

**ETHNICITY IN CORPORATE GOVERNANCE RESEARCH:
A MALAYSIAN LENS**

WORKING PAPER SERIES

Working Paper No. 111

March 2017

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Ethnicity in corporate governance research: a Malaysian lens

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Abstract:

Based on the analysis of research papers that have cited Haniffa and Cooke (2002), this study investigates the rationality behind Haniffa and Cooke, and the usefulness of this study in advancing the knowledge of the impact of ethnic diversity on corporate governance, within a Malaysian context. This study is based on literature reviews and citation analysis. There are problems in any tendency towards overgeneralisation and simplification of conclusions based on a simple ethnic dichotomy in mainstream accounting research. This paper delineates the richness of Malaysian culture, and illustrated problems around the operationalisation of an ethnic ‘division’ in that context. There are some limitations from the mono-jurisdictional analysis, and its use of surnames as proxies for ethnicity in a country which offers a fusion of many ethnicities. The review sends a note of caution to those extrapolating from ethnic stereotypes to assumptions about corporate governance behaviours. The originality of this study is the unique analysis (compare and contrast) of a limited number of research outputs when ‘ethnicity-by-surname’ is deemed a ‘variable’ in quality of corporate governance or audit risk.

1. Introduction

This paper is centred on the study by Haniffa & Cooke (H&C, 2002) “Cultural, Corporate Governance and Disclosure”, the research for which originated from an analysis of 1995 Malaysian company data. This study now offers documentation of how they operationalized ethnicity in this project, and the extent to which this was extended, implemented, or validated in two further research studies on Malaysian corporate governance and other Malaysian business-related studies.

A peculiarity of this article is that the authors incorporated the element of ethnic identification into considering corporate disclosure practices; although there had been some earlier papers on ethnicity and issues surrounding audit activity in Malaysia. Yatim *et al*'s 2006 study (which will be examined further in this paper) referred back to Eichenseher (1995) and CheAhmad *et al.* (2001); these were Hofstede/Gray-based for cultural indices, and both had found a significant relation between ethnicity and audit fees in the Malaysian companies; i.e. that *Bumiputera*-controlled firms pay higher audit fees compared to non-*Bumiputera* controlled firms¹.

Thus studies of the implications of ethnicity - from classifying surnames in Malaysia - in the audit field of research was extended by Haniffa and Cooke in 2002 into a consideration of voluntary disclosure policies. Two other studies will be reviewed in detail in the following review: Yatim *et al* (2006) on audit risk, and Abdullah *et al* (2015) and family companies and compliance. In order to explain why we choose the study by Yatim *et al* (2006) as one part of this three-way analysis, there were other papers we may have used, such as

- Salleh *et al* (2006) who addressed the effect of board composition and ethnicity on audit quality; finding ethnicity variables are not significantly related to audit fees, and suggesting that these factors do not have any significant impact on audit quality;
- Al Arussi *et al*'s (2009) study of the effect of ethnicity of the CEO on CSR disclosure practices;
- Yunos *et al* (2012) with their study to measure the impact of ethnicity on accounting conservatism, concluding that Malaysian financial reports do not appear to be influenced

¹ Bumiputera is used as a collective name to represent the 60 % of Malays and the small number of aboriginal people within Malaysian states (Hiery *et al.*, 2005, p. 607).

by the ethnicity of participating groups; interestingly, this was not referred to by Abdullah et al. (2015).

- Nazri *et al*'s 2012 study of the effects of multiple variables, including ethnicity ,on choosing auditors for a company; or the study by
- Abdul Wahab *et al* (2015), who found a positive relationship between the proportion of *Bumiputra* directors and forecast error; that *Bumiputeras* are individualistic and secretive, leading to less disclosure quality. Abdul Wahab *et al* (2015) also used Hofstede/Gray cultural indices although the authors did acknowledge critiques.

These five all used the familiar Hofstede/Gray dimensions, which have been extensively critiqued, (e.g. Baskerville, 2003), and such use tends to de-value the effective operationalisation of ethnicity. The sample in Yatim *et al* (2006) of 736 listed firms was by far the largest, and is taken as an exemplar of such other studies.

It was the high levels of citations which drew our attention to Haniffa and Cooke (2002), especially compared with those already mentioned above. It may have been very influential in widening an academic audience's appreciation of the significance of the operationalization of ethnicity in researching financial reporting topics. However the question remains if any such article can provide in-depth and useful insights into the business practices within a single nation state by subsuming the pluralistic makeup of such a society into a dichotomous variable of ethnicity. Therefore this paper seeks to understand the impact it has made by looking at other research that has cited the H&C (2002) article, and especially at two papers that have built up around the 'ethnicity element' introduced in H&C's study.

In particular, this study offers a consideration of three inter-related research questions in order to further progress with the accounting academy's appreciation of how ethnicity may be operationalised in accounting research. