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Does Board Diversity Affect Directors' Remuneration Disclosure Level?

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ABSTRACT

The present research determines the impact of corporate governance mechanism on directors' remuneration disclosure level and firm value. A total of 200 annual reports were collected from selected companies listed in Bursa Malaysia between 2013 and 2019. Pooled OLS, longitudinal data and 2SLS was carried out to accomplish the objective. The findings showed that board diversity does not significantly impact the directors' remuneration disclosure level. This study also found that gender diversity has positive significant impacts on firm value. This finding deserves the attention of the stakeholders, investors, policymakers, and organizations in modelling a high-level disclosure and governance structure in the corporate environment in enhancing firm value.

Keywords*:* Corporate governance, disclosure, ethnicity, gender diversity, firm value.

1. INTRODUCTION

The 1997 financial crisis in Asia led numerous corporate organizations to collapse, compelling Asian countries, including Malaysia, to call for enhanced transparency. Few factors were recognised as the cause, nevertheless economists have identified the failure of the corporate governance systems as the primary factor (Khalid, 2018). Therefore, in order to enhance corporate governance, the Malaysian Code on Corporate Governance (MCCG) was established in 2000 to stabilise market conditions by prioritizing transparency, followed by series of MCCG in 2007, 2012, and 2017. Nevertheless, according to Forum for a New World Governance (2011) and Transparency International (2016), although Malaysia has made tremendous improvement in MCCG, the country is still rated below average in two aspects, transparency corporate governance. The recent evidence for the lack of urgency on strict corporate governance practice can be observed in the recent debacle of the 1Malaysia Development Berhad (1MDB), which led to a severe information asymmetry and, consequently, the collapse of an entity (Johan, 2022).

The presence of information asymmetry is deemed to be caused by the lack of disclosure where the annual report is prepared by managers to generate better impressions for personal benefits (Haryati & Cahyati, 2015). Information asymmetry rises when managers have more data than other stakeholders (Nasution et al., 2020). Aligning the differences is possible through the execution of a good control mechanism between managers and owners; a loophole that managers can take advantage of in disclosure practice. One mechanism that can reduce the information asymmetry issue is implementing a corporate governance mechanism (CGM) to enhance disclosure practice (Barus & Setiawati, 2015). Particularly, directors' remuneration arrangement is one of the governance methods that primarily aims to synchronize the interest of managers and owners, thus minimizing information asymmetry.

Nevertheless, Segarra-Moliner (2022) highlighted on the fact that remuneration may lead to problems related to substantial information asymmetry if the process of compensating directors is not transparent. Remuneration should be determined based on firm performance and the managers can opt for favourable arrangement and not just for the sake of what is best for the company. In this sense, disclosure of directors' remuneration is an effective measure to resolve the information asymmetry problems between firm owner and managers (Bel-Oms & Segarra-Moliner, 2022). Prior studies have explained the importance of corporate governance towards a positive financial impact. Nonetheless, corporate governance cannot necessarily be associated directly with enhanced firm value (Reguera-Alvarado & Bravo-Urquiza, 2020) but indirectly through the board of directors' decision-making strategies (Castro et al., 2016). Thus, the disclosure of directors' remuneration as stated in firm's annual report as a mediator between CGMs and firm value will be the study's central theme, which will pique the interest of practitioners and academics due to its strategic solution to the information asymmetry issue (Arye et al., 2003).

Gap in the literature is addressed by incorporating the most recent updates to the corporate governance rules, namely MCCG 2012 and 2017 in this study. The updates comprise

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the removal of individual directors' disclosure recommendations in MCCG 2012 and the addition of stakeholder's assessment to evaluate if the directors' remuneration is appropriate according to their work performance in MCCG 2017; which was not investigated in earlier studies (Malak, 2012; Khalid, 2018). The current research enhances the literature in terms of adding to the corporate governance framework by exposing whether differences exist in publicly listed firms' remuneration disclosure practice based on a sampling period from 2013 to 2019 (pre- and post-MCCG 2017). Secondly, this study explores the link between CGM with firm value through a mediating variable, namely directors' remuneration disclosure. Limited studies were conducted on the indirect relationship of directors' remuneration disclosure with CGM and firm value that may assist policymakers to scrutinise the current disclosure regulations.

