

Conference Paper

Does Commitment to Anti-Corruption Matter?

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Abstract

The Malaysian capital market regulators take great efforts to continuously enhance corporate governance codes and practices to improve transparent reporting and enhance board responsibility and investors' protection. In 2017, the Malaysian Institute of Corporate Governance published a report assessing the transparency of reporting by top 100 listed companies in respect of anti-corruption, organizational disclosure, and sustainability. This study uses this unique set of data on scores on anti-corruption commitment, organizational transparency, and sustainability to investigate the association between corporate transparency and firm value, and whether political connections moderate this relationship. Not surprisingly, findings show that listed government-linked companies (GLCs) have higher scores than non-GLCs, such as family and foreign firms. Firms with enhanced anti-corruption commitment are more likely to have higher firm value, and this relationship is stronger for politically connected firms. The implications for investors and regulators are discussed in this paper.

Keywords: transparency, firm value, anti-corruption, government-linked companies.

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1. Introduction

Most emerging markets face challenges to implement credible policy-directives on transparency in financial reporting and anti-corruption measures. Corruption erodes the growth potential of emerging economies and poses major challenges (Transparency International, 2016). These challenges are intertwined with corporate governance. Even large and profitable corporations in emerging markets are more likely to be undervalued because of lower governance level and less transparency. Good corporate governance is key to upgrading competitiveness and access to capital in markets and hence, the significance of transparency and disclosure. OECD (2004) posits that a firm's disclosure of contractual and governance structure leads to a reduction in uncertainty and capital costs by decreasing related risk premium. Furthermore, firms with high levels of integrity and transparency are more likely to maintain their competitive advantage in the global market where unfair or opaque business practices hinder ways to success (Transparency

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International,2016). For example, the Brazilian state-owned oil company, Petrobras was involved in a corruption scandal, which resulted in not only damage to its reputation but also loss of an estimated US\$1.5 billion. The stock prices of Samsung and LG Electronics in Korea were much lower compared to those of global competitors in developed markets, exhibiting a phenomenon known as the 'Korean Discount' (The Economist, 2012), referring to the existence of Korean Chaebols, controlled by a family holding small proportion of stakes, which expropriate other shareholders' wealth and their subsidiaries' value.

Consequently, it is widely accepted that corruption imposes substantial economic costs and economic growth (Mauro, 1995). Many studies examine the impact of anti-corruption campaigns on firm value but find little evidence on the success of anti-corruption campaigns (Ke et al., 2018; Ramalho, 2004; Xu and Go, 2017; Pan and Tian, 2017). However, these studies are event-based, focusing on events such as the anti-corruption campaigns to examine the impact on firm value.

Increasingly, the extant corporate governance literature focuses on the prevalence of family-controlled, institutional owned, state-owned, and politically connected firms. One strand of the literature examines the relationship between ownership and firm value (Lemmon and Lins, 2003; Villalonga and Amit, 2006; Wang et al., 2018; Pan and Tian, 2017; Schmidt and Fahlenbrach,2017). Some argue that ownership structures pose different agency costs (Schmidt and Fahlenbrach, 2017); advantages or benefits (for example from maintaining political ties in business operations (Wang et al., 2018); levels of monitoring (for example, Institutional and foreign ownerships (Boone and White, 2015; Vo, 2015).

The 2018 Corruption Perceptions Index Report by Transparency International shows that Malaysia is ranked 61 out of 175 countries. From 1995 to 2017, the average rank for Malaysia is 44.04 while the highest rank was the 62 in 2017 and the lowest the 23 in 1995 (Trading Economics, 2019). It has a well-established capital market, encompassing both conventional and Islamic financial products. The Malaysian government and business sector strive to attract foreign and domestic investors, sovereign funds to Malaysia. A comparative advantage for Malaysia is its commendable corporate governance policies and practices. Since, the Malaysian Code of Corporate Governance released in 2000 soon after the 1997 Asian Financial Crisis, various reforms have been introduced such as enhanced anti-corruption rules, board responsibility, financial reporting with more information of shareholders and subsidiaries.

The corporate governance climate appears to be improving as the largest Malaysian company, Petronas received commendations in the *Transparency in Corporate Reporting in Emerging Markets Report* (Transparency International, 2016). Despite the institutional efforts, the scandals such as 1MDB and failure cases of corporate governance may raise concerns amongst investors about corporate transparency, especially in respect of companies' commitment to anti-corruption (The measures of commitment to anti-corruption are discussed in the Methodology section).

The state-owned enterprises' (SOEs) or, in the Malaysian context, the government-linked companies' role (GLCs) in the Malaysian economy has been discussed extensively (Gomez et al., 2017). Malaysia is in the fifth rank out of the countries with the highest ratio of SOE to their largest firms (Menon, 2013). Additionally, corporate Malaysia has a high proportion of family firms, which poses a challenge to corporate governance (Liew et al., 2017).

Gomez et al. (2017) found that the Government's involvement, especially through the Minister of Finance Incorporated in the economy is significantly immense based on data up to 2013. In 2013, at least 35 listed firms are linked to the Government and they account for about 42% of the total market capitalization of all listed firms. Ultimately, the Malaysian government is connected to more than 68,000 other companies through these 35 GLCs. However, there is limited evidence on whether investors are concerned about these companies' anti-corruption commitment. The relationship between a firms' commitment to anti-corruption, ownership, and firm value is scarcely examined.

