RP disclosures, suggesting that companies in a country with a higher anti-self-dealing index tend to be more transparent in disclosing RP information. This finding may indicate that the more specific nature of this measure, that is, focusing on the examination of countries' laws in protecting minority shareholders from the self-dealing practices by controlling owners, may better capture cross-country differences in investor protection relating to the self-dealing practices.

7.2 Contributions and Implications

The findings presented in this thesis provide a number of significant contributions to research on RP disclosures that will be beneficial for both regulators and market participants.

First, this thesis provides a detailed investigation on the nature and extent of RP transactions, the disclosure of such transactions, and the factors that influence the disclosures by large companies in the Asia-Pacific region. This thesis extends the current body of research in RP transactions which tend to focus more heavily on the "transactions", either the amount or number of specific or general transactions, rather than on the "comprehensive disclosure transparency" of RP transactions. Accordingly, this thesis is among the first in pursuing the understanding on both of the nature and extent of RP transactions as well as the comprehensive disclosure transparency of such transactions. The disclosure of RP transactions, either in the form of mandatory or discretionary disclosures, is an essential component in strengthening the protection of minority shareholders, investors and other users relying on the financial statements as a legitimate source of information in their decision-making process (Lo & Wong, 2011).

Second, this thesis also extends current studies by investigating RP transactions and the disclosures of such transactions using cross-countries setting. There is no known prior research investigating RP transactions using a cross-country perspective. The cross-countries approach is beneficial in informing the influence of country-level factors. In this regard, this thesis finds evidence of the influence of enforcement, shareholders' protection and control for corruption on the extent of RP disclosures. The findings provide empirical evidence that the strength of enforcement, the protection against self-dealing actions, and the control for corruption are associated with corporate transparency of the RP disclosures.

Third, this thesis provides empirical evidence on the link between accounting and corruption in a cross-country setting. To date, there is a lack of research in this area, Malagueño et al. (2010, p. 375) contend that "[T]here is little cross country research that establishes a direct empirical link between accounting and corruption". The evidence shows that less corrupt countries are associated with greater disclosure transparency of RP information. This finding supports previous studies in other areas which find that corrupt actions are more likely to be discovered when there is greater business transparency (Halter et al., 2009). The findings also suggest that in the absence of efficient control for corruption, RP transactions are more prevalent as a means of acquiring self-interested benefits.

Anecdotal evidence indicates that RP transactions may serve abusive purposes, for example, in the case of Satyam in India (OECD, 2009) in which RP transactions are used for fraudulent purposes. Empirically, previous studies on RP transactions also suggest that these transactions can be opportunistic when managers, directors, controlling owners or other related parties pursue self-interests through non-arm's length RP transactions. Even in the normal business activities, RP transactions can be used opportunistically to transfer assets or liabilities between related parties. In a broader perspective, such opportunistic transactions can have implications for the economies (Lo & Wong, 2011). In this respect, the transparent RP disclosures enable users to better monitor transactions that may not be in accordance with shareholders' best interests. As an implication, a more stringent RP accounting standard and RP disclosure requirements are warranted to enhance the disclosure of RP transactions, particularly as higher standards of RP disclosure are likely to strengthen the

mitigation of opportunistic RP transactions and increase disclosure transparency. Thus, the findings can help policy makers, particularly in the Asia-Pacific region, in articulating better RP disclosure requirements for listed companies.

Fourth, this thesis raises concerns about the efficacy of some internal governance mechanisms, as some of the mechanisms (found to be associated with disclosure in other studies) were not associated with the extent of RP disclosures by companies in the Asia-Pacific region. The findings may suggest that such governance characteristics are not effective in encouraging RP disclosure transparencies by companies in this institutional setting. This result confirms the reports by OECD (2009, pp. 40–41) and CFA (2009, p. 37) which raise the issue of the effectiveness of board independence for companies in Asian countries[108]. More effective supervision and regulation seem to be warranted to improve the efficacy of internal governance mechanisms as an internal monitoring system in a company, particularly given the costly investment expended by companies in establishing such mechanisms. For example, the number of boards on which an independent director may serve can be limited and the concept of independence can be reinforced, which is consistent with the recommendations by OECD (2009, pp. 40–41). In addition, a limitation should also be imposed on the duration of time that an independent can be appointed on the board as mentioned in the CFA report, "Because no limits exist on the number of times independent directors may serve on the board, their partiality is also prone to diminishing over time" (Loon & De Ramos, 2009, p. 37).

Overall, the findings of this study have implications for standard setters and regulatory bodies in relation to RP disclosure standard. In particular, the study's findings provide empirical evidence that country-level factors, including the strength of enforcement by accounting regulatory bodies, the protection of minority shareholders against self-dealing actions, and the control for corruption are important determinants for increased corporate transparency of the RP disclosures.

[108] For example, Hong Kong Exchange's chief executive Paul Chow once mentioned that one challenge of corporate governance in Hong Kong is that non-executive independent directors may not be fully independent when major shareholders appoint the directors (Loon & De Ramos, 2009, p. 37).

7.3 Limitations and Future Research

This thesis has several limitations, which may offer potential avenues for further studies. First, like other studies investigating RP transactions, this thesis only captures RP transactions which have been disclosed and therefore, not all RP transactions may be included in the analysis. There is a possibility that companies enter into RP transactions but do not disclose the transactions. In particular, for the purpose of comparison, the RP transactions investigated in this study are limited to the transactions reported in the secondary data, that is, the annual reports. Future studies may also include other disclosure medium of RP transactions.

Second, this thesis has included internal and external governance characteristics in the regression tests. However, due to the unavailability of data and time constraints, other governance characteristics have not been examined in this study, for example the identification of "grey" directors, the diligence of the board of directors and audit committee (e.g., the number of board or audit committee meetings), the compensation of directors, the duality of the CEO, the shareholdings of managers, the political-connections of insiders, and the tenure of independent directors and audit committee members. Therefore, future studies could pursue these factors as an extension to this study.

Third, this thesis relies on the disclosed information of family relationships and shareholdings in the companies' annual reports and ultimate ownership data in the OSIRIS BVDEP database to identify ownership and family-controlled ownership. There is a risk that these sources may not correctly identify the ultimate family that controls a firm; however, the risk has been minimised by cross-checking between the two sources (i.e., the annual reports and the OSIRIS BVDEP database).

Lastly, given the time constraints on data collection, the study's sample is limited to the top 100 non-financial listed companies from each of the six countries, thus introducing a size bias. However, as discussed in Chapter 5, large companies are likely to be closely monitored by the investment community, regulators, and other interested parties, and hence are likely to provide more disclosure. Therefore, the size bias is unlikely to be a major threat to the validity of the study's findings, but it does offer an area for further research (i.e., to what extent do small firms engage in opportunistic RP transactions?).