2. PROBLEM STATEMENT

The lack of enhanced corporate governance practice in companies has led to a stream of negative discernment towards Malaysian corporate governance (Norwani et al., 2011). Evidence of the lack of urgency on strict corporate governance practice can be observed in the recent debacle when Serba Dinamik removed the auditor when the executive was unhappy with the audit findings (The Malaysian Institute of Corporate Governance, 2021). The action contradicts the central purpose of external audits. The dispute should have raised the alarm bells for the seriousness of the matter and the crucial need for a robust corporate governance practice across all companies. Unfortunately, the issue appears to be still ignored (Ahmad & Sulaiman, 2017).

According to Executive Chairman of Securities Commission Malaysia, Datuk Syed Zaid Albar (2021), "there is a strong need for good corporate governance and board leadership, especially as companies navigate the prolonged post-pandemic recovery period." This research focuses to determine how the exposure of the most personal information regarding directors, particularly their salary affects the firm's value. The impact on firm value is examined in the present study since the firm value is critical data in investment decisions (Robiyanto et al., 2019). The issues highlighted lead to the following research objectives i.e., (i) to explores CGM impacts on directors' remuneration disclosure level. (ii) to analyses the impacts of directors' remuneration disclosure level on firm value and (iii) to investigate if directors' remuneration disclosure level mediates the relationship between CGM and firm value.

3. CONCEPTUAL FRAMEWORK & HYPOTHESIS DEVELOPMENT

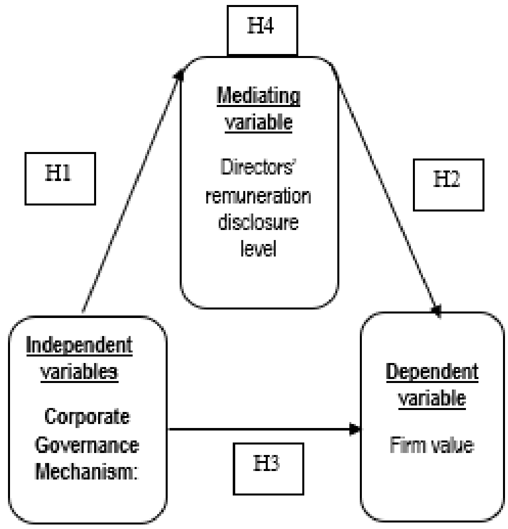

Figure 1. Conceptual framework

This study's conceptual framework is supported by upper echelon (UE) theory. The theory is relevant to this study since it analyses the CGM impacts on the directors' remuneration disclosure level and firm value (El-Deeb *et al.*, 2021; Karim, 2021). The UE theory suggests that demographic values are reasonable and valid to serve as an effective proxy. Thus, board diversity is reasonable in determining disclosure decisions in the annual report (Khalid, 2018).

Previous studies linking corporate governance and disclosure studies in Malaysia revealed a growing, beneficial, and significant relationship over time (Mohd Ghazali & Weetman, 2006; Haniffa & Cooke, 2005). The findings demonstrate that the improvement of corporate governance framework seems to impel greater disclosure after following the regulation for a few years. Considering that effective corporate governance is an important and critical mechanism for firms to determine the reporting of directors' remuneration amount, this study investigates the elements of internal corporate governance that have influence in the process of decision making. Several prior studies found significance between board diversity (Haniffa & Cooke, 2005; García *et al.,* 2018) on disclosure level concerning directors' remuneration in developing markets. Growing pressure has been exerted on firms to address board diversity in developing countries (Hoang *et al.*, 2018; El-Deeb *et al.*, 2021). Therefore, the motivation lies in the board diversity proxy by board ethnicity and gender diversity. Consequently, the recommended hypotheses are as follows:

Hypothesis 1a: Board ethnic diversity has a significant impact on the directors' remuneration disclosure level

Hypothesis 1b: Female directors on the board have a significant impact on the directors' remuneration disclosure level

Past literature in accounting found that disclosure is value-relevant, disputing on several aspects, for instance CGM impede disclosure (Verrecchia, 2001). In Taiwan, Sheu et al. (2010) discovered evidences that comprehensive disclosure of directors' remuneration has significant positive impacts on firm's market value. The extended disclosure on