Therefore, this study examines whether there is a relationship between a firm's commitment to anti-corruption and its firm value and whether this relationship is moderated by ownership. The uniqueness of this study is that it draws on published data on the top 100 public listed companies' commitment to anti-corruption. The data is obtained from the *Transparency in Corporate Reporting by Public Listed Companies in Malaysia Report* published by the Malaysian Institute of Corporate Governance in 2017 (MICG, 2017) (hereafter referred to as the MICG Report) (The MICG Report assesses the public disclosure practices of top 100 Malaysian public listed companies based on three dimensions: first, the reporting of key elements of their anti-corruption programmes; second, the disclosure of their company structures and holdings; and, third, the disclosure of sustainability commitment to the United Nation's sustainable development goals espoused, This information was gathered from corporate websites and other publicly available sources by a team of researchers (including the first two authors) commissioned by MICG. Section 3 gives more details).

Prior studies show that firms with good corporate governance have better firm performance, and pay attention to their commitment to anti-corruption. Therefore, this study investigates whether MICG 2017 transparency score as a proxy of corporate governance is associated with firm value and whether this association matters for GLCs and non-GLC firms. The study finds evidence that GLC firms with a commitment to anti-corruption have a higher firm value.

The remainder of this paper is organized as follows. Section 2 describes the Malaysian corporate governance and transparency in reporting landscape and provides brief reviews of the extant literature on transparency in anti-corruption commitment and firm value. Section 3 explicates the research design and data collection. Section 4 reports the results, including robustness test results, and interprets findings. Section 5 concludes with a discussion of the implications and suggestions for future research.

2. Literature Review and Hypotheses

2.1. Background on Corporate Governance in Malaysia

The Malaysian corporate governance landscape changed significantly with the introduction of the Malaysian Code of Corporate Governance (MCCG) in 2000. This code was revised in 2007 (Securities Commission, 2007). The MCCG 2007 called for the board of directors and audit committees to be competent and fulfill their duties effectively (Liew et al., 2017; Securities Commission, 2007). Additionally, to enhance the reforms comprehensively, the Securities Commission (SC) released the Corporate Governance Blueprint 2011 in 2011 (Securities Commission, 2011a). This blueprint focused on the rights of equity holders, responsibility of institutional shareholders, the responsibility of the board in corporate governance, enhancing proper disclosure and transparency, the responsibility of important stakeholders and quality of implementation (Asian Corporate Governance Association, 2012). To expedite the Corporate Governance Blueprint 2011 implementation, the SC made additional amendments to the MCCG 2007 in 2012 (Securities Commission, 2012). The MCCG 2012, replacing the 2007 code, spelled out the procedures for the board of directors to practice good corporate governance in their firms' business activities and related activities inside their firms (Liew et al., 2017; Securities Commission, 2012). In 2016, the SC further revised the MCCG 2012 (Liew et al., 2017; Securities Commission, 2016). The MCCG 2016 introduced additional procedures for good board practice (Liew et al., 2017), namely, the additional approval process for

independent directors with tenure more than nine years and the requirement for large companies to appoint 30% women directors on their boards (Foo, 2017).

Despite all these efforts, good corporate governance remains elusive because the adoption and implementation of these codes are only optional. The SC only required public-listed firms either to comply or to explain any deviation from the codes with regards to their firms’ activities in their annual reports (Securities Commission, 2007, 2012; Wahab et al., 2007). Given the codes are not mandatory, an opportunity arises for Malaysian controlling shareholders to expropriate minority shareholders. Table 1 shows the corporate governance reforms in Malaysia since 1999. Bursa Malaysia, through its listing requirements, proactively enhances corporate governance structure and practices among Malaysian listed firms (Liew et al., 2017). While Bursa’s requirements are mandatory the MCCG codes are voluntary. Bursa Malaysia issued amended Listing Requirement (LR) in commencing on 30 April 2016. The new LR is expected to raise not only the standards of disclosure but also corporate governance practices in alignment with the enhanced international standards of auditing relating to key audit matters and going concern. These enhancements are likely to promote greater transparency of significant matters highlighted in the auditor’s report.

TABLE 1: Corporate Governance Reforms.

Year	Corporate Governance Reforms
1999	Establishment of the Minority Shareholder Watchdog Group (MSWG)
2000	Code of Corporate Governance (MCCG) announced by the Securities Commission Malaysia and adopted by listed companies.
2007	Revision of Code of Corporate Governance <ul style="list-style-type: none"> • strengthening the board of directors and audit committees • Eligibility criteria for appointments of directors and the role of the nominating committee and audit committee.
2011	The Corporate Governance Blueprint 2011 <ul style="list-style-type: none"> • Enhancing shareholder rights, role of institutional investors, board’s role in governance, • Improving disclosure and transparency, role of gatekeepers and influencers and public as well as private enforcement (Asian Corporate Governance Association, 2012).
2012	MCCG 2012 (Revision of MCCG 2007) <ul style="list-style-type: none"> • Principles on structures and processes for companies’ board
2016	MCCG undergoes comprehensive review <ul style="list-style-type: none"> • Change in approval process for independent directors’ tenure more than 9 years and the requirement for large companies to possess 30% women directors on their boards
2017	MCCG 2017 adopted for the first batch of companies that are expected to report their application of the practices in the new code with financial year ending 31 December 2017. A key feature of the new code is the introduction of the Comprehend, Apply and Report (CARE) approach, and the shift from “comply or explain” to “apply or explain an alternative”. This is meant to encourage listed companies to put more thought and consideration when adopting and reporting on their corporate governance practices.

Source: Adapted from Liew et al. (2018)

The Malaysian Code for Institutional Investors 2014, an outcome of the Blueprint of 2011, aiming to improve institutional investors' accountability by disclosing how they have carried out effective corporate governance mechanisms. Institutional investors, one of the key players in capital markets, are able to make an influence on corporate governance of their investee firms (Institutional Investors Council Malaysia, 2016).

The Code gives institutional investors guidance on discharging their stewardship responsibilities to ensure a sustained long-term value to their stakeholders. However, the Bursa Malaysia guideline is subject to judicial review. Hence, listing requirements are not entirely effective, resulting in reduced judicial efficiency (Klapper and Love, 2004; Liew et al., 2017).

Further, Bursa Malaysia launched several Corporate Governance Initiatives to enhance corporate governance practices for listed companies. In 2009 the Minority Shareholders Watchdog Group (MSWG) developed a Malaysian Corporate Governance Index, which aimed to encourage best practices of corporate governance for listed companies. Nevertheless, evidence to suggest that these initiatives have been effective is limited (Liew et al., 2017).

2.1.1. Government-linked and Non-Government Linked Companies: implications for corporate governance

The GLCs'role has been discussed in the extant literature as the Malaysian economy is heavily dependent on these entities. Malaysian GLCs are defined as companies with the primary commercial objective with the Malaysian Government's direct controlling stake through government-linked investment companies (GLICs). (GLICs are Khazanah Nasional, Ministry of Finance, Kumpulan Wang Amanah Pencen (Retirement Fund), Bank Negara Malaysia, Employees Provident Fund, Lembaga Tabung Haji, Permodalan Nasional Berhad, Lembaga Tabung Abgkatan Tentera (Gomez et al., 2017)) Increasingly, these state-owned enterprises remain one of the largest as well as the fastest-growing multinational companies. SOEs face increasing competitions with private firms for resources, business ideas, skills and consumers in international as well as domestic markets.

GLCs in Malaysia take up eight out of the 10 largest listed companies and make up for about 50% of the total market capitalization of the Malaysia stock market (Bursa Malaysia). Therefore, many studies examine the performance of GLCs compared to non-GLCs and their economic impact considering corporate governance mechanism. However, the evaluation of GLCs performance remains controversial over the decades.

Lau and Tong (2008) show that GLCs outperform non-GLCs from 2000 to 2005, while Razak et al. (2011) and Isa and Lee (2016) report that GLCs underperform non-GLCs. Najid and Rahman (2011) show that GLCs generally have lower performance than non-GLC counterparts but the government involvement of Khazanah Holdings' ownership has a positive relationship with firm performance for GLCs. On the contrary, Ting and Lean (2015) find that government ownership has a negative impact on firm performance from 257 listed companies from 1997 to 2009.

These divergent results may be driven by the difference in sample selection and period, controlling variables, and methodology. Additionally, the GLC Transformation Program may not be completely implemented as it was adopted in 2005 to improve governance, financial status, and operational efficiency. The effect of the GLC Transformation Program on firm behavior and performance is not consistent (Bhatt, 2016; Mohamad et al, 2012; Khoo, 2018).

Corporate Transparency in Malaysia

Corporate transparency ascribes the extent to which actions of a corporation are made known to outsiders. Transparency is an important element of corporate governance to deter management's engagement in improper or unlawful behavior as their conduct will likely be subject to scrutiny. To be more transparent, a firm has to adopt accurate accounting methods, disclose relevant complete and timely information, including conflict of interests of the directors or controlling shareholders. Thus, as a principle, transparency, enables a system of checks and balances amongst all stakeholders of the financial reporting process, including the board, management, and auditors (Fung, 2014).

Bursa Malaysia (2018) confirms the regulators focus increasingly on not only businesses behavior and strategy but also the effect of businesses on the economy, environment, and society. The UN Sustainable Development Goals ("SDGs"), the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD") and other initiatives are close to the hearts of the Malaysian regulators. There is a push for business to adopt a comprehensive approach to business management which considers their economic, environmental and social ("EES") opportunities and risks as well as financial performance. The Malaysian capital market regulators are cognizant of these measures to generate long term benefits in terms of business continuity and value creation.

There is a growing interest in transparency in reporting by multinationals (Transparency International, 2016). MICG replicated the Transparency International (2016) and

issued MICG Report 2017. MICG 2017 captures the transparency scores of the top 100 listed firms in Malaysia.

2.2. Literature Review & Hypotheses Development

2.2.1. Transparency and Firm value

A firm's information environment has important implications for investment, liquidity and risk (Balakrishnan et al., 2014). Firms determine their information environments by making voluntary disclosures over and above that required by existing regulations, thus, increasing liquidity. This increased liquidity is a result of reduced information asymmetries among minority and institutional investors. Liquidity has close relations with firm value and so cost of capital may be reduced through voluntary disclosure.

Equity investment is an aspect of major capital markets which requires good corporate governance. According to the definition by Denis and McConnell (2003), corporate governance is a set of mechanisms based on institution and market which motivate and lead the self-interested managers to make decisions for maximizing firm value on behalf of their shareholders. Shleifer and Vishny (1997) define corporate governance as a way of assuring that investors would receive a return on their investment in the financial market. Fundamentally, good mechanism of corporate governance requires credible disclosure by the issuer and legal code for investor protection (Glaeser et al., 2006; La Porta et al., 1997, 1998a, b). Economic growth can be achieved based on capital market development supported by transparent corporate governance mechanism (Levine and Zervos, 1998).

When the credible disclosure by issuers is not transparent, financing via external or internal capital markets will not lead to substantial development of new industries (Gilson, 1996). The institutions supporting disclosure credibility need to comply with legally mandated disclosure requirements and good accounting standards with independent audits and effective enforcement.

In order to improve the credibility of reporting for investors, legal codes for investor protection and responsibility as well as disclosure has been enhanced (OECD, 2004). Investor protection is an important pillar to sustain good corporate governance. In particular, shareholder rights protection is critical to the investment decision of large institutional investors and foreign investor which play a significant role in emerging markets (La Porta et al., 1997).

Prior studies examine to what extent capital market development is related to the corporate governance level, which is subject to legal institutions (La Porta et al., 1997, 1998a, b). The level of corporate governance among countries can be measured in terms of ownership concentration of listed firms, the development of capital markets, corporate payout policies, and access to external finance. The differences in these criteria are related to the legal protection of shareholders and creditors by prohibiting the managers and controlling shareholders from expropriating. From an emerging markets context, the origin of laws and the effectiveness of their enforcement are more likely to be related to the different levels of corporate governance and its reform rather than financial systems such as bank-centered or market-based (La Porta et al., 2000). Consistent with this argument, countries with weaker legal systems exhibit lower average firm-level governance (Klapper and Love, 2004).

Using S&P 500 firms' data from 2012 to 2015, DeBoskey et al. (2018) evidence that a firm's transparency in corporate political disclosures has a significantly negative association with its cost of debt. This association is stronger for firms which are smaller in size with high sensitivity to government economic policy and entrenched CEOs.

In particular, financial reporting and disclosures are the most significant channel to signal firm performance and governance to outside investors. Healy and Palepu (2001) argue that demand for financial reporting and disclosures results from alleviating information asymmetry and agency problem between managers and outside investors. The credibility of management disclosures is enhanced by regulators, auditors and financial intermediaries. Empirical evidence suggests that financial statement information such as earnings, book value is "value relevant" (Lev and Zarowin, 1999; Brown et al., 1999). Furthermore, compensation, loan contracts, and political cost also are the variables to affect accounting decision (Holthausen and Leftwich, 1983; Watts and Zimmerman, 1990; Smith and Watts, 1992; Skinner, 1993). Arguably, voluntary disclosure is associated with proprietary costs, capital market transactions, corporate control market competition, remuneration, and shareholder litigation (Bhushan, 1989; Lang and Lundholm, 1993).

Cheung et al. (2010) question whether transparency matters among Chinese listed companies. They assess the transparency of 100 listed firms in the Chinese stock market using a comprehensive scorecard based on the OECD Principles of Corporate Governance during 2004-2007. Their assessment reveals that a firm's transparency has a significant positive relationship with its market value. Furthermore, a firm's market valuation is related not to the Mandatory Disclosure Index but the Voluntary Disclosure Index. Not surprisingly, firms with higher profitability, overseas-listing, and separation of CEO and board chairman are more likely to disclose information voluntarily.

Yu, Guo and Luu (2018) examine the impacts of environmental, social and governance (ESG) transparency and the extent of ESG disclosure on firm value using a sample of 1996 large-cap companies across 47 developed and emerging countries. They find that the benefits from ESG disclosure outweigh their costs. Using Bloomberg ESG disclosure scores, ESG transparency leads to the reduction in investors' information symmetry and agency costs, which potentially is related to firm value. The evidence that greater disclosure of ESG issues is related to the increase of firm value. Furthermore, firms with a larger size, higher liquidity, higher R&D intensity, fewer insider holdings, and good past financial performance are found to be more transparent in disclosing ESG related information.

Therefore, the following hypothesis is developed:

H₁: There is a positive relationship between corporate transparency and firm value in Malaysian firms.

2.2.2. Ownership and firm value

In Malaysia, GLCs account for 36% of the Malaysian stock exchange's market capitalization and 54% of entities to make up the Kuala Lumpur Composite Index. Considering the market presence of GLCs, the Malaysian government propelled the GLC Transformation Program from 2005 to 2015. It emphasizes 10 initiatives including improvement and enhancement of corporate governance. Family firms are defined as companies controlled by individuals or families holding not less than of 20% voting rights (Chakrabarty, 2009; Liew et al., 2015, 2017) as well as family involvement in their firms' management.

Furthermore, in the Malaysian institutional context, arguably, after the Transmile scandal, corporate reputational effects are seen as positively moderating family controlling shareholders' ownership on firm value. This applies to family firms where the family owns a large shareholding. Family owners with large shareholding would like to improve their reputation as they and their family members can be affected by negative reputation hence incentives for greater transparency in reporting (Gomez, 1999; Loy, 2010; Liew et al., 2018).

Therefore, the following hypothesis is developed:

H₂: There is a positive moderating effect of ownership on the relationship between transparency and firm value.

2.2.3. Corporate transparency, Firm Value and Ownership in Malaysia: Role of political connection

The recent collapse of many firms in the United States signals the importance of information transparency. Information asymmetry, together with managerial incentives may restrain the effective functioning of corporate governance (Jensen, 1993; Miller, 2005). Consequently, corporate governance activities have been accelerated, coupled with a convergence of best practices over the years (Hermalin, 2005).

The extant literature shows that effective corporate governance reduces agency problem, protects shareholders' interest, tunes stakeholders' engagement and resolves the conflicts between shareholders and non-investing stakeholders (Jo and Harjoto, 2011). There is growing evidence that firm-level corporate governance practices are related to firm value (Black et al., 2006a; Durnev and Kim, 2005) and demonstrate the impact of firm-level corporate governance, especially in countries with weaker legal protections for investors (Klapper and Love, 2004). However, there is a difference in optimal governance between developed and emerging markets, and amongst emerging markets (Bebchuk and Hamdani, 2009; Durnev and Fauver, 2007). Black et al. (2012) found that corporate governance index in Brazil predicts the market value of non-manufacturing, small, and high-growth firms. This suggests that the country's institutional context influences the governance of predictive power on firm market value.

2.2.4. Political connections and Firm Value

Wang et al. (2017) examine the relationship between political connections and firm value and find that the termination of political connections negatively impacts firm value by approximately 2% decline. This result may be interpreted that there are benefits from maintaining political ties in business operations.

Niessen and Ruenzi (2009) also investigate politically connected firms in Germany using the information on additional income sources for all members of the German parliament. They find that politically connected firms in Germany are more likely to have a larger size, less risk, lower market valuations, and fewer growth opportunities, but better accounting performance compared to unconnected firms. The politically connected firms significantly outperformed unconnected firms in stock market but the gap was reduced in 2007 when the new transparency law was adopted. This implies that the investors and stock market reflect political connection as significant information for valuation.

Goldman, Rocholl and So (2009) investigate whether political connections of firms in the United States influence their respective stock returns. Using data on the political affiliation (Republican or Democratic party) of board members of S&P 500 firms, they show that the announcement of the nomination of a politically connected individual to the board is followed by a positive abnormal stock return. Specifically, firms connected to the Republican Party reveal value increases whilst those linked to the Democratic Party experience value decreases when the Republican won the presidential election in 2000.

Du and Girma (2010) examine whether political connections influence the performance of private startups in China. They find that firms with political affiliation have higher growth and survival probability while politically neutral startups improve productivity faster.

MICG Report 2017 focused on three criteria: anti-corruption, organizational transparency, and sustainability. Investors perceived the level of corruption in Malaysia has increased, as reported by the 2016 Global Corruption Barometer Survey – Asia Pacific. Therefore, anti-corruption discipline is important to all stakeholders. In addition, Malaysia's top public listed companies operate in other countries where corruption risks are similarly perceived to be high. Organizational transparency deal with full reporting of a listed company's structures and holdings in subsidiaries, associates, and joint ventures. This reporting affect heavily reputation, market valuation, and accountability. Furthermore, disclosure of the processes in the new appointment of directors, the Board's evaluation of its effectiveness as the ultimate decision-making body and how it orchestrates succession planning builds further trust with all stakeholders. Sustainability reporting has the subject of increased regulatory intervention in recent years (Bursa Malaysia, 2018).

Therefore, the following hypothesis is developed:

H₃: If there is a positive moderating effect of ownership on the relationship between transparency and firm value, this positive moderating effect is likely to be stronger in politically connected firms compared to non-politically connected firms.

3. Methodology and Data

The study uses the MICG 2017 data on the Malaysian Transparency Index (Refer to Table 3).

3.1. Malaysian Transparency Index

Following the Publication of the *Transparency in Corporate Reporting – Assessing Emerging Market Multinationals* by Transparency International in 2016, the Malaysian Institute of Corporate Governance embarked on a study to assess the transparency of corporate reporting by 100 largest Malaysian listed companies. This is the first assessment of Malaysian listed companies in term of governance and transparent disclosure. In line with the pillars of corporate governance: ethical behavior, accountability, transparency, and sustainability, as identified in the MCCG 2017.

The MICG report assessed Bursa Malaysia's top public listed companies based on 3 dimensions: Reporting of the company's anti-corruption programme; Organizational transparency with regards to succession planning, Board evaluation of its effectiveness as well as disclosure of company structures and holdings; and Sustainability, particularly with regards to human rights and environmental protection in business. The full list of questions used in respect of each of the three dimensions can be found in Appendix 1.

The assessment was based on information gathered from company websites, annual reports available through Bursa Malaysia and other publicly available sources. All information contained in the MICG report was as of April 2017. The assessment score for firms is referred to as the Malaysian Transparency Index (MTI). Table 2 provides additional details on the index. The MTI index is composed of three sub-indices, which in turn reflect 100 firm disclosure of related information.

The criteria relating to anti-corruption and organizational transparency are consistent with that used in the *Transparency International 2016 Report* (Transparency International, 2016). The same 13 questions were used for the anti-corruption dimension while for organizational transparency, in addition to the eight questions that were used in (Transparency International, 2016), further 3 questions were added in this assessment relating to Board governance practices. The third dimension on Sustainability was introduced in this assessment, given recent regulatory initiatives on sustainability reporting (Bursa Malaysia, 2018). The three categories of disclosure or public announcement of the policies related to the three areas is a signal toward investors and stakeholders though it does not necessarily lead to implementation. The transparency score is scaled from zero to 10, and the weight has given to each of these dimensions are 40% for the anti-corruption program, 30% for organizational transparency and sustainability, respectively to reflect the emphasis and focus desired in this assessment. The lower score indicates that a company has low level of related policy disclosure for each category.

TABLE 2: Malaysian Transparency Index.