APPENDICES

Appendix 1 Model Accounts of RP Disclosures by Big 4 Accounting Firms

AASB 124 disclosures presented in the Big 4 accounting firms' example financial statements

Para	Disclosure Description	DTT	PwC	EY	KPMG
Par 12	Relationships between parents and subsidiaries shall be disclosed irrespective of whether there have been transactions between those related parties. An entity shall disclose the name of the entity's parent and, if different, the ultimate controlling party. If neither the entity's parent nor the ultimate controlling party produces financial reports available for public use, the name of the next most senior parent that does so shall also be disclosed.	**Yes:** parent & ultimate parent entity in RP transaction note; Subsidiaries: refer to other note	**Yes:** parent; ultimate Australian parent; Subsidiaries refer to other note	**Yes:** consolidated Subsidiaries; parent; ult. Aust. parent	**No** (and no reference)
Par Aus 12.1	When any of the parent entities and/or ultimate controlling parties named in accordance with paragraph 12 is incorporated or otherwise constituted outside Australia, an entity shall: (a) identify which of those entities is incorporated overseas and where; and (b) disclose the name of the ultimate controlling entity incorporated within Australia.	**Yes**	**Yes,** ultimate outside Australian (a) & (b)	**Yes,** ultimate outside Australian (a) & (b)	**No** (and no reference)
Par16	An entity shall disclose key management personnel compensation in total and for each of the following categories: (a) short-term employee benefits; (b) post-employment benefits; (c) other long-term benefits; (d) termination benefits; and (e) share-based payment.	**Yes**, refer to KMP note	**Yes**, refer to KMP note	**Yes**, refer to KMP note	**Yes**
Par17	If there have been transactions between related parties, an entity shall disclose the nature of the related party relationship as well as information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to the requirements in paragraph 16 to disclose key management personnel compensation. At a minimum, disclosures shall include:	**Yes** (the nature of relationship)	**Yes** (the nature of relationship)	**Yes** (the nature of relationship)	**Yes** (the nature of relationship)
	(a) the amount of the transactions;	**Yes**	**Yes**	**Yes**	**Yes**
	(b) the amount of outstanding balances and:	**Yes**	**Yes**	**Yes**	**Yes**
	(i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and (ii) details of any guarantees given or received;	**Yes:** unsecured, settled in cash, no guarantees, T&C for RP transations; Interest rate for loans blc.	**Yes:** guarantees; unsecured; repayable in cash. T&C for RP transactions; Interest rate for loans blc.	**Yes:** unsecured; interest-free; repayable in cash. T&C for RPTs; interest rate for oans blc. Guarantees: refer to other note.	**Yes:** unsecured; to be settled in cash; no interest. (Spec. term: Domestic & trivial in nature)
	(c) provisions for doubtful debts related to the amount of outstanding balances; and	**No**	**Yes:** no provision	**Yes:** no provision & explanation	**No** (and no reference)
	(d) the expense recognised during the period in respect of bad or doubtful debts due from related parties.	**Yes:** no expense for bad debts	**Yes:** no expense	**No**	**No** (and no reference)
Par 18	The disclosures required by paragraph 17 shall be made separately for each of the following categories: (a) the parent; (b) entities with joint control or significant influence over the entity;	**Yes:** narratives	**Yes:** subsidiaries; wholly-owned tax consolidated	**Yes:** entities with significant influence; associate; JV;	**Yes:** subsidiary; associate; JV; KMP; other related parties (superannuation

	(c) subsidiaries; (d) associates; (e) joint ventures in which the entity is a venturer; (f) key management personnel of the entity or its parent; (g) other related parties.		entities; associates; other related parties	subsidiaries	fund)

DTT = Deloitte Touche Tohmatsu; EY = Ernst & Young; KPMG = KPMG; PwC = PricewaterhouseCoopers.

Appendix 2A Correlation – Australia

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
MSCORE (1)	1	0.562**	0.768**	-0.158	-0.324**	0.226*	-0.067	-0.024	0.200*	0.039	0.122	0.136	0.087	0.035	-0.239*	-0.002	0.093	0.146
DSCORE (2)	0.500**	1	0.856**	-0.250*	-0.254*	0.053	-0.113	-0.086	0.02	0.04	0.153	0.013	-0.017	0.004	-0.273**	-0.049	0.044	0.301**
OSCORE (3)	0.738**	0.817**	1	-0.241*	-0.210*	0.172	-0.082	-0.03	0.12	0.135	0.191	0.007	0.069	0.058	-0.227*	0.033	0.123	0.307**
BIND (4)	-0.179	-0.272**	-0.240*	1	0.129	-0.073	0.491**	0.202*	0.028	-0.345**	-0.361**	-0.028	0.098	0.178	0.258*	-0.179	-0.064	-0.117
BSIZE (5)	-.351**	-0297**	-0.268**	0.126	1	-0.104	0.263**	0.368**	0.051	0.01	-0.119	0.126	0.208*	0.119	0.656**	-0.029	-0.281**	0.167
BEXP (6)	0.276**	0.103	0.223*	-0.112	-0.126	1	0.096	0.087	0.592**	-0.056	-0.093	0.107	0.042	0.152	0.066	-0.056	-0.201*	-0.014
ACIND (7)	-0.076	-0.123	-0.083	0.499**	0.257*	0.063	1	0.722**	0.194	-0.275**	-0.309**	0.147	0.147	0.088	0.448**	-0.036	-0.306**	0.097
ACSIZE (8)	-0.065	-0.089	-0.062	0.199*	0.390**	0.06	0.699**	1	0.189	-0.127	-0.217*	0.300**	0.244*	0.066	0.450**	0.005	-0.254*	0.183
ACEXP (9)	0.192	-0.017	0.083	0.04	0.037	0.564**	0.138	0.132	1	-0.042	-0.124	0.149	0.13	0.011	0.217*	-0.008	-0.265**	0.052
CONC (10)	0.021	-0.039	0.034	-0.309**	-0.056	-0.084	-0.256*	-0.154	-0.107	1	0.263**	-0.024	-0.133	-0.257*	-0.126	0.158	0.073	0.308**
FAM (11)	0.149	0.157	0.19	-0.308**	-0.104	-0.07	-0.307**	-0.259**	-0.124	0.249*	1	-0.027	0.073	0.073	-0.246*	0.043	0.119	-0.012
LEV (12)	0.096	-0.046	-0.025	0.047	0.217*	0.07	0.201*	0.348**	0.152	-0.016	-0.087	1	0.129	0.035	0.340**	-0.241*	-0.243*	0.131
EXT (13)	0.125	-0.017	0.084	0.099	0.239*	0.054	0.048	0.138	0.13	-0.229*	0.073	0.136	1	-0.053	0.322**	0.119	-0.184	0.048
CROSS (14)	0.042	0.027	0.081	0.125	0.139	0.16	0.114	0.081	0.011	-0.152	0.073	0.109	-0.053	1	0.111	-0.218*	-0.038	-0.042
SIZE (15)	-.263**	-0.314**	-0.247*	0.278**	0.672**	0.034	0.358**	0.371**	0.189	-0.168	-0.259**	0.413**	0.250*	0.126	1	-0.05	-0.566**	0.273**
PROFIT (16)	0.002	-0.056	0.044	-0.149	0.014	-0.014	-0.066	-0.037	0.012	0.077	0.041	-0.223*	0.1	-0.202*	-0.1	1	0.315**	-0.014
PERFORM (17)	0.086	0.031	0.102	-0.122	-0.213*	-0.145	-0.250*	-0.196	-0.250*	0.113	0.111	-0.275**	-0.142	-0.013	-0.471**	0.356**	1	-0.248*
RPTN (18)	0.148	0.309**	0.354**	-0.092	0.172	-0.032	0.064	0.127	0.046	0.267**	-0.044	0.132	0.047	-0.016	0.252*	-0.002	-0.205*	1