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overall compensation is more than the minimum mandatory requirements, even with lower transparency levels. Thus, the extended disclosure still contributes to creating market value. Literature suggests that disclosure is linked with higher firm value because investors gain more confidence in a corporation that is more transparent (Botosan & Plumlee, 2002; Sheu *et al.,* 2010). Therefore, the following hypothesis are developed:

Hypothesis 2: Directors' remuneration disclosure level has a significant impact on the firm value

The relationship between CGM and firm performance has been a subject of interest for many researchers. Many researchers found that corporate governance characteristics significantly affect a company's performance (Khana *et al.,* 2021; Torres & Augusto, 2021). Nevertheless, these conclusions might not be applicable to developing nations such as Malaysia. Therefore, this study focuses on examining corporate governance elements in Malaysian public listed firms and the firm value. Several prior studies found significance between board diversity (Ararat et al., 2015; El-Deeb et al., 2021) on firm value. Hence, this study concludes that this corporate governance attributes impact firm value. Thus, the following hypothesis was developed:

Hypothesis 3a: Board ethnic diversity has a significant impact on firm value

Hypothesis 3b: Female directors on the board have a significant impact on firm value

Haniffa and Cooke (2002) stated that information disclosure might be affected by corporate governance because the diverse board hold accountability to conduct and administer the information disclosure of annual report which includes voluntary items (Gibbins et al., 1990). Kinkel (2014) showed that disclosure is a mediating variable for the linkage between corporate governance and firm value. Based on the significance of disclosure aspects (Haniffa & Cooke, 2002; Oh, 2003) in Malaysia's corporate governance and firm value, this research will eventually analyse if the extent of directors' remuneration disclosure acts as a mediator in the association between CGM and firm value.
Hence, the subsequent hypothesis was formed:

Hypothesis 4: Directors' remuneration disclosure level has a significant mediating effect between CGM and firm value.

4. RESEARCH METHODOLOGY

The present study employed content analysis and panel data regression. Information related to remuneration was retrieved from the annual report among corporations listed on Bursa Malaysia from 2013 to 2019 as a sampling period. Bursa Malaysia is an integrated platform that offers various services related to the Malaysian stock exchange. According to Sekaran and Bougie (2013), the sample size should be more than 30 and less than 500 for most research. They also determined that the sample size should be 186 for a population of 750, while the sample size should be 201 for a population of 800. The number of companies listed on the main board of Bursa Malaysia is 741. By excluding banks and other financial institutions due to differences in laws and regulations (Haniffa & Hudaib, 2006), the current study only used a sample size of 200 companies. Stratified random sampling was chosen to ensure certain sectors are sufficiently represented. Microsoft Excel 2013 was utilised to perform the random selection of companies by selecting the function "rand" in mathematical calculation. This technique eliminates bias as it is a computer-generated result. This method was also used by Katmon *et al.* (2017), who also employed secondary data.

Data in this research were analysed using the STATA statistical software version 11 due to its suitability for panel data regression. The primary analysis utilised pooled ordinary least square (OLS). The OLS regression equation was expressed using the following models to determine CGM's effect on disclosure and firm value in Malaysia. These models integrated the theoretical perspectives stated in the literature review and hypothesis development. This is in addition to the control variables of dummies for years and industry classifications. The models are as follows:

Model 1
$DISC_{it}=\beta0+ \beta1ETH_{it}+\beta2FEM_{it}+\Sigma\gamma cControl_{it}+ \varepsilon_{it}$

Model 2
$EVA_{it}=\beta0+\beta1DISC_{it}+ \beta2\ ETH_{it}+\beta3FEM_{it}+\Sigma\gamma c\ Control_{it}+\varepsilon_{it}$

Model 3
$EVA_{it}=\beta0+\beta1ETH_{it}+\beta2FEM_{it}+\Sigma\gamma cControl_{it}+\varepsilon_{it}$

Measurement of variables

Dependent Variables
EVA = Differences between Net Operating Profit after Tax (NOPAT) and the Weighted Average Cost of Capital (WACC)