Categories/variables		Mean
1. Anti-Corruption Program		
1	Commitment to anti-corruption, extended throughout its supply chain	0.77
2	Commitment to compliance with laws, including anti-corruption laws	0.26
3	Leadership support	0.44
4	Code/policy applies to all employees and directors	0.71
5	Policy applies to agents	0.13
6	Programme applies to suppliers	0.12
7	Anti-corruption training for employees and directors	0.12
8	Policy on gifts, hospitality and expenses	0.41
9	Prohibits facilitation payments	0.19
10	Confidential reporting channel	0.79
11	Prohibition of retaliation for reporting	0.70
12	Regular programme monitoring	0.03
13	Prohibition or disclosure of political contributions	0.18
2. Organizational Transparency & Disclosure		
14	Succession planning for Board and executive management	0.49
15	Annual performance evaluation of board and board members	2.42
16	New appointment of directors process	0.73
17	Disclosure of subsidiaries	1.00
18	Disclosure of % owned in subsidiaries	1.00
19	Disclosure of countries of incorporation of subsidiaries	0.94
20	Disclosure of countries of operations of subsidiaries	0.21
21	Disclosure of associates, joint-ventures	0.96
22	Disclosure of % owned in associates, joint ventures	0.95
23	Disclosure of countries of incorporation of associates, joint ventures	0.90
24	Disclosure of countries of operations of associates, joint ventures	0.24
3. Sustainability (New Criteria)		
25	Publicly stated commitment to respect human rights	0.33
26	Support & respect for the protection of human rights to the supply chain	0.22
27	Due diligence to identify & address human rights on its business operation	0.08
28	Diversity policy	0.61
29	Grievance mechanism for adverse human rights impact	0.20
30	Publicly stated commitment to environmental protection	0.89
31	Report at least 2 indicators of environmental performance	0.59
32	Sustainability taken into consideration in the company's business strategy	0.83
☒ 33	Adopt fair trade principles in its business operations	0.11

Source: MICG 2017

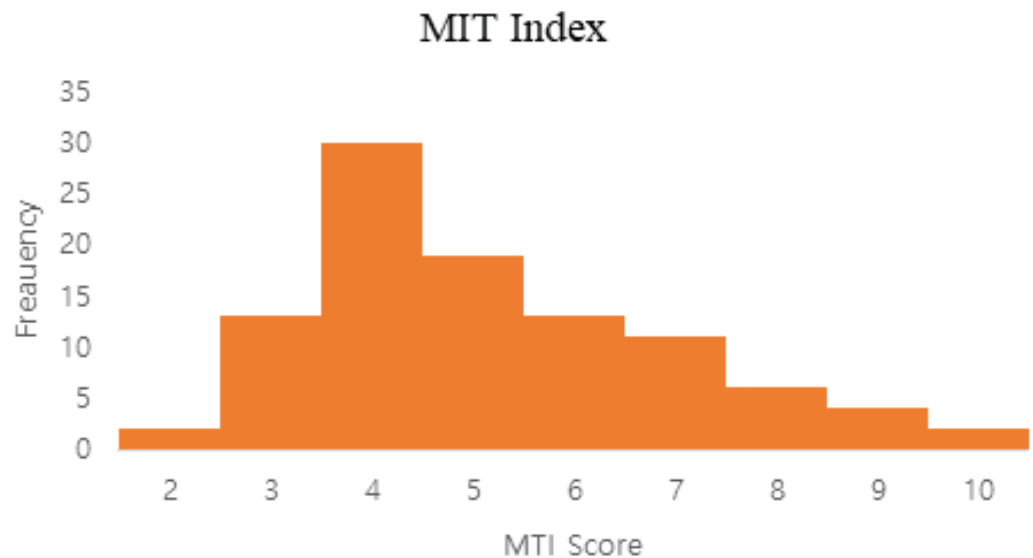


Figure 1: Distribution of Malaysian Transparency Index.

Each sub-category (variable) ranges from zero to 10 and, we sum the sub-category scores depending on its weight to calculate the overall MTI score. Full MTI score is 10 but scores of our sample range from 1.38 to 9.04. Figure 1 provides a histogram showing these scores for the 100 firms and the scores show substantial variation. Table 3 provides data on MTI scores. Panel A provides summary statistics for the index as a whole and each sub-category. The mean and median are 4.64 and 4.31 respectively for the top 100 listed firms. Panel B provides Pearson correlation coefficients between MTI and sub-indices. The correlation remains very high at above 0.50 for all sub-indices. The inter-sub-category correlations are positive, but collinearity between anti-corruption and sustainability remains.

The maximum score in each category is 10, which indicate full marks of each question. The total score is also scaled to 10. Despite the institutional enhancement in corporate governance, the average score of the top 100 listed firms is less than 5 (mean total score is 4.64). The average score in anti-corruption is the lowest amongst the three criteria, indicating a commitment to anti-corruption in terms of reporting such policies relating stakeholders, suppliers and contractors are not well established despite the calls to support the Malaysian Anti-Corruption Commission's initiatives (Star Online, 2017). Most of the firms record higher score in Transparency & Disclosure because Malaysian financial reporting standards relating to consolidated financial reporting, including associated and joint company are mandatory for all listed firms. However, in respect of sustainability reporting, the lowest score is zero, which indicate some firms

TABLE 3: Malaysian Transparency Index.