**. Correlation is significant at the 0.01 level (2-tailed). *. Correlation is significant at the 0.05 level (2-tailed). Below the diagonal presents Spearman's correlation and above the diagonal presents Pearson's correlation of the independent variables.

Appendix 2B Correlation – Indonesia

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
MSCORE (1)	1	0.228*	0.559**	0.151	0.066	-0.118	0.034	0.075	0.04	0.075	0.125	0.027	0.107	0.137	0.102	-0.089	-0.035	-0.065
DSCORE (2)	0.145	1	0.812**	-0.029	0.183	0.055	0.07	0.143	-0.006	0.191	0.147	-0.054	0.202*	0.225*	0.199*	0.128	0.095	0.372**
OSCORE (3)	0.521**	0.778**	1	0.024	0.244*	-0.007	0.064	0.207*	0.056	0.227*	0.16	-0.053	0.250*	0.288**	0.216*	0.071	0.065	0.192
BIND (4)	0.156	-0.05	0.017	1	-0.107	0.083	-0.152	0.053	0.206*	-0.081	0.087	0.277**	0.022	0.142	0.202*	-0.271**	-0.211*	-0.035
BSIZE (5)	0.007	0.14	0.151	-0.041	1	0.059	-0.041	0.127	0.064	0.149	-0.115	0.049	0.181	0.181	0.475**	0.087	0.129	0.242*
BEXP (6)	-0.082	0.045	0.016	0.107	0.057	1	0.107	0.044	0.312**	-0.136	0.141	0.058	-0.016	-0.037	-0.007	-0.065	-0.148	0.067
ACIND (7)	0.052	0.007	0.011	-0.247*	-0.12	0.05	1	0.614**	0.008	-0.081	0.173	-0.138	0.169	0.092	0.015	0.211*	0.099	-0.032
ACSIZE (8)	0.076	0.077	0.144	0.015	0.054	0.043	0.550**	1	0.146	-0.084	0.073	0.024	0.191	0.248*	0.343**	0.099	-0.003	0.068
ACEXP (9)	-0.011	-0.004	0.017	0.210*	0.047	0.324**	0.028	0.167	1	-0.011	0.105	0.002	-0.02	0.036	0.147	0.12	-0.008	-0.005
CONC (10)	0.063	0.16	0.193	-0.106	0.14	-0.189	-0.087	-0.076	-0.047	1	-0.196	-0.248*	0.217*	0.056	-0.033	0.210*	0.159	0.279**
FAM (11)	0.099	0.156	0.153	0.051	-0.148	0.157	0.182	0.098	0.105	-0.201*	1	0.073	-0.059	0.094	-0.1	-0.214*	-0.185	-0.119
LEV (12)	-0.007	-0.037	-0.07	0.284**	0.009	0.119	-0.019	0.185	0.042	-0.280**	0.108	1	-0.260**	0.05	0.308**	-0.521**	-0.348**	-0.133
EXT (13)	0.104	0.209*	0.220*	0.009	0.198*	-0.021	0.143	0.192	-0.02	0.220*	-0.059	-0.247*	1	0.094	0.146	0.318**	0.307**	0.022
CROSS (14)	0.098	0.224*	0.249*	0.220*	0.205*	-0.045	0.053	0.213*	0.036	0.069	0.094	0.046	0.094	1	0.526**	0.161	0.187	0.134
SIZE (15)	0.092	0.214*	0.222*	0.310**	0.458**	-0.024	-0.031	0.286**	0.154	-0.024	-0.104	0.298**	0.156	0.538**	1	0.076	0.115	0.124
PROFIT (16)	-0.097	0.169	0.067	-0.294**	0.108	-0.098	0.185	0.03	0.102	0.239*	-0.262**	-0.479**	0.325**	0.148	0.062	1	0.576**	0.210*
PERFORM (17)	-0.006	0.149	0.064	-0.286**	0.166	-0.222*	0.143	0.032	-0.025	0.224*	-0.166	-0.334**	0.280**	0.113	0.094	0.537**	1	0.256*
RPTN (18)	-0.106	0.306**	0.109	-0.087	0.229*	0.087	-0.013	0.098	0.023	0.235*	-0.084	-0.126	0.027	0.143	0.122	0.230*	0.267**	1

**. Correlation is significant at the 0.01 level (2-tailed). *. Correlation is significant at the 0.05 level (2-tailed). Below the diagonal presents Spearman's correlation and above the diagonal presents Pearson's correlation of the independent variables.