Independent Variables
ETH = Variation in ethnic diversity (Malay, Chinese, Indian and others) Blau's Index
FEM = Presence of female directors (1 is for the number of female directors on board ≥ 1.Otherwise, the value is 0)

Mediating Variables
DISC = Disclosure of directors' remuneration index

Control Variables
BIG4 = Audited by Big Four audit firms (1 audited by Big Four, otherwise, the value is 0)
FSIZE = Market value per share X number of the outstanding ordinary share
LEV = The ratio of total debt and total assets
GROW = Current year sales ratio to previous year's sales and profit, proxy by earning per share (net income as at year-end over the respective share capital)
ROA = Return on Asset = Net Income / Total Assets

Definition of Disclosure Scoring Index
The aspects of disclosure are: (i) Short-term benefits i.e., cash salary, bonuses, fees and other special allowance, (ii) Long-term benefits i.e., long-term incentive plan, options, grants and termination and (iii) Related process that derives

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the remuneration amount e.g., remuneration policy and narratives of pay-performance link (Muslu, 2010; Riaz et al., 2015).

5. RESULTS & DISCUSSION

The first analysis is to establish remuneration disclosure from 2013 to 2019 using the descriptive analysis followed by pairwise correlation analysis was performed to determine whether there is any autocorrelation between each independent variable and dependent variable (Khalid, 2018). Pooled OLS, longitudinal data and 2SLS was carried out to accomplish the primary objective which is to analyse the effects of CGM on directors' remuneration disclosure level and firm value.

Descriptive Findings

Firstly, the descriptive statistics were performed and the results for the descriptive analysis is presented in Table 1.

Table 1: Summary statistics for all variables from 2013 to 2019

Variable	Mean	Std Dev	Min	Med	Max
Disclosure Index (DISC)	0.509	0.121	0.261	0.522	0.889
EVA	-47.17	469.63	-7884.82	1666.78	1998.64
Ethnic Diversity (ETH)	0.497	0.239	0.000	0.500	1.000
Gender Diversity (FEM)	0.471	0.499	0.000	1.000	1.000
Audit Quality (BIG4)	0.862	0.346	0.000	1.000	1.000
Firm Size (FSIZE)	10.610	0.511	9.436	10.578	11.824
Leverage (LEV)	0.232	0.160	0.000	0.193	0.659
Sales growth (GROW)	0.089	0.203	-0.673	0.067	1.250
Profitability (ROA)	7.672	11.750	-4.957	4.489	72.360

Table 1 displays the variables' descriptive statistics. The mean disclosure index from 2013 until 2019 for directors' remuneration is 50.9% while the range is between 26.1% and 88.9%. The mean for EVA is -47.17. Rakshit, Mitra and Kurmi (2017) posited positive value of EVA creates the shareholders' value whereas a negative EVA indicates that the business firm did not make enough profit to cover the capital charges. The negative result is consistent with EVA mean reported by Al Mamun and Mansor (2013) which was -121.71.

The board members of the companies involved in this study are almost equally balanced in terms of ethnic diversity. A narrow gap between the number of Chinese and Malay board members is somewhat a direct consequence of the government effort as stated in the Twelfth Malaysia Plan 2021-2025 which promotes Malaysia for all regardless of races towards building a better nation (Economic Planning Unit, Prime Minister's Department, 2021).

On the other hand, a detailed analysis in gender diversity exposes the presence of female directors on board. This finding is consistent with an international study that named Malaysia as a country with high increasing rate in appointing women on board among the Asia-Pacific Economic Cooperation (APEC) countries (Corporate Women Directors International, 2015). Female representation across the board indicates that more female directors are qualified to be part of a company's "think tank", strategic team or decision makers. This serves as evidence that gender diversity among Malaysian directors is not simply a "pressure" to comply with the quota outlined by the government but rather focuses on individual qualities.

Next, for the audit quality, most of the firms are audited by Big Four audit firms with an average of 86.2%; an almost similar finding to that of Chau and Gray's (2010) that noted a high proportion of sample firms i.e., 93% being audited by the Big Four in Hong Kong. Meanwhile, other control variables suggest wide spreads that imply the disclosure provisions and sampled firms which had been appropriately selected, therefore reducing the possibility of bias during the selection of sample.