Panel A. Summary statistics					
☒	Mean	Median	Standard Deviation	Highest	Lowest
Total score	4.64	4.31	1.74	9.04	1.38
Anti-corruption	3.03	3.03	2.66	8.75	0.00
Transparency & Disclosure	7.17	7.69	1.67	10.00	2.31
Sustainability	4.28	4.44	2.44	10.00	0.00

Panel B. Correlation among MTI and sub-category. Significant results (at 5% or better) are shown in boldface.				
☒	Anti-Corruption	Organization	Sustainability	Total score
Anti-Corruption	1	0.26	0.59	0.89
Organization		1	0.21	0.53
Sustainability			1	0.81
Total score	☒	☒	☒	1

Source: MICG Report 2017

have yet to publicly declare a policy for human right nor non-discrimination as well as environmental protection. Table 4 reports the summary statistics of GLC and non-GLCs. Overall, GLCs outperform significantly non-GLCs, and the differences between the two groups are significant in transparency & disclosure and sustainability. This result indicates that GLCs are more likely to adopt the transformation program and guideline enforced or recommended by Security Commission Malaysia and the government-linked investment companies (Government-linked investment companies (GLICs) are major and large shareholders of GLCs. The Malaysian government controls and monitors GLCs through GLICs. Seven GLICs are namely Minister of Finance Incorporated (MOF Inc), Permodalan Nasional Berhad (PNB), Khazanah Nasional Berhad (KNB), the Employees Provident Fund (EPF), Lembaga Tabung Angkatan Tentera (LTAT), Lembaga Tabung Haji (LTH) and Kumpulan Wang Persaraan (Diperbadankan) (KWAP). *, **, and *** indicate significance levels at 10%, 5%, and 1% levels).

However, the higher score of GLCs does not mean that improved governance mechanism is working and good governance results in better performance, but that GLCs adopt apparently more policies for the transparent system rather than private companies.

The dependent variable of firm value is Tobin’s q and ROA(Return on Asset).

$$Y_i = \beta_0 + \beta_1 X_i + \beta_2 (MTI)_i + \mu_i$$

$$Y_i = \beta_0 + \beta_1 X_i + \beta_2 (MTI_sub-categories)_i + \mu_i$$

As firm characteristics affect Tobin’s q, ROA, an extensive set of control variables is included in this study. Log of total assets(size) is used to control for the effect of firm size

TABLE 4: Malaysian Transparency Index: Comparison by ownership.

	Family	GLC	Other	Foreign	GLC vs Non-GLC	Family vs Non-Family	Family vs GLC
	Mean	Mean	Mean	Mean	t-test	t-test	t-test
Anti-Corruption	2.03	4.00	5.63	3.83	-3.10***	4.34***	-4.02***
Organization	7.32	7.28	6.92	6.19	-0.52	-0.93	0.13
Sustainability	3.54	4.77	4.44	5.74	-1.52	3.10***	-2.32**
Total_Score	4.07	5.21	5.66	5.11	-2.63***	3.41***	-3.02***
N	49	38	1	12	☒	☒	☒

and leverage is measured as debt to total assets. For profitability, return on equity (ROE) is used. Capital expenditure is included to control growth. The study includes ownership by the largest shareholder such as government, institutional ownership, and foreign ownership. To consider the Malaysian political economy surroundings, political connection is also included. Board size, independent director proportion to board, big 4 audit firm is also included for governance measurement.

4. Analysis and Results

Table 6 reports the result of regression on firm value. Firms with a smaller size, high lever leverage, and political connection are more likely to have higher Tobin’s q and ROA. Strikingly, the anti-corruption score is positively related to firm value. This indicates that investor is more sensitive to corruption issue in Malaysia rather than disclosure and sustainability. Regarding ownership and political connection, GLC with political connection or family-controlled firms with the political connection has a negative association with firm value while the political connection with enhanced anti-corruption is positive related. This result is consistent with DeBoskey et al. (2018).

5. Conclusion

Transparency in reporting is a core element of the revised corporate governance MCGG 2017. The emphasis on intertwining transparency and corporate governance is important to the development of the capital market and economy. Enhanced corporate governance regulation and practice are propelling the better performance of companies and the financial market. The Malaysian Securities Commission calls for greater transparency and governance requirement and practice compared to any other country in emerging markets. Malaysian Transparency Index in 2017 is a pilot by the MICG to assess the top

TABLE 5: Summary of Statistics of Variables.

