Corporate Governance and Voluntary Disclosure: A Literature Review

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Abstract

This research paper will address the interrelationship between corporate governance and voluntary disclosure. In fact, understanding the mechanism of corporate governance plays fundamental role in clarifying the determinants of corporate governance and the level of disclosure. More specifically, the main focus of this paper is to understand how both internal and external governance mechanisms impact the information disclosed in annual reports. It will also answer do mangers tend to disclose less or more. Furthermore, it will examine the degree of compliance with the governance regulatory requirements. Furthermore, the ultimate objective of this study also is to address how corporate governance can influence information asymmetry between managers and stakeholders.s the footnote at the bottom of this column.

Index Terms—Corporate Governance, Voluntary Disclosure

Introduction

Due to the numerous scandals that have happened around the world, all listed firms are required to produce reports such as the Business Roundtable [1997] and Sarbanes Oxley Act [2002] in the US in order to regulate management system and protect shareholders' interests. It is very important for firms, in order to be internationally recognized and attract the foreign investment, to adopt accepted standards of corporate governance [Al-Janadi, et al, 2013]. Nowadays, transparency has become a critical concern for investors [Parsa, et al, 2007]. Due to the rapid growth and increasing the need of transparency by providing information more extensively, it is crucial to proposed new regulations in order to work in behalf of investors. Such these provisions can help in monitoring business and mitigating the risk. However, investors might lose their confidence gradually, because of the weak of corporate governance in many firms.

The corporate governance system in some developing countries has taken a further step to strengthen the root of their governance practices. According to Al-Janadi, and Haj Omar [2013] the corporate governance practice in the some countries located in the Middle Eastern countries as well as North African countries which known as [MENA] have been supported by international corporate governance organizations. It is known that the regulations vary from country to country, as well as, the information disclosed varies from firm to firm. Generally, the information released could be non-financial and financial information, related to the board of directors, management discussion and analysis, which known as [MD& A] and forward-looking information [Poh-Ling& Taylor 2013].

Voluntary disclosure, as an external factor, can contribute in controlling managers, protecting stakeholders, and decreasing agency costs causing by information asymmetry between managers and stakeholders. Giving this important role of voluntary disclosure policy, several studies have been found in order to determine the potential effects of the practices of voluntary disclosure in both developed and developing markets.

Firms are required to disclose information based on several theories such as stakeholder theory and others will be discussed later in section. In fact, these different theoretical views have different arguments. However, all of them agree that firms release information mainly for one group of users such as creditors, shareholders, analysts and consultants who benefit from this useful information when they make any crucial decision. The desirable goal of most firms is to boost their firm's value by enhancing the disclosure and provide additional information in their reports [Rouf, 2011].

Majority of studies that address the relation between the level of voluntary disclosure and corporate governance mechanism, ownership structure, or the characteristics of firm especially are in some developed countries [Bokpin and Isshaq, 2009]. Only a few of them focus on emerging markets. Moreover, considerable research papers have been examined in order to determine elements that have impacts on voluntary disclosure. These elements are; board size, role duality; audit Committee, ownership Structure and family Control [Barako, 2007; Kent et al, 2008; Donnely et al, 2008; Samaha, 2010; Rouf, 2011]. Research papers have concluded two different views regard the board size as an important factor. The first view is that the size of board has significantly negatively or positively affected the other factors [Rouf, 2011]. The second view is there is no material effect on the interrelationship with the other factors [Cheng and Courtenay, 2006]. Role duality remains a controversial topic long time ago. Based on agency theory, some researchers suggested the separation between these two positions. While others suggest that the two position to be held by one person [Rouf, 2011]. This paper will highlight some advantages and disadvantages of the separation between chairman and CEO in the board. The overall objective of these factors as well as the level of voluntary disclosure can contribute in mitigating information asymmetry voluntary disclosure. To avoid this problem, we need additional rules that can control voluntary disclosure behind mandatory disclosure. Countries such as Canada the US and UK where investors have good corporate practices can benefit from the governance disclosure which as complement factor to corporate governance. More clarifying, within an effective legal regime, voluntary disclosure about corporate governance could be more credible [Cormier, et al, 2010].

Body of Paper

The Research Problem

- What is the interrelation between voluntary disclosure and corporate governance?
- To what extent companies tend to release information in their financial reports.
- Is information closely linked to mandatory disclosure or not?
- Which determinants other than investor's need of information impact the quantity and quality of voluntary disclosures?
- What is the influence of corporate governance on asymmetry of information?
- How to avoid information asymmetry between managers and stakeholders?