Correlation analysis

Table 2: Pairwise Correlation

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
DISC (1)	1.00								
EVA (2)	0.20	1.00							
ETH (3)	-0.39	-0.17	1.00						
FEM (4)	-0.09	0.26	-0.15	1.00					
BIG4 (5)	-0.01	0.03	-0.02	0.14	1.00				
FSIZE (6)	0.11	0.12	-0.32	0.06	0.03	1.00			
LEV (7)	0.20	0.26	-0.05	0.24	0.11	0.22	1.00		
GROW (8)	0.21	0.14	0.20	-0.02	-0.06	-0.12	0.13	1.00	
ROA (9)	-0.04	-0.04	0.13	-0.01	0.00	0.00	0.06	0.11	1.00

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Any autocorrelation between independent and dependent variables was determined through correlation analysis. Table 2 shows the pairwise correlation in this study. The pairwise correlation enables researchers to observe the relationship's direction (positive or negative) between variables and to detect any multicollinearity issues; a situation in which two or more variables are highly correlated. This however has damaging effects on the results of regression analysis (Hassan *et al*., 2009). Furthermore, multicollinearity problems exist when coefficient value exceeds 0.90 (Hassan *et al*., 2009). This research does not have this problem.

As shown in Table 3, Model 1 presents the OLS regression between CGM elements with remuneration disclosure. Model 2 determines the influence of remuneration disclosure and CGM mechanism on the firm value measured by EVA. Model 3 identifies the influence of the CGM mechanism on firm value. The control variables presented in Table 3 are audit quality (BIG4), firm size (FSIZE), leverage (LEV), sales growth (GROW), and return on asset (ROA).

Table 3: Ordinary least square (OLS) regression result

Variables	MODEL 1 Coef t statistic	MODEL 2 Coef t statistic	MODEL 3 Coef t statistic
Disclosure		82.70***	82.70***
(DISC)		7.84	7.84
Ethnic Diversity	0.00	7.12	7.12
(ETH)	0.23	1.63	1.63
Gender Diversity	0.02	23.73***	23.73***
(FEM)	0.56	2.67	2.67
Audit Quality	0.03**	0.05***	0.05***
(BIG4)	(0.01)	(0.01)	(0.01)
Firm Size	0.05***	0.05***	0.05***
(FSIZE)	(15.28)	(15.63)	(15.63)
Leverage	0.17***	0.16***	0.16***
(LEV)	(0.04)	(0.05)	(0.05)
Sales Growth	0.01	0.01	0.01
(GROW)	(0.02)	(0.02)	(0.02)
Return on Asset	-0.00	-0.00	-0.00
(ROA)	(0.00)	(0.00)	(0.00)
Constant	-0.90***	-6.79	-6.79
	-10.77	-0.54	-0.54
Observations	1400	1400	1400
R-square	0.467	0.356	0.356
Year Effects	Yes	Yes	Yes
Industry Effects	Yes	Yes	Yes

Significant at *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Discussion on CGM and Remuneration Disclosure using OLS

The results from regression in Model 1 illustrate that board diversity has insignificant influence on remuneration disclosure. The current study could not prove that gender diversity affected the remuneration disclosure. Thus, board gender diversity did not contribute to directors' remuneration disclosure based on the selected companies in this industry. This finding parallels the findings from prior empirical studies (Roitto, 2013; Khalid, 2018) and one of the main reasons is because female empowerment phenomenon is still new in Malaysia and their role in information disclosure is still restricted. Another notable finding in this research is the insignificant impact of the board's ethnic diversity on remuneration disclosure. The insignificant relationship is justified by the equality of board ethnicity and the "culture convergence" which can be interpreted through the assimilation of different cultures in Malaysian society; a finding which complements prior study on the country's cross-cultural working values (Rashid & Ho, 2003).