Appendix 2C Correlation – Malaysia

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
MSCORE (1)	1	0.007	0.428**	0.054	-0.143	0	-0.124	-0.189	0.182	-0.193	0.216*	0.141	-0.052	-0.231*	-0.145	-0.107	-0.077	-0.028
DSCORE (2)	-0.008	1	0.653**	0.089	0.133	-0.006	0.166	0.195	0.052	0.16	-0.081	0.004	-0.023	0.074	0.214*	-0.107	-0.087	0.221*
OSCORE (3)	0.397**	0.635**	1	0.187	0.033	0.034	0.021	0.123	-0.004	0.230*	-0.049	0.098	-0.069	-0.031	0.147	-0.024	0.072	0.126
BIND (4)	0.036	0.14	0.221*	1	-0.438**	-0.005	0.290**	0.119	-0.143	0.298**	-0.036	-0.105	0.129	0.081	0.052	-0.003	-0.038	0.123
BSIZE (5)	-0.135	0.128	0.025	-0.441**	1	-0.133	0.16	0.193	0.003	-0.038	-0.128	0.167	-0.168	0.203*	0.318**	-0.15	-0.066	0.021
BEXP (6)	0.027	-0.006	0.032	-0.019	-0.077	1	-0.097	0.007	0.337**	0.1	-0.065	-0.022	0.056	0.136	0.001	0.075	0.062	0.074
ACIND (7)	-0.173	0.178	0	0.296**	0.153	-0.049	1	0.566**	0	0.263**	0.019	0.122	0.074	0.283**	0.239*	-0.098	-0.046	-0.033
ACSIZE (8)	-0.183	0.179	0.09	0.089	0.208*	0.036	0.545**	1	0.094	0.306**	-0.176	-0.04	0.105	0.429**	0.229*	0.185	0.196	0.042
ACEXP (9)	0.172	0.017	-0.061	-0.153	0.014	0.332**	-0.003	0.089	1	-0.113	0.174	0.022	-0.134	-0.025	0.011	-0.052	-0.194	-0.005
CONC (10)	-0.138	0.183	0.248*	0.304**	0.005	0.105	0.257**	0.274**	-0.14	1	-0.336**	-0.067	-0.019	0.179	0.034	-0.009	0.184	0.134
FAM (11)	0.179	-0.034	-0.041	-0.049	-0.125	-0.091	0.024	-0.171	0.174	-0.329**	1	0.061	-0.09	-0.124	-0.236*	-0.167	-0.182	0.025
LEV (12)	0.149	0.024	0.138	-0.058	0.094	0.039	0.178	-0.04	0.047	0.009	0.138	1	0.034	0.035	0.445**	-0.276**	-0.145	0.078
EXT (13)	-0.073	-0.023	-0.075	0.131	-0.176	0.069	0.071	0.097	-0.134	-0.017	-0.09	0.03	1	0.013	0.129	0.049	-0.084	0.091
CROSS (14)	-0.254*	0.056	-0.038	0.102	0.166	0.149	0.277**	0.381**	-0.025	0.194	-0.124	0.031	0.013	1	0.284**	0.074	0.135	0.098
SIZE (15)	-0.151	0.198*	0.171	0.069	0.280**	-0.036	0.238*	0.237*	0.01	0.052	-0.181	0.456**	0.139	0.227*	1	-0.332**	-0.316**	0.16
PROFIT (16)	-0.045	-0.068	-0.059	0.074	-0.111	-0.021	-0.06	0.112	-0.054	-0.02	-0.202*	-0.382**	-0.032	-0.003	0-.345**	1	0.729**	-0.287**
PERFORM (17)	-0.061	-0.076	0.044	0.037	0.013	-0.015	0.056	0.093	-0.177	0.123	-0.252*	-0.136	-0.072	0.06	-0.233*	0.646**	1	-0.243*
RPTN (18)	-0.016	0.244*	0.149	0.219*	0.047	0.106	-0.021	0.051	-0.01	0.158	0.056	0.131	-0.023	0.091	0.189	-0.234*	-0.189	1

**. Correlation is significant at the 0.01 level (2-tailed). *. Correlation is significant at the 0.05 level (2-tailed). Below the diagonal presents Spearman's correlation and above the diagonal presents Pearson's correlation of the independent variables.

Appendix 2D Correlation – Philippines

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
MSCORE (1)	1	0.720**	0.865**	-0.061	0.175	0.089	0.118	-0.062	0.111	0.105	0.087	0.181	0.228*	0.185	0.430**	-0.007	-0.162	0.458**
DSCORE (2)	0.744**	1	0.903**	-0.009	0.12	-0.019	0.112	-0.005	-0.004	0.111	0.063	0.220*	0.141	0.201	0.430**	0.09	-0.15	0.547**
OSCORE (3)	0.841**	0.917**	1	-0.031	0.184	0.04	0.156	0.026	0.074	0.187	0.076	0.298**	0.223*	0.255*	0.571**	0.069	-0.157	0.565**
BIND (4)	-0.081	-0.048	-0.074	1	-0.387**	0.226*	0.188	-0.310**	-0.059	-0.147	0.105	0.042	-0.082	0.026	-0.122	-0.046	-0.064	0.167
BSIZE (5)	0.137	0.121	0.181	-0.621**	1	0.005	0.308**	0.279**	0.11	0.077	-0.024	0.068	0.209*	0.207*	0.249*	0.230*	0.062	-0.021
BEXP (6)	0.09	-0.014	0.019	0.126	0.024	1	-0.032	-0.047	0.555**	-0.016	-0.168	0.083	0.083	-0.025	0.048	0.042	0.057	0.031
ACIND (7)	0.069	0.104	0.14	0.096	0.242*	-0.017	1	0.314**	0.035	0.125	0.166	0.151	0.001	0.265*	0.236*	0.133	-0.131	0.001
ACSIZE (8)	-0.109	0.018	0.052	-0.334**	0.322**	-0.029	0.286**	1	0.186	0.091	0.075	0.142	-0.062	0.175	0.211*	0.05	-0.006	-0.018
ACEXP (9)	0.102	0	0.053	-0.062	0.105	0.587**	0.013	0.182	1	-0.122	-0.029	0.026	0.002	0.077	0.159	0.008	-0.012	-0.035
CONC (10)	0.035	0.056	0.158	-0.163	0.07	-0.026	0.113	0.134	-0.093	1	-0.072	0.038	0.115	-0.128	-0.043	-0.1	0.031	0.022
FAM (11)	0.102	0.049	0.073	0.075	-0.036	-0.146	0.188	0.055	-0.029	-0.078	1	0.111	-0.158	0.1	-0.008	-0.026	0.01	-0.03
LEV (12)	0.167	0.232*	0.319**	0.074	0.036	0.148	0.129	0.174	0.065	0.027	0.176	1	0.133	0.316**	0.504**	0.166	0.028	0.09
EXT (13)	0.236*	0.147	0.216*	-0.158	0.250*	0.111	-0.001	-0.037	0.002	0.085	-0.158	0.056	1	0.056	0.213*	0.067	-0.112	0.175
CROSS (14)	0.196	0.216*	0.254*	0.033	0.168	-0.023	0.197	0.177	0.077	-0.154	0.1	0.299**	0.056	1	0.562**	0.118	0.124	0.289**
SIZE (15)	0.433**	0.465**	0.566**	-0.147	0.251*	0.127	0.189	0.214*	0.164	-0.043	-0.065	0.403**	0.225*	0.477**	1	0.294**	-0.11	0.379**
PROFIT (16)	0.051	0.134	0.126	-0.147	0.300**	0.119	0.136	0.036	0.017	-0.061	-0.044	0.191	0.109	0.189	0.351**	1	0.114	-0.054
PERFORM (17)	-0.095	-0.102	-0.089	-0.051	0.067	0.007	-0.078	-0.034	-0.004	-0.018	-0.014	0.06	-0.068	0.135	-0.082	0.127	1	-0.1
RPTN (18)	0.472**	0.562**	0.579**	0.155	0.027	0.015	0.007	-0.015	-0.037	-0.035	-0.047	0.134	0.193	0.302**	0.374**	0.015	-0.06	1