Research Objectives

- To identify factors that affect voluntary disclosure.
- To examine the relation between corporate governance the extent of voluntary disclosure.
- To analyze the impact of corporate governance practices on information asymmetry.

Data Collection

The data of this study was collected by examining approximately 20 published research papers in Accounting Journals from the period 2006 to 2016. Table 1 shows the number of articles examined in this study and from which journal were published. Based on these research papers conducted the mechanism of corporate governance that have a possible impact on the level of voluntary disclosure. Moreover, the paper will discuss whether managers tend to disclose less or more. It will also examine to how extent firms comply with the governance regulatory requirements. In order to keep an eye on the interest of shareholders and enhancing the transparency of the information released in annual reports, as well as, avoiding information asymmetry.

Table [1] Articles Used in the Study

	Study	Topic	Research site	Findings
1.	Adelopo; Ismail [2011]	"Voluntary disclosure practices amongst listed companies in Nigeria"	52 Negerian listed firms	Positive relations between voluntary disclosure and the size of firm positive relation between the performance of firm and voluntary disclosure
2.	Akhtaruddin, M., Hossain, M. A., et al.[2009]	"Corporate Governance and Voluntary Disclosure in Corporate Annual Reports of Malaysian Listed Firms"	105 listed Malaysian firms	Positive relations between board size and voluntary disclosure. positive association between the percentage of independent non-executive directors on the board and voluntary disclosure Positive relation between amount of outside ownership and the level of voluntary disclosure.
3.	Al-Janadi, Y., Rahman, R. A., et al. [2013]	"Corporate Governance Mechanisms and Voluntary Disclosure in Saudi Arabia"	87 Saudi listed firms	The effectiveness of corporate governance as a mechanism to provide users with sufficient information.
4.	Al-Shammari, B. & Al-Sultan, W. [2010]	"Corporate governance and voluntary disclosure in Kuwait"	170 Kuwaiti listed firms	the existence of audit committee is significantly related to the level of voluntary disclosure
5.	Barako, D. G. [2007]	"Determinants of voluntary disclosures in Kenyan companies' annual reports"	54 Kenyan listed firms	Disclosure is influenced by corporate governance characters, ownership structure and firm characteristics The size of firms in agricultural sector are significantly related to the voluntary disclosure
6.	Ben Othman, H. & Zéghal, D. [2010]	"Investigating Transparency and, Disclosure Determinants at Firm-Level in MENA Emerging Markets"	216 listed firms 13 MENA emerging markets	higher level of transparency and disclosure in the information technology sector
7.	Bokpin, G. A. & Isshaq, Z. [2009]	"Corporate governance, disclosure and foreign share ownership on the Ghana Stock Exchange"	All Ghanaian listed firms	Positive association between firms disclosures and foreign share ownership
8.	Chakroun, R & Matoussi, H. [2012]	"Determinants of the Extent of Voluntary Disclosure in the Annual Reports of the Tunisian Firms"	144 Tunisian listed firms	Firms disclose voluntary information directly linked to mandatory disclosure rather the one not directly linked
9.	Chau, G. & Gray, S. J.[2010]	"Family ownership, board independence and voluntary disclosure: Evidence from Hong Kong"	273 listed firms in Hong Kong	Significant interaction between independent chairperson and the level of voluntary disclosure
10.	Cheng, E. C. M. & Courtenay, S. M. [2006]	"Board composition, regulatory regime and voluntary disclosure"	104 listed firms in Singapore	A high percentage of independent directors on the board are related with high extent of voluntary disclosure.