Discussion on the Influence of CGM, Remuneration Disclosure towards Firm Value

Based on Model 2, it was found that the remuneration disclosure is significantly and positively influenced by firm value (EVA). The findings align with previous literature on disclosure and firm value (Bidhari & Siti Aisjah, 2013). The findings imply that firms with more disclosure would obtain higher EVA. Furthermore, this finding provides empirical evidence that firms can enjoy the benefits (higher firm value) by providing more information to the public (Bidhari & Siti Aisjah, 2013). The disclosure acts as communication that links the company to the management and can reduce information asymmetry (Mallin *et al.,* 2014).

Model 3 presents the findings of CGM elements and firm value. Based on the selected samples from non-financial companies listed in Bursa Malaysia, board ethnic diversity was insignificant to firm value. The insignificant finding is in line with Carter *et al.* (2010) and Garba and Abubakar (2014). Besides, the insignificant finding also reflects that board ethnic diversity was not a determinant for firm value. Thus, appointing different ethnicities to the corporate board should be based on other criteria instead of firm values (Carter *et al.,* 2010). The finding of gender diversity's impacts on firm value revealed a positive significance similar to Garba and Abubakar (2014) and Luckerath-Rovers (2013). For instance, the higher the board gender diversity, the higher the EVA. In other words, increasing female participation on the corporate board may result in a higher return on equity gain, where the stakeholder fund's efficiency would increase. Aligned with the UE theory, Khalid (2018) suggested that firms yield better organizational performance as they make more strategic decisions when more variations exist on board.

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Discussion on the Control Variables towards Disclosure and Firm Value

A good quality company's audit has significant positive influence on remuneration disclosure. Azmi et al. (2021) indicated that monitoring the information provided is indeed an audit firm's expertise. The Big 4 assist in maintaining a firm's positive goodwill by providing a thorough and well-analysed annual report in order to instil confidence among the investors, thus increasing the firm's market capitalisation (Azmi et al., 2021). The study found that the firm's size influences the remuneration disclosure, corroborating previous literature findings (Hermalin & Weisbach, 2012; Bowrin, 2013). Branco and Rodrigues (2008) found that big companies are relatively more noticeable and exposed to public scrutiny. Another possibility to explain the findings is that larger firms may be able to devote better disclosure as they have greater resource slack (Liu & Anbumozhi, 2009).

Akin to Lan *et al.* (2013), company leverage was positively significant in this study. The finding interprets that firms with high financial leverage disclosed more directors' remuneration information to enable them to reduce agency costs. Their findings confirmed the agency theory because debt providers tend to protect their interests by establishing agreements and disclosing additional information (Prihatiningtias, 2012). Al-Akra and Ali (2012) posited that company leverage is crucial in the creation of firm value, indicates cashflow and management transparency, as well as can be used as a means to monitor the organisational performance. Furthermore, sales growth and return on assets did not significantly influence the disclosure and firm value. Thus, these two variables have an insignificant role in the directors' remuneration disclosure and firm value.

Panel Data Regression

The analysis was extended to panel data using fixed effect and random effect to attest the pooled OLS regression's reliability. In panel data, companies were observed at several point of time. The model's random effects, which also refer to the companies' specific effects, were actually "random variables" uncorrelated with "explanatory variables". Model 1 present the results for analysis using random effect. In brief, the proxies for CGM elements did not show significant influence to the remuneration disclosure for Model 1.

Fixed effect was another panel data analysis being conducted in this study. The fixed effect model i.e., the companies' specific effect was a random variable allowed to correlate with the explanatory variables. Table 4 in Model 2 shows the results i.e., the variables did not display any substantial influence on the disclosure of remuneration. Finally, the panel data analysis was done to observe the longitudinal influence of remuneration disclosure on EVA. Table 5 presents the results on the regression for remuneration disclosure and EVA.