Variables	All Sample			GLC	Family	Non	GLC vs Non-GLC	Family vs Non-Family	Family vs GLC
	Mean	Median	STD	Mean	Mean	Mean	t-test	t-test	t-test
Size	16.069	15.865	1.642	16.647	15.922	14.955	-2.82***	0.85	-2.08**
Leverage	0.521	0.511	0.229	0.569	0.475	0.549	-1.68*	1.95*	-1.93*
Capex	0.051	0.028	0.060	0.0394	0.057	0.0605	1.47	-0.99	1.30
ROA	0.073	0.046	0.095	0.0345	0.069	0.1979	3.3***	0.41	2.96***
ROE	0.188	0.096	0.379	0.079	0.1445	0.659	2.28**	1.11	2.03**
Tobin q	2.077	1.383	1.890	1.3805	1.8868	4.744	2.96***	0.96	2.16**
Political_dum	0.278	0.000	0.451	0.4865	0.1489	0.1538	-3.82***	2.84***	-3.57***
Govt_own	11.577	5.000	17.881	22.297	4.0426	8.3077	-5.24***	4.39***	-5.02***
Inst_own	36.124	44.000	24.941	29.324	37.979	48.769	2.15**	-0.71	1.53
Anti-Corruption	3.067	2.813	2.452	3.961	2.114	3.966	-2.81***	4.02***	-3.68***
Organization	7.157	7.692	1.673	7.225	7.357	6.243	-0.30	-1.14	0.38
Sustainability	4.296	4.444	2.479	4.7748	3.5461	5.641	-1.45	-0.69	-2.25**
Total_Score	4.663	4.308	1.740	5.184	4.117	5.152	-2.37**	-3.13***	-2.90***
GLC_dum	0.220	0.000	0.416	1	0	0		4.52***	
Family_dum	0.280	0.000	0.450	0	1	0	4.52***		
For_dum	0.071	0.000	0.258	0.000	0.000	0.923	1.92*	2.26**	
Board_size	7.186	7.000	2.480	8.189	6.553	6.615	-3.29***	2.52**	-3.05***
IDR	1.364	1.200	0.572	1.339	1.409	1.276	0.34	-0.74	0.53
No of Observation	97	☒	☒	37	47	13	☒	☒	☒

Note: Size is log of total asset and leverage is total liability to total asset. Capex is capital expenditure to total asset. Cash is cash holding to total asset. Current liability and long-term debt is scaled by total asset. ROA and ROE is net income to total asset, equity respectively. Tobin's q is equity and liability market value to total asset. Political_dum has 1 if firm has political connection, otherwise zero. Govt_own is government ownership and Inst_own is institutional ownership (%). GLC_dum has 1 if it is government-linked company, otherwise zero. Family_dum has 1 if family ownership is more than 20%, otherwise zero. For_dum has 1 if foreign ownership is largest shareholding, otherwise zero. Board_size is total number of board member and IDR is independent directors' ratio. Big4_dum has one if firm uses one of big 4 audit firms, otherwise zero. *, **, and *** indicate significance levels at 10%, 5%, and 1% levels.

100 listed firms in terms of corporate governance adoption and disclosure. The results show that the positive relations between corporate governance and market value for the firm, especially with better disclosure of the firms' policy on anti-corruption initiatives rather than financial or sustainability disclosures.

This research has limitations of sample selection bias, one-year data, endogeneity, and omitted control variables. Further research may employ more variables to improve the research model. However, the study implies that commitment to anti-corruption programs and publicly disclosing this commitment does matter to investors and GLCs

TABLE 6: Regression on Firm Value.

Variable	Tobin's Q				ROA			
Intercept	10.221	***	10.063	***	0.499	***	0.477	***
□	(4.23)		(4.43)		(3.68)		(3.81)	
Size	-0.601	***	-0.620	***	-0.025	***	-0.026	***
□	(-5.29)		(-5.8)		(-3.98)		(-4.4)	
Leverage	1.926	**	2.563	***	0.003	☒	0.036	
□	(2.59)		(3.56)		(0.06)		(0.91)	
Capex	1.807		2.022	☒	-0.005	☒	0.036	
□	(0.73)		(0.85)		(-0.03)		(0.28)	
Political_dum	-0.209		3.598	***	0.003	☒	0.237	***
□	(-0.6)		(3.15)		(0.15)		(3.76)	
Govt_own	-0.0012		-	☒	-	☒	-	
□	(-0.11)		0.0008		0.0008		0.0006	
Inst_own	0.0002		0.0075	☒	-	☒	0.0002	
□	(0.03)		(1.01)		0.0002		(-0.99)	
GLC_dum	-0.477		-0.077		-		0.0002	
□	(-0.34)		(-0.06)		(-0.49)		(0.41)	
Family_dum	-0.119		0.337		-0.053		-0.022	
□	(-0.09)		(0.26)		(-0.68)		(-0.3)	
For_dum	1.317		1.024		-0.037		-0.013	
□	(0.91)		(0.75)		(-0.47)		(-0.18)	
Board_size	-0.107		-0.135	*	0.045		0.028	
□	(-1.47)		(-1.93)		(0.56)		(0.37)	
IDR	-0.108		-0.211		-0.004		-0.006	
□	(-0.38)		(-0.76)		(-1.04)		(-1.52)	
Anti-Corruption	0.167	**	0.148	*	-0.012		-0.017	
□	(2.13)		(1.97)		(-0.73)		(-1.1)	
Organization	0.017		0.015		0.008	*	0.007	
□	(0.19)		(0.18)		(1.88)		(1.63)	
Sustainability	0.107		0.119	*	0.002		0.003	
□	(1.43)		(1.7)		(0.33)		(0.53)	
Inst_own*political_dum			-0.016		0.003		0.003	
□			(-1.31)		(0.73)		(0.89)	
GLC_dum*political_dum			-3.345	***			-0.001	
□			(-3.07)				(-0.84)	
Family_dum*political_dum	0.522		-3.913	***			-0.239	***
□			(-3.48)				(-3.99)	
Industry Dummy	yes		yes		yes		yes	
Adj R-Sq	0.5479		0.603		0.4356		0.5229	

Note: All variables are described in Table 5. *, **, and *** indicate significance levels at 10%, 5%, and 1% levels.

with such anti-corruption program disclosures show a stronger association between anti-corruption transparency and firm value. Public-policy makers and regulators seeking to enhance corporate political disclosure transparency might take it into account to establish a regulation that a company requests or advised to adopt these best practice for an improved corporate governance mechanism

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