11.	Cormier, D., Ledoux, M., Magnan, M., & Aerts, W. [2010]	"Corporate governance and information asymmetry between managers and investors"	131 listed Canadian firms	The independence of board has a significant impact on the level of voluntary disclosure
12.	Donnely, R. & Mulcahy, M. B. 2008	"Board structure, ownership, and voluntary disclosure in Ireland"	51 listed Irish firms	Positive relation between voluntary disclosure and the number of nonexecutive directors on the board
13.	Boesso, G. & Kumar, K. [2007]	"Drivers of corporate voluntary disclosure: A framework and empirical evidence from Italy and the United States"	72 listed firms in Italy and USA	The quantity and the quality of voluntary disclosure affected by the emphasis of firms on investors management, relevance of intangible asset, and the complexity of market
14.	Ismail, T. & El-Shaib, N. 2012	"Impact of market and organizational determinants on voluntary disclosure in Egyptian companies"	100 Listed Egyptian firms	impact of market and organizational determinants on the voluntary disclosure level
15.	Kent, P. & Stewart, J. [2008]	"Corporate governance and disclosures on the transition to international financial reporting"	1000 listed Australian firms	Findings useful for firms that are affected by the transition to IFRS.
16.	Liu,Y. Valenti, A. & Chen Y.[2016]	"Corporate governance and information transparency in Taiwan's public firms: The moderating effect of family ownership"	516 listed firms in Taiwan	a significant relation between positive the quality disclosure and board independence
17.	Parsa, S; Gin Ch; Ewere I. [2007]	"Disclosure of governance information by small and medium-sized companies"	89 listed firms from AIM	Positive interaction between independent board of directors and the extent of disclosure for large firms
18.	Rouf, A. & Harun, A.-A. [2011]	"Ownership structure and voluntary disclosure in annual reports of Bangladesh"	94 samples of Bangladeshi listed firms	the level of voluntary disclosures is negatively related with a higher management
19.	Samaha, K. [2010]	"Do board independence and audit committees motivate disclosure on different corporate governance information categories in the annual reports in developing countries? "	30 listed Egyptian firms	Corporate governance is affected by the independence of board which is consistent with a complementary relation between independent directors and level of disclosure
20.	Zalan, M. K., Fard, H. V., et al. [2013]	"A study on the effect of voluntary disclosure quality on independent auditors' acceptable opinion of listed companies in Tehran stock exchange"	123 listed firms in Iran	No relation between the quality of voluntary disclosure and the type of audit firm type and the independent auditors' acceptable opinion presentation. a positive relationship between firm size and independence of board of directors

TABLE [2] PRESENTS THE JOURNALS THAT PUBLISHED SOME ARTICLES THAT WERE COVERED BY THIS PAPER.

Table [2]: List of Journals

Journal	Numbers of Papers
Advances in Accounting	1
Research Journal of Finance and Accounting	1
The Journal of Applied Management Accounting Research	1
Managerial Auditing Journal	1
The international journal of business in society	1
International Journal of Disclosure and Governance	1
African Journal of Business Management	1
Corporate Governance: An International Review	1
Accounting and Management Information Systems	2
Journal of International Accounting, Auditing and Taxation	1
International Journal of Accounting	2
Meditari Accountancy Research	1
Accounting, Auditing & Accountability Journal	1
Standards accounting & finance	1
Journal of Management & Organization	1
Journal of Accounting and Public Policy	1
Review of Economic & Business Studies	1
International Research Journal of Finance and Economics	1
Academic Journal of Accounting and Economic Researches	1
Journal of Applied Accounting Research	1
Total	21

Data Evaluation

According to Taylor [2013], the pattern of financial risk management disclosure has a major association with how the structure of corporate governance is strength. Prior studies have concentrated on the determinants of the practice of voluntary disclosure. However, most of these papers have examined some conventional factors such as the size of firm, leverage, profitability and the type of industry Poh-Ling and Taylor [2013] said.

Key Study Variables

Prior studies have conducted regard disclosure focusing on several factors affecting the extent of voluntary disclosure. The factors are corporate governance, ownership structure, and firm chrematistics. It is critical to analyze all these factors. However, this study will focus only on corporate governance mechanisms.

Importance of Voluntary Disclosure

The information released by managers in the annual reports is mandatory, which is required by accounting standards or regulatory bodies. However, there is need for the users of financial reports for additional information about the financial position of firms. For this reason, voluntary disclosure is an important channel that provides additional information.

Corporate Governance

Corporate governance is the way of how to protect stakeholders from expropriation conducted by managers. This can help stakeholders to disclose additional information, which can reduce asymmetric information. The transparency of corporate has a fundamental role in mitigating information asymmetry between managers and their investors. It enables them to supervise the performance of firms [Madhani, 2014].

Ownership Structure

Nowadays, in most firms there is separation between owners and managers. This can be interpreted by agency theory. Previous research papers found argument result from the effect of ownership structure on the extent of disclosure, such as [Barako, 2007; Wang et al., 2008; Bokpin et al., 2009]. For instance, Barako found a negative relation between disclosure and ownership concentration [Barako, 2007]. While others scholars found a significant association between these variables.