Table 4: Panel Data Regression

Variables	MODEL 1 Coef t statistic	MODEL 2 Coef t statistic
Ethnic Diversity (ETH)	**0.01 (0.42)**	**0.01 (0.37)**
Gender Diversity (FEM)	**0.01 (0.31)**	**0.01 (0.30)**
Audit Quality (BIG4)	**0.07* (4.25)**	**0.02 (1.41)**
Firm Size (FSIZE)	**0.02* (5.38)**	**0.00*** (1.76)**
Leverage (LEV)	**-0.01 (-0.37)**	**-0.03 (-1.39)**
Sales growth (GROW)	**0.00 (0.11)**	**0.00 (0.21)**
Profitability (ROA)	**0.01 (-0.09)**	**-0.01 (-0.92)**
Panel data Model Type	**Random**	**Fixed**
Constant	**-0.36* (-3.37)**	
Observations	**1400**	**1400**
Wald chi²/ F	**115.43**	**3.02**
R-squared	**0.366**	**0.163**
Year effects	**Yes**	**Yes**
Industry effects	**Yes**	**Yes**

Significant at *** p<0.01, ** p<0.05, * p<0.1

Table 5: Panel Data Analysis for EVA

Variables	MODEL 3 Coef t statistic	MODEL 4 Coef t statistic
Disclosure (DISC)	**0.41 (0.04)**	**28.30** (2.54)**
Ethnic Diversity (ETH)	**6.85 (1.28)**	**6.09 (1.28)**
Gender Diversity (FEM)	**14.51 (1.05)**	**16.14 (1.32)**
Audit Quality (BIG4)	**-2.62 (-1.40)**	**8.91*** (2.85)**
Firm Size (FSIZE)	**-0.86 (-0.35)**	**-.0.86 (-0.37)**
Leverage (LEV)	**2.87 (0.44)**	**4.37 (0.74)**
Sales growth (GROW)	**-0.69 (-0.64)**	**-0.71 (-0.67)**
Profitability (ROA)	**-0.81 (-0.58)**	**1.38 (0.80)**
Panel data Model Type	**Fixed**	**Random**
Constant	**17.97 (1.83)**	**-4.33 (-0.45)**
Observations	**1400**	**1400**
Wald chi²/ F	**0.74**	**28.47**
R-squared	**0.000**	**0.238**
Year effects	**Yes**	**Yes**
Industry effects	**Yes**	**Yes**

Significant at *** p<0.01, ** p<0.05, * p<0.1

Overall, the results of the model that developed from fixed effect and random effect showed a consistent result among the models, whereby there had been no significant relationship between CGM elements and remuneration disclosure. By considering the elements of CGM that are not time-varying variable (Prihatiningtias, 2012), it is unsurprising that the results have shown insignificant relationship between CGM elements and remuneration disclosure in panel data analysis.

Endogeneity Issues

Consistent with Fauzi and Locke (2012), the current study performed a Durbin and Hausman test to check if there is endogeneity problem. The result showed that board diversity (i.e. gender and ethnicity) is not subjected to endogeneity problem. This report continues with analysis for remuneration disclosure and firm value as per Table 6. After identifying the existence of endogeneity issues, the current study employs 2SLS as given in Table 6.

Table 6: 2SLS Regression of Remuneration Disclosure and Firm Value

	Remuneration disclosure 1st Stage 2SLS Coef t statistic	Firm Value – EVA 2nd Stage 2SLS
Disclosure (DISC)		**47.15*** **(6.36)**
Ethnic Diversity (ETH)	**0.01** **(0.68)**	**9.73*** **(2.23)**
Gender Diversity (FEM)	**0.04** **(1.51)**	**27.00**** **(3.07)**
Audit Quality (BIG4)	**0.02***** **(4.56)**	**6.60***** **(4.62)**
Firm Size (FSIZE)	**0.01**** **(2.66)**	**-5.13*** **(-1.77)**
Leverage (LEV)	**0.01** **(0.58)**	**1.33** **(0.34)**
Sales growth (GROW)	**0.00** **(0.46)**	**1.48** **(0.80)**
Profitability (ROA)	**-0.00** **(-0.06)**	**-0.00** **(-0.46)**
Portfolio rank (IV)	**0.11***** **(40.19)**	
Constant	**-5.03**	**-12.63** **(-1.01)**
Observations	**1400**	**1400**
R-squared	**0.724**	**0.331**
Year effects	**Yes**	
Industry effects	**Yes**	

Significant at *** p<0.01, ** p<0.05, * p<0.1

Instrumented: DISC

Instruments: ETH, FEM, BIG4, FSIZE, LEV, GROW, ROA, LAGDISC, INDUSTRY

Endogeneity test had been performed on the regression between remuneration disclosure and firm value. It revealed that endogeneity issues existed in the regression between disclosure and firm value when firm value was measured using EVA. Thus, IV estimator on 2SLS regression had been performed to solve the endogeneity. In this study, portfolio rank of remuneration disclosure had been used as IV for regression between remuneration disclosure and EVA. The finds showed a consistent result with the outcome from OLS regression.