**. Correlation is significant at the 0.01 level (2-tailed). *. Correlation is significant at the 0.05 level (2-tailed). Below the diagonal presents Spearman's correlation and above the diagonal presents Pearson's correlation of the independent variables.

Appendix 2E Correlation – Singapore

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
MSCORE (1)	1	0.158	0.529**	-0.107	-0.051	0.034	-0.126	-0.078	-0.09	0.102	0.004	0.012	0.028	-0.112	-0.074	0.004	0.013	0.086
DSCORE (2)	0.156	1	0.641**	-0.012	-0.06	0.05	-0.069	0.053	0.085	0.017	0.086	-0.13	-0.151	-0.213*	-0.101	0.053	-0.036	-0.067
OSCORE (3)	0.485**	0.598**	1	-0.02	0.018	0.095	-0.105	0.049	0.063	0.353**	-0.098	-0.069	-0.074	-0.216*	-0.009	0.004	0.062	-0.025
BIND (4)	-0.111	-0.049	-0.082	1	-0.049	-0.037	0.453**	0.176	-0.03	-0.044	-0.146	0.053	0.044	0.135	0.158	-0.074	0.249*	-0.043
BSIZE (5)	-0.049	-0.009	0.008	-0.017	1	-0.254*	0.384**	0.313**	-0.113	0.007	-0.226*	0.104	0.273**	0.126	0.270**	0.08	0.199	0.102
BEXP (6)	0.049	0.043	0.038	-0.084	-0.254*	1	-0.123	-0.092	0.484**	0.1	0.154	0.173	-0.314**	-0.176	0.022	-0.098	-0.242*	-0.008
ACIND (7)	-0.139	-0.017	-0.134	0.460**	0.406**	-0.144	1	0.629**	0.012	-0.135	-0.066	0.052	0.15	0.115	0.149	-0.035	0.167	0.231*
ACSIZE (8)	-0.078	0.124	0.072	0.144	0.346**	-0.15	0.643**	1	0.11	-0.071	-0.212*	-0.065	0.084	0.065	0.164	0.131	0.218*	0.057
ACEXP (9)	-0.107	0.107	0.055	-0.078	-0.07	0.494**	0.015	0.108	1	0.032	0.108	0.055	-0.208*	0.011	0.128	0.028	-0.146	0.087
CONC (10)	0.094	-0.047	0.328**	-0.054	0.019	0.094	-0.147	-0.093	0.02	1	-0.307**	0.007	0.1	-0.104	0.116	-0.012	-0.072	0.067
FAM (11)	0.019	0.077	-0.112	-0.104	-0.275**	0.15	-0.069	-0.228*	0.108	-0.284**	1	-0.083	-0.214*	-0.083	-0.387**	-0.2	-0.181	0.039
LEV (12)	-0.011	-0.143	-0.127	0.036	0.115	0.203	0.05	-0.071	0.087	-0.006	-0.051	1	0.05	0.083	0.213*	-0.003	-0.019	0.038
EXT (13)	0.016	-0.131	-0.089	0.085	0.293**	-0.259*	0.155	0.077	-0.208*	0.1	-0.214*	0.02	1	0.035	0.183	0.179	0.133	0.087
CROSS (14)	-0.13	-0.184	-0.197	0.072	0.094	-0.134	0.119	0.077	0.011	-0.096	-0.083	0.104	0.035	1	0.425**	0.052	0.192	-0.126
SIZE (15)	-0.102	-0.074	0.001	0.168	0.335**	0.047	0.161	0.149	0.111	0.168	-0.357**	0.267**	0.207*	0.450**	1	0.038	-0.115	0.072
PROFIT (16)	-0.012	0.139	0.024	-0.038	0.09	-0.098	0.004	0.122	-0.016	-0.044	-0.155	-0.072	0.2	0.053	-0.031	1	0.410**	-0.07
PERFORM (17)	0.009	-0.003	0.05	0.168	0.176	-0.179	0.169	0.268**	-0.132	-0.087	-0.218*	-0.036	0.126	0.235*	-0.033	0.492**	1	0.07
RPTN (18)	0.047	-0.066	-0.033	0.026	0.149	-0.054	0.257*	0.049	0.079	0.073	0.016	0.027	0.097	-0.112	0.055	-0.04	0.123	1

**. Correlation is significant at the 0.01 level (2-tailed). *. Correlation is significant at the 0.05 level (2-tailed). Below the diagonal presents Spearman's correlation and above the diagonal presents Pearson's correlation of the independent variables.