Firm Characteristics

Group of prior research papers in developed or developing countries have provided some evidence that the extent of voluntary disclosure can be influenced positively or negatively by firm characteristics, while the other found no major effect between the characteristics of and the extent of voluntary disclosure [Barako, 2007; Wang, 2008; Rouf, 2011]. Several studies in some developed countries such as the USA, the UK and other European countries, have found the impact of firm characteristics such as firm size, firm age, and the type of industry on the level of voluntary disclosure can be different among countries. The reason behind that is each factor has unique impact based on which area the study conducted.

Theories of Voluntary Disclosure

Prior studies have applied the agency theory while testing hypotheses of the level of voluntary disclosure and the characteristics of corporate governance or the characteristics of firms [Al-Shammari & Al-Sultan, 2010]. While other studies applied other relevant theories such as stewardship theory, legitimacy theory, capital need theory, stakeholder theory, political cost theory and signaling theory. Both signaling theory and agency theory endorse the separation between owners and managers and encourage them to release information because of market pressure. However, both of these theories have been critiqued regrading that most managers are acting in behalf of their self-interest. There are several critiques about stakeholder theory. “The stewardship theory developed by Donaldson in 1985 is better suited to the peculiarities of family businesses. For this type of business, the family project guides the actions of the family members who are involved in their company's management” as Chakroun & Matoussi stated [2012]. According to information economics theory, it stated that voluntary disclosure can reduce information asymmetry between stakeholders and managers [Cormier, et al, 2010].

Legitimacy theory is part of political economy theory, which refers to the idea that the legitimacy of a firm to be run in society based upon an implicit social contract between firms and society. Managers try to confirm that their firm complies with its social contract by running within expectations of the public. The suggestion linked to managers who act unethically by getting incentives to disclose information that indicates that the firm does not break the code of conducts relating to the expectations of society [Kent, et al, 2008].

Empirical studies on total voluntary disclosure

Chau and Gray [2010] examined the association between voluntary disclosure and family ownership and board independence as well as the impact of an independent chairperson on 237 listed firms in Honk Kong 2002. Another study conducted in another country in Asia, the data of this study is collected from periods [1996-2006] in the evolution of Malaysian financial accounting. This timeline represents three different parts: pre-Asian financial crisis period, post-crisis, and post-Enron. By selecting randomly sample of 100 Malaysian listed firms from a total of 300 firm over years, the study was done. "The criteria used for the sample as follow:

- Availability of annual reports of companies for all the three periods;
- Companies selected in 1996 must remain listed on the stock exchange in the other periods.
- all banks, unit trust, insurance and finance companies are excluded from the sample due to different regulatory requirements; and
- 20 firms are chosen from each of the five key industry categories in Malaysia using stratified random sampling techniques" Poh-Ling et al. [p.10]

Corporate governance mechanisms

Corporate governance might affect the level of disclosure. Many scholars have put considerable attentions to evaluate this relationship between these two variables by evaluating some factors such as audit committee, the independent non-executive]directors, the size of the board, role duality and family members control [Barako, 2007; Rouf, 2011; Akhtaruddin, 2009].

Non-executive directors

In the business world, there are two types of directors can involve in different type of business activities. The first type of directors [insiders] also known as executive directors have more responsibilities than the other type. For instance, they are mainly accountable for day-to-day operations of firms. Usually, they work as mangers of finance or marketing activities or they are the owner of the firm. The second type of directors is non-executive directors [outsiders]. They are not a part of the team of management [Akhtaruddin, 2009]. The primer goal of the board of directors is to help in protecting the interests of stakeholders. Some board of directors instead of trying to work for the best interest of stakeholders, they might game financial records and get involved in Fraud activities. The reason behind that is their desire to boost their compensations. Therefore, agency conflicts might arise. To be more effective, board directors should have at least a higher percentage of non-executive directors [Al-Janadi& Rahman, 2013]. Some researchers have drawn a conclusion that there is a positive relation between the percentage of non-executive directors and the total number of the members in the board [Parsa, et al., 2007; Akhtaruddin, 2009; Liu, et al 2016]. Based upon the agency theory that requires having a larger number of non-executive on the board, it will provide the power to monitor management to release additional information in their annual reports [Al-Janadi& Rahman, 2013]. Some researchers conclude that when board has higher proportions of non-executive members that might reduce financial statement fraud [Madhani, 2014].