Mediating Analysis Findings

The current study employed the conditions outlined by Baron and Kenny (1986) to assess the effects of mediation on the relationship between CGM and firm value. For the first condition, the independent variable should significantly contribute to mediating variables. In this study, the condition applies to regression between CGM and remuneration disclosure. The second condition states that the independent variable should significantly contribute to the dependent variable. This study involves firm value and CGM in the second condition. The third condition implies that significant relationship between independent and dependent variables has become insignificant or the significant effect is reduced when mediation is inclusive of the regression between both variables. According to Saeed *et al.* (2015), no mediation exists if the direct link is still significant after the inclusion of the mediator. The result shown in Table 7 suggests no mediation effect of remuneration disclosure on the relationship between gender diversity and board ethnicity on EVA because the significant effect has not been reduced.

Table 7: Regression analysis result of remuneration disclosure as a mediator in the relationship between CGM and EVA using steps by Baron and Kenny (1986)

	Step 1	Step 2	Step 3	Type of effect
Independent Variables (CGM)				
Ethnic Diversity (ETH)	**0.00** **0.23**	**10.24**** **2.12**	**7.12** **1.63**	
Gender Diversity (FEM)	**0.02** **0.56**	**30.62**** **3.23**	**23.73***** **2.67**	
Mediator Remuneration Disclosure	**-**	**-**	**82.70***** **7.84**	
F	**30.78**	**5.06**	**7.39**	
R-square	**0.467**	**0.250**	**0.356**	

Significant at *** p < 0.01, ** p < 0.05, *p < 0.1

Discussion on Disclosure that Mediates the Relationship between CGM and Firm Value

This study's mediation analysis has found that the remuneration disclosure does not mediates the relationship between board diversity with EVA. This mediation demonstrates that board diversity directly affects EVA. The direct effect occurs without any mediation on disclosure. In this situation, board diversity is vital as they have a direct effect on EVA. Overall, the mediation analysis reported that the remuneration disclosure does not mediate the relationship between board diversity and firm value.

6. CONCLUSION

Theoretical Implications

The UE theory proposed that the characteristics of top management are influential upon a firm's strategic decisions because of the team diversity. The current study supports gender diversity with firm value by implying that the diversity of board members' characteristics affects the firm value.

Managerial Implications

The directors' remuneration disclosure level was positively significant towards firm value based on the results. This study provides robust evidence of the importance of each information reported by the firm. Thus, this study can be utilised as a reference and reliable document for the management to ensure that the firm is aware of the huge influence exerted by directors' remuneration disclosure level on firm value. This study will also be beneficial to the policymakers, namely Bursa Malaysia and the Securities Commission. Additional effort must be taken in promoting the importance of remuneration disclosure, which indirectly encourages firms to improve their responsibility to the public.

Limitations

Nevertheless, the present study is not without limitations that need to be highlighted and addressed. First, this study solely relied on the annual report to collect data for remuneration disclosure. Other methods, such as media or online resources, can disseminate remuneration disclosure information in this globalised era. Second, the seven-year longitudinal panel data i.e., 2013-2019 could not provide any solid evidence of the extent of the effects of CGM and remuneration disclosure. The selected firms' composition of board did not vary and the change over time. Third, future studies may consider to employ qualitative methods e.g., interviews and observations and not just using quantitative method as a means of data collection and analysis in order to better understand the decision-making process by the board.

Recommendations

This study provides insights that might interest policymakers, practitioners, managers and regulators despite the aforementioned limitations. Moving forward, instead of only using annual reports, future studies can enhance the disclosure scoring index with other disclosure types e.g., press release and remuneration survey. Moreover, this study can be broadened by the future studies by going through a relatively longer period of research. These suggestions are especially vital for those researchers who support Malaysian regulators that are serious in ensuring the directors' remuneration is transparent and follows stakeholders' expectations.

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