Appendix 2F Correlation – Thailand

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
MSCORE (1)	1	0.424**	0.764**	-0.146	0.022	-0.061	-0.027	-0.074	-0.1	-0.165	0.125	0.053	0.157	-0.037	0.021	-0.287**	-0.216*	0.363**
DSCORE (2)	0.416**	1	0.713**	-0.344**	0.054	0.023	-0.065	-0.15	-0.032	-0.175	0.115	0.033	0.304**	-0.129	-0.163	-0.198*	-0.08	0.521**
OSCORE (3)	0.725**	0.662**	1	-0.317**	-0.082	0.043	-0.175	-0.156	-0.067	0.001	0.144	0.006	0.330**	-0.084	-0.227*	-0.311**	-0.178	0.452**
BIND (4)	-0.044	-0.317**	-0.247*	1	-.202*	-0.044	.322**	0.109	0.002	0.049	0.013	0.041	-0.182	0.091	.278**	-0.006	-0.163	-.229*
BSIZE (5)	-0.036	0.089	-0.091	-0.184	1	-0.270**	0.162	0.096	-0.169	-0.124	-0.237*	0.138	0.007	-0.026	0.447**	-0.008	-0.077	0.241*
BEXP (6)	-0.027	-0.033	0.037	-0.033	-0.296**	1	-0.06	0.031	0.470**	0.166	0.068	-0.245*	0.063	-0.018	-0.213*	0.031	0.079	0.053
ACIND (7)	-0.053	-0.055	-0.196	0.281**	0.19	-0.014	1	0.705**	-0.031	-0.210*	0.059	0.061	0.05	0.127	0.155	0.11	-0.04	0.029
ACSIZE (8)	-0.093	-0.154	-0.196	0.149	0.139	0.032	0.837**	1	0.024	-0.113	0.078	0.088	-0.019	0.096	0.043	0.061	0.037	0.088
ACEXP (9)	-0.104	-0.034	-0.016	-0.053	-0.185	0.519**	-0.019	0.026	1	-0.003	0.139	-0.078	-0.078	-0.108	-0.075	-0.096	-0.081	-0.037
CONC (10)	-0.14	-0.185	0.043	0.1	-0.089	0.131	-0.139	-0.093	-0.004	1	-0.091	0.017	-0.021	0.08	-0.025	-0.035	0.082	-0.05
FAM (11)	0.14	0.12	0.145	-0.018	-0.232*	0.053	0.047	0.088	0.139	-0.095	1	-0.001	-0.115	-0.159	-0.241*	-0.08	-0.122	0.063
LEV (12)	0.089	0.089	0.05	0.083	0.105	-0.240*	0.042	0.061	-0.059	0.082	0.002	1	-0.166	0.096	0.419**	-0.443**	-0.249*	0.098
EXT (13)	0.091	0.191	0.192	-0.148	0.008	0.051	0.058	-0.018	-0.078	-0.011	-0.115	-0.172	1	0.111	-0.129	0.074	0.008	0.185
CROSS (14)	-0.06	-0.175	-0.129	0.136	-0.026	0.011	0.131	0.11	-0.108	0.098	-0.159	0.107	0.111	1	0.207*	0.061	0.024	-0.037
SIZE (15)	-0.006	-0.114	-0.199*	0.217*	0.427**	-0.188	0.141	0.106	-0.051	0.02	-0.242*	0.454**	-0.068	0.214*	1	-0.205*	-0.254*	0.223*
PROFIT (16)	-0.272**	-0.226*	-0.335**	0.009	0.004	0.022	0.137	0.071	-0.136	-0.048	-0.102	-0.434**	0.062	0.084	-0.219*	1	0.511**	-0.223*
PERFORM (17)	-0.254*	-0.068	-0.232*	-0.063	-0.12	0.083	0.093	0.071	-0.088	0.059	-0.096	-0.249*	0.065	0.047	-0.324**	0.526**	1	-0.194
RPTN (18)	0.212*	0.354**	0.252*	-0.237*	0.291**	0.026	0.06	0.113	-0.007	-0.005	0.065	0.166	0.139	-0.116	0.255*	-0.171	-0.158	1

**. Correlation is significant at the 0.01 level (2-tailed). *. Correlation is significant at the 0.05 level (2-tailed). Below the diagonal presents Spearman's correlation and above the diagonal presents Pearson's correlation of the independent variables.

Appendix 3A MSCORE Within-Country

	Australia			Indonesia			Malaysia			Philippines			Singapore			Thailand		
	Coef	**t**	**Sig.**	**Coef**	**t**	**Sig.**	**Coef**	**t**	**Sig.**	**Coef**	**t**	**Sig.**	**Coef**	**t**	**Sig.**	**Coef**	**t**	**Sig.**
(Constant)		3.852	0.000		5.656	0.000		6.469	0.000		2.974	0.004		7.476	0.000		7.740	0.000
BIND	-0.081	-0.641	0.524	0.119	0.976	0.332	0.184	1.394	0.167	-0.164	-1.312	0.194	-0.060	-0.403	0.688	-0.102	-0.817	0.416
BSIZE	-0.227	-1.716	0.090	0.076	0.591	0.556	-0.096	-0.724	0.471	0.096	0.854	0.396	-0.034	-0.242	0.810	-0.089	-0.712	0.478
BEXP	0.088	0.719	0.474	-0.159	-1.377	0.172	-0.016	-0.145	0.885	0.075	0.622	0.536	0.075	0.532	0.596	-0.032	-0.273	0.785
ACIND	0.063	0.382	0.704	0.064	0.435	0.665	-0.048	-0.347	0.730	0.110	0.943	0.349	-0.118	-0.627	0.533	0.097	0.639	0.524
ACSIZE	-0.006	-0.037	0.971	-0.011	-0.075	0.940	-0.028	-0.194	0.847	-0.241	-2.279	0.026	0.036	0.229	0.820	-0.142	-1.024	0.309
ACEXP	0.174	1.453	0.150	0.064	0.536	0.593	0.161	1.347	0.182	0.076	0.653	0.516	-0.129	-0.976	0.332	-0.122	-1.109	0.270
CONC	-0.029	-0.259	0.797	0.092	0.780	0.438	-0.149	-1.195	0.236	0.082	0.849	0.399	0.077	0.635	0.527	-0.143	-1.433	0.156
FAM	0.032	0.289	0.773	0.108	0.931	0.355	0.030	0.248	0.804	0.155	1.638	0.106	0.014	0.100	0.920	0.081	0.778	0.438
LEV	0.176	1.620	0.109	-0.050	-0.358	0.721	0.194	1.623	0.108	0.022	0.205	0.838	0.027	0.230	0.819	-0.074	-0.626	0.533
EXT	0.179	1.700	0.093	0.091	0.752	0.454	-0.039	-0.353	0.725	0.057	0.583	0.562	0.037	0.294	0.769	0.082	0.798	0.427
CROSS	0.091	0.872	0.386	0.097	0.746	0.458	-0.108	-0.913	0.364	-0.098	-0.833	0.408	-0.056	-0.406	0.686	0.009	0.089	0.929
SIZE	-0.278	-1.621	0.109	0.020	0.120	0.905	-0.047	-0.332	0.741	0.308	2.145	0.035	-0.022	-0.140	0.889	-0.009	-0.062	0.951
PROFIT	-0.008	-0.072	0.943	-0.141	-0.925	0.358	-0.223	-1.347	0.182	-0.089	-0.894	0.374	-0.010	-0.077	0.939	-0.249	-2.024	0.046
PERFORM	0.089	0.687	0.494	-0.011	-0.077	0.938	0.173	1.032	0.305	-0.074	-0.757	0.451	0.055	0.366	0.715	-0.055	-0.480	0.633
RPTN	0.241	2.277	0.025	-0.070	-0.590	0.557	-0.024	-0.220	0.826	0.374	3.524	0.001	0.104	0.835	0.406	0.284	2.580	0.012
R Square	0.292			0.107			0.164			0.407			0.061			0.264		
Adjusted R Square	0.164			-0.054			0.015			0.288			-0.120			0.132		
Durbin-Watson	1.387			1.972			1.652			1.630			2.195			2.057		
Maximum VIF	3.438			2.463			2.818			2.599			2.927			2.005		
F	2.283			0.663			1.099			3.427			0.337			0.024		
Signif (F)	0.009			0.813			0.370			0.000			0.989			2.629		