Audit Committee

Another important variable from researchers prospective is Audit committee. Due to their role in participating in corporate scandals happened across the world. The existence of the audit committee will enhance the confidence in financial statements and provide information that is more accurate that free from errors [Rouf, 2011]. According to Al-Shammari and Al-Sultan [2008]:

"The existence of an audit committee may explain some variation in the level of voluntary disclosure. The board usually delegates responsibility for overseeing financial reporting to the audit committee to ensure the quality of financial accounting, control systems and the annual report [Collier, 1993; DeZoort, 1997]. McMullen [1996] reported that audit committees are associated with reliable financial reporting such as reduced incidence of error and irregularities" [p.286]

Hence, the law in Kuwait does not require firms to have an audit committee or any other type of committee.

Board Size

Due to the importance of board size, it has received a considerable attention from researchers. There are two different perspectives regarding this issue. Al-Janadi & Rahman stated that there is a controversy supporting the idea of rising the number of board size. The other view is most of codes of corporate governance around the world pay a considerable attention that the board must be comprised by reasonable number of board members [Homayoun & Rahman, 2010]. The size of board has significantly affected the information disclose in the annual reports [Al-Shammari, 2010].

Role Duality

Role duality remains a controversial issue. The two positions CEO and chairperson to be held by the same person at the same time might have a significant impact. Based on agency theory, combined both positions might affect the board's monitoring and senior managers as Al-Shammari & Al-Sultan [2010] mentioned in their study. It will lead also to create align to incentives. Therefore, because of their dominance over board, they may involve in unethical conducts [Rouf, 2011]. For instance, in Kuwait as Al-Shammari reports in his study, the same person may hold chairperson position of the board and CEO [Al-Shammari; et al, 2010].

Audit Firm

Prior study found audit firm could affect the extent of disclosure. He found a significant relation between the size of the audit firm and the level of disclosure [Kent & Stewart 2008]. According to Zalan et al. [2013], firms audited by small audit companies have poor quality than other firms. Scholars such as [Aljanadi et al.,2013, Hassan et al.,2013] found in their studies that there is a significant relation between the size audit firm and the level of disclosure, while others scholars such as Chau and Gray [2010], have found no significant relation between them. To avoid agency costs, researcher suggests that companies should be audited by a big audit firm Adelopo [2011].

Corporate governance requirements

As Zeghal, and Ben-Amar [2011] stated in their study that Canadian stock markets like US stock market are well developed and have a high level of protecting shareholders. However, there are some differences between each regime. As shown in Table 1 the comparison between the US and Canada corporate governance regimes.

Scholars have tried to consider the differences recognized in voluntary disclosures across different national background. In the past, there is no clear understanding about the factors affecting voluntary disclosure practices across countries because the evidence of the research is mixed [Boesso et.al 2007].

In most emerging markets such as Kuwait or Saudi Arabia, there are limitations regarding legislation for disclosure requirements. For instance, in case of Kuwait, according to Law 15,that have 12 provisions of corporate governance, focuses on certain points such as how to elect the boards of directors; board vacancies; the number of meeting during the fiscal years; their responsibility for the firm and shareholders [alshammeri, 2008]. Several of examples of some provisions for Kuwaiti listed firms; each firm must have at least three directors, and renewable conditions of no more than 3 years. Directors are allowed to hold temporary positions in the firm, but do not address how to make balance between the two types of directors. However, these provisions do not mention any comment about the percentage of family members on the board.

As Barako reports in his study about Kenyan listed firms that, the Kenyan Centre for Corporate Governance [CCG] is the major foundation that leads the corporate governance bodies in Kenya. "As a consequence, in 2002 the Kenyan Capital Markets Authority [CMA] issued a mandatory Corporate Governance code for public listed companies, modelled on the CCG principles for corporate governance in Kenya. Three years after, CCG issued a draft guideline on reporting and disclosures in Kenya. The focus of this draft is on three non-financial disclosure factors such as board composition, ownership structure and corporate social responsibility" [Barako, 2007, p.115].

In the case of Tunisia, although the existence of formal rules for the financial reports setting by the code of commercial companies, accounting system of firms and regulation of the Financial Market Council, none of Tunisian firm was punished for its non-compliance with rules [Chakroun, 2012].

Table [3] Comparison between US and Canadian corporate governance regimes

	US	CANADA
Board Independence	Required	Recommended
Separation between CEO and chairperson roles	Not required	Recommended
Existence and independence of audit committee	Required	Required
Existence and independence of compensation committee	Required	Recommended
Existence and independence of nominating committee	Required	Recommended
Existence and independence of corporate governance committee	Required (all members must be independent directors)	Not required

The Gap in Previous Literature Studies on Voluntary Disclosure

Most of prior studies in developed countries where have restricted corporate codes. However, other emerging markets such as in Kuwait does not apply the codes to all listed firms. Another important aspect is that most studies focus on one theory such as agency theory, signaling, or stakeholder theory. However, other studies have considered more than one theories to apply them to their studies.

Several papers have addressed some factors of voluntary disclosure, like corporate governance, ownership structure and the characteristics of firms all in one study. While others have focused on one aspect to conduct their studies, we consider that it is more accurate to evaluate all factors. Another noticeable point is that that some of the studies focus on financial sector and disregard the non- financial sector. The reason behind that is each sector applies different rules.

Discussion & Analysis

According to Chakroun & Matoussi [2012] in Tunisia one of the MENA zone:

”the study of Ben Othman and Zéghal [2010], which is based on the annual reports of 216 companies from 13 emerging countries of the MENA area, found that the level of disclosure and transparency, in the countries which had been colonized by Great Britain and marked by an Anglo-American Business culture [i.e. Egypt, Jordan and the Gulf countries], is greater than that of the countries which had been colonized by France and marked by a French business culture [i.e. Morocco, Tunisia and Lebanon]”[p.337].

Managers are self-interested agent so they usually release information about the current performance of the firm and for the future as well. Managers can decide whether to provide additional information or not disclose to enable their involvement in achieving their best interests [Alshammri, 2008]. Empirical research papers have applied the justification of agency theory about disclosing additional information in the best interest of company.

Cormier and his scholar team addressed in their study about “corporate governance and information asymmetry between managers and investors”. They report that asymmetric information can be measured by either share price volatility or Tobin’s Q. Previous research related to the elements of information asymmetry of the cost of capital found several factors other than voluntary disclosure [Cormier, et al, 2010]. The findings of his study show that some formal factors such as the size of board and audit committee as well as the level of voluntary disclosure can help in reducing asymmetric information. For instance, in Canada where investors have a high level of protection, governance disclosure may complement corporate governance factors. It appears that firms quantify any cost and benefit resulting from the disclosure to their investors [Cormier, et al, 2010].

In some emerging markets such as Egypt, few research papers addressed the level of voluntary disclosure such as Samaha [2010]. A conclusion has been drawn that the extent of disclosure in the Egyptian firms is low compared to developed markets. Moreover, both internal factors such firm size; profitability; and leverage and external factors such as international accounting standards, international financial institutions can influence the level of voluntary disclosure [Ismail, T. & El-Shaib, N. 2012]. Despite the fact that mandatory disclosure in Egypt does not sufficiently reduce the information asymmetry, most Egyptian firms rely on voluntary disclosure to release information to investors in order to provide non-financial information that might help in maintaining the relations between them. The main aim of voluntary disclosure is to give investors a clear understanding about the long-term run of firms, and reduce asymmetric information and agency conflicts between managers and investors [Ismail, T. & El-Shaib, N. 2012].

Another example provided by Cheng and Courtenay [2006] shows that listed companies in Singapore have enhanced their level of disclosure following the publication of the report of the Committee on Corporate Finance. This report recommends a regulatory reform based on authority by switching it with a regulatory framework based on the disclosure or the market. This case is quite similar to what the United States or UK stand for. Based on this framework, investors can set the level of approval of any transaction of the conducted by firm. Therefore, increasing the level of disclosure is necessary for the market to control the business activities.

Moreover, stock options can make managers to work in favor of their best interests not with shareholder interests. However, agency conflicts and incomplete contracts can arise because of contracting costs.

Cormier documents in his paper:

"Aboody and Kasznik [2000] show that managers with stock-based compensation mislead shareholders by accelerating bad news and by delaying good news, thus potentially reducing the exercise price of coming stock option grants. Hence, governance disclosure is likely to be opportunistically affected by the presence of CEO stock options" [p. 576].