Appendix 3B DSCORE Within-Country

	Australia			Indonesia			Malaysia			Philippines			Singapore			Thailand		
	Coef	**t**	**Sig.**	**Coef**	**t**	**Sig.**	**Coef**	**t**	**Sig.**	**Coef**	**t**	**Sig.**	**Coef**	**t**	**Sig.**	**Coef**	**t**	**Sig.**
(Constant)		5.497	0.000		4.029	0.000		2.812	0.006		2.032	0.046		5.668	0.000		10.453	0.000
BIND	-0.198	-1.582	0.118	-0.075	-0.682	0.497	0.072	0.549	0.585	-0.085	-0.684	0.496	0.091	0.635	0.528	-0.142	-1.387	0.169
BSIZE	-0.080	-0.609	0.544	-0.004	-0.033	0.974	0.096	0.730	0.467	0.066	0.585	0.560	0.042	0.307	0.760	-0.001	-0.009	0.993
BEXP	-0.010	-0.083	0.934	0.036	0.346	0.730	-0.074	-0.655	0.514	-0.031	-0.263	0.793	-0.067	-0.492	0.624	-0.004	-0.045	0.964
ACIND	0.117	0.714	0.478	-0.023	-0.173	0.863	0.060	0.433	0.666	0.060	0.518	0.606	-0.140	-0.770	0.444	0.227	1.820	0.072
ACSIZE	-0.070	-0.464	0.644	0.034	0.246	0.807	0.045	0.309	0.758	-0.129	-1.232	0.222	0.137	0.890	0.376	-0.340	-2.998	0.004
ACEXP	0.062	0.526	0.600	-0.053	-0.490	0.626	0.100	0.843	0.402	0.025	0.211	0.834	0.068	0.530	0.597	-0.013	-0.148	0.883
CONC	-0.161	-1.435	0.155	0.109	1.020	0.311	0.101	0.812	0.419	0.102	1.059	0.293	0.043	0.365	0.716	-0.144	-1.752	0.083
FAM	0.044	0.407	0.685	0.227	2.164	0.033	-0.010	-0.083	0.934	0.089	0.946	0.347	0.126	0.940	0.350	0.026	0.307	0.760
LEV	0.059	0.548	0.585	0.015	0.117	0.907	-0.114	-0.952	0.344	0.088	0.814	0.418	-0.087	-0.766	0.446	0.106	1.091	0.278
EXT	0.093	0.887	0.377	0.171	1.547	0.126	-0.043	-0.398	0.692	-0.036	-0.374	0.709	-0.147	-1.221	0.226	0.162	1.917	0.059
CROSS	0.053	0.511	0.611	0.083	0.703	0.484	-0.074	-0.627	0.533	-0.092	-0.782	0.437	-0.244	-1.832	0.071	-0.041	-0.491	0.624
SIZE	-0.403	-2.374	0.020	0.129	0.870	0.387	0.197	1.395	0.167	0.219	1.538	0.128	0.057	0.376	0.708	-0.285	-2.501	0.014
PROFIT	-0.051	-0.459	0.647	0.049	0.351	0.727	-0.027	-0.164	0.870	0.054	0.551	0.583	0.089	0.704	0.484	-0.145	-1.439	0.154
PERFORM	-0.024	-0.186	0.853	-0.081	-0.656	0.513	0.055	0.326	0.745	-0.082	-0.851	0.397	-0.013	-0.091	0.927	0.059	0.622	0.535
RPTN	0.433	4.130	0.000	0.343	3.209	0.002	0.240	2.183	0.032	0.499	4.732	0.000	-0.068	-0.565	0.574	0.504	5.586	0.000
R Square	0.305			0.265			0.166			0.414			0.117			0.504		
Adjusted R Square	0.179			0.133			0.017			0.296			-0.053			0.416		
Durbin-Watson	1.667			1.714			1.772			2.069			1.855			1.786		
Maximum VIF	3.438			2.463			2.818			2.599			2.927			2.629		
F-Stat	2.429			1.998			1.112			3.526			0.687			5.699		
Signif (F)	0.006			0.025			0.359			0.000			0.790			0.000		