However, it is not only negative news could be released by managers. There are some evidence from research papers that show that management might trade on hide private information, which is even related to good news [Donnely, et al, 2008].

When managers make their decisions to release information about corporate governance, they are affected by a trade-off between the benefits of the firm or its stakeholders as well as the costs incurred for releasing additional information from disclosure. However, managers might have an option to decide whether to voluntarily release the information or not if doing so cost less than having investors and anyone who participating in the markets incur the costs of the information themselves [Cormier, et al, 2010].

As a result of poor governance regime, investors might not invest in countries where don't have good practices. As Bokpin & Isshaq [2009] mentioned in his study that African countries have to apply good governance regime in order to attract foreign investment.

Conclusions

Corporate governance has received scholars' attention long time ago after scandals that happened in the world. This study discusses the association between the level of voluntary disclosure and corporate governance. In most cases, corporate governance might affect significantly the level of disclosure. This hot topic has received considerable attentions from scholars. Researches address the relationship between these two variables by evaluating some factors such as the independent directors, board size, audit committee, role duality and family members on the board. There is some evidence associated with the effectiveness of the mechanism of corporate governance as monitoring power to provide adequate information that users need.

Corporate governance is not only about set of regulations of how firms are governanced, but also about the way managers take the responsibility when they issues their financial statements. Managers when they disclose they must consider some factors about the information in order to be more effective and efficient; time, accuracy and relevancy. This can facilitate the process for shareholder to assess the performance of firms by observing, how efficiently managers utilizing resources of their firm in the best interest of the shareholders. Investors will be confident when they deal with firms have a good corporate governance.

Market regulators produce codes and regulations to ensure how timely and accurate information released by companies in most countries around the world. The existence of an external corporate governance mechanism such as regulatory bodies, can contribute in increasing the link between the percentage of non-executive directors and the level of voluntary disclosure [Cheng & Courtenay 2006].

Previous study conducted in India found that even with a high percentage of non-executive directors on board does not necessarily mean the existence of good corporate governance and disclosure practices. The reason behind that is independent directors are not truly independent as they are affected by promoters. The promoters who own and control of the Indian firms inversely affect independent directors' performance [Madhani, 2015].

There must be restricted institutions in order to supervising managers and encouraging them to disclose information voluntarily. The main goal of this is to meet their responsibilities and boost their firms' value and portfolios. Regulatory should pay more attention when they determine the percentage of independent directors in the board, which may increase the level of voluntary disclosure. By increasing the extent of voluntary disclosure, firms have ability to deliver on the expectations of investors. It is critical to analyze voluntary disclosure in order to fully understand how to communicate with stakeholders. In the case of Malaysian study, Poh-Ling and Tylor [2013] say that most firms consider voluntary disclosure as a tool of controlling system to motivate managers to release all kinds of information to mitigate the asymmetric information between investors and managers. Increasing the level of disclosure is necessary for the market to control the business activities. This study is valuable for regulators and policy makers in developing countries specifically allowing who regulate the markets to better understand any critical points that may enhance corporate governance and the level of disclosures in their countries.

Limitations

There are some limitations regarding the availability of data in some studies that hinder their research from expanding to several aspects of corporate governance such as incentives of directors, elected committees and the share of ownership. Future research should examine the effects of these factors on voluntary disclosure based upon the availability of the information.

To be more effective, future research could be expanded by comparing the results for the Gulf region such as Saudi Arabia, Bahrain, Kuwait, Qatar, Oman, and the UAE. Such studies can contribute in assisting regulators in this area in order to converge regulations in this region. It is critical to analyze the level of disclosure during the crisis of Dubai for instance; this may lead to increase the level transparency and disclosure practices. Future research could examine the recent financial crisis in Dubai, as a major city in gulf region, which hit most corporations.

In some emerging markets, it is noticed that there is a need to enhance the awareness of the advantages of voluntary disclosure for board of directors, professionals, or accounting bodies. It is very important for regulators, and accounting bodies pay much more attention on voluntary disclosure rather than their emphasis only on mandatory.

The governmental bodies also should play an active role in motivating firms to disclose information voluntarily. For future research, it is beneficial to consider a wide range of market and organizational factors that might impact the level of voluntary disclosure. It is important also to focus on the mechanisms of corporate governance as important variables might boost extent of voluntary disclosure.

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