Appendix 3C OSCORE Within-Country

	Australia			Indonesia			Malaysia			Philippines			Singapore			Thailand		
	Coef	**t**	**Sig.**	**Coef**	**t**	**Sig.**	**Coef**	**t**	**Sig.**	**Coef**	**t**	**Sig.**	**Coef**	**t**	**Sig.**	**Coef**	**t**	**Sig.**
(Constant)		4.932	0.000		5.976	0.000		4.729	0.000		1.996	0.050		6.619	0.000		11.195	0.000
BIND	-0.177	-1.430	0.156	-0.034	-0.309	0.758	0.300	2.234	0.028	-0.050	-0.462	0.646	0.024	0.177	0.860	-0.135	-1.303	0.196
BSIZE	-0.084	-0.650	0.517	0.125	1.064	0.290	0.193	1.431	0.156	0.102	1.048	0.298	0.067	0.526	0.600	-0.089	-0.857	0.394
BEXP	0.108	0.906	0.368	-0.028	-0.266	0.791	0.004	0.035	0.972	-0.012	-0.113	0.910	0.007	0.054	0.957	-0.022	-0.228	0.820
ACIND	0.143	0.884	0.379	-0.083	-0.615	0.540	-0.235	-1.647	0.103	0.050	0.496	0.621	-0.156	-0.913	0.364	0.040	0.314	0.754
ACSIZE	-0.046	-0.310	0.757	0.153	1.096	0.276	0.160	1.070	0.288	-0.141	-1.551	0.125	0.128	0.892	0.375	-0.163	-1.419	0.160
ACEXP	0.108	0.925	0.358	0.023	0.208	0.836	0.026	0.213	0.832	0.073	0.723	0.472	0.042	0.353	0.725	-0.092	-0.998	0.321
CONC	-0.013	-0.116	0.908	0.178	1.653	0.102	0.105	0.827	0.411	0.183	2.192	0.031	0.346	3.154	0.002	0.007	0.088	0.930
FAM	0.075	0.705	0.483	0.209	1.974	0.052	0.092	0.753	0.453	0.121	1.485	0.142	0.062	0.498	0.620	0.053	0.612	0.542
LEV	0.026	0.244	0.808	-0.022	-0.176	0.861	0.155	1.272	0.207	0.078	0.829	0.409	-0.053	-0.502	0.617	0.006	0.058	0.954
EXT	0.177	1.712	0.091	0.187	1.681	0.097	-0.090	-0.806	0.422	0.014	0.163	0.871	-0.109	-0.970	0.335	0.211	2.459	0.016
CROSS	0.119	1.156	0.251	0.187	1.565	0.121	-0.131	-1.086	0.281	-0.124	-1.222	0.226	-0.265	-2.131	0.036	0.001	0.011	0.991
SIZE	-0.286	-1.703	0.092	0.012	0.079	0.937	-0.041	-0.281	0.779	0.419	3.392	0.001	0.125	0.874	0.385	-0.281	-2.425	0.017
PROFIT	-0.036	-0.328	0.743	-0.041	-0.295	0.769	-0.009	-0.052	0.958	-0.027	-0.315	0.754	-0.063	-0.536	0.593	-0.261	-2.545	0.013
PERFORM	0.156	1.231	0.222	-0.049	-0.395	0.694	0.086	0.503	0.616	-0.059	-0.700	0.486	0.196	1.444	0.153	-0.059	-0.613	0.542
RPTN	0.405	3.907	0.000	0.112	1.041	0.301	0.073	0.650	0.518	0.435	4.764	0.000	-0.080	-0.713	0.478	0.404	4.411	0.000
R Square		0.321			0.251			0.130			0.560			0.225			0.489	
Adjusted R Square		0.198			0.116			-0.025			0.471			0.076			0.398	
Durbin-Watson		1.581			2.031			2.023			1.775			2.407			1.757	
Maximum VIF		3.438			2.436			2.818			2.599			2.045			2.629	
F-Stat		2.612			1.856			0.837			6.352			1.508			5.359	
Signif (F)		0.003			0.004			0.635			0.000			0.123			0.000	

Appendix 4 Additional Regression Analysis – Replacing Country-Factors with Country-Dummies (N=582)

$$RP\_DISC = \beta_0 + \beta_1 BIND_{jk} + \beta_2 BSIZE_{jk} + \beta_3 BEXP_{jk} + \beta_4 ACIND_{jk} + \beta_5 ACSIZE_{jk} + \beta_6 ACEXP_{jk} + \beta_7 CONC_{jk} + \beta_8 FAM_{jk} + \beta_9 LEV_{jk} + \beta_{10} EXT_{jk} + \beta_{11} CROSS_{jk} + \beta_{12} D\_AUS_{ik} + \beta_{13} D\_IND_{ik} + \beta_{14} D\_PHI_{ik} + \beta_{15} D\_SIN_{ik} + \beta_{16} D\_THA_{ik} + \beta_{17} SIZE_{ik} + \beta_{18} PROFIT_{ik} + \beta_{19} PERFORM_{ik} + \beta_{20} RPTN_{ik} + \beta_{+21} INDUS_{ik} + \varepsilon_{jk}$$

	Predicted Sign	MODEL 1 - MSCORE		MODEL 2 - DSCORE		MODEL 3 - OSCORE	
		Std. Coeff.	**t-stat**	**Std. Coeff.**	**t-stat**	**Std. Coeff.**	**t-stat**
(Constant)	?		12.665***		10.004***		11.925***
BIND	+	-0.088	-1.520*	-0.110	-2.055**	-0.072	-1.473*
BSIZE	?	-0.122	-1.944**	-0.081	-1.408*	-0.083	-1.563*
BEXP	+	0.001	0.024	0.015	0.337	0.040	0.992
ACIND	+	-0.002	-0.026	0.009	0.141	-0.045	-0.777
ACSIZE	?	-0.047	-0.894	-0.011	-0.219	0.016	0.367
ACEXP	+	0.064	1.328	0.006	0.126	0.020	0.487
CONC	+	0.004	0.092	0.046	1.094	0.157	4.096***
FAM	+	0.108	2.434***	0.089	2.182**	0.109	2.915***
LEV	?	0.052	1.116	-0.031	-0.724	-0.005	-0.139
EXT	+	0.120	2.849***	0.054	1.383*	0.089	2.510***
CROSS	+	0.011	0.174	0.040	0.700	0.017	0.333
D_AUS	**?**	**0.116**	**1.686***	**0.125**	**1.975****	**0.330**	**5.697*****
D_IND	**?**	**0.014**	**0.202**	**0.124**	**1.915****	**-0.261**	**-4.397*****
D_PHI	**?**	**-0.077**	**-1.065**	**-0.132**	**-1.994****	**-0.207**	**-3.412*****
D_SIN	**?**	**0.180**	**3.084****	**0.092**	**1.707****	**0.074**	**1.511**
D_THA	**?**	**0.010**	**0.166**	**0.226**	**4.029*****	**-0.071**	**-1.381**
SIZE	+	0.039	0.590	0.042	0.692	0.112	2.030**
PROFIT	+	-0.055	-1.161	0.015	0.332	-0.019	-0.466
PERFORM	+	0.021	0.435	-0.004	-0.091	0.050	1.243
RPTN	+	0.189	3.983***	0.318	7.305***	0.237	5.926***
INDUSTRY DUMMIES	+		Included		Included		Included
F-statistic			3.759		8.079		13.362
p-value			<0.000		<0.000		<0.000
Adj R Square			0.117		0.254		0.373

, **, * indicate significance at the 0.01, 0.05, and 0.1 levels (one-tailed test when coefficient is predicted, two-tailed when coefficient sign is not predicted or not in the predicted direction) respectively. ***RP_DISC is the measure of RP disclosure scores, which is Mandatory Score **(MSCORE)** in Model 1, Discretionary Score **(DSCORE)** in Model 2, and Overall Score **(OSCORE)** in Model 3. Five dummy variables are included for the six countries (i.e., D_AUS, D_IND, D_PHI, D_SIN, and D_THA with 1 = companies registered in Australia, Indonesia, the Philippines, Singapore, and Thailand, respectively and 0 = otherwise). For brevity, the results for industry dummy variables are not shown in the table. All other variables are as described in Table 6.13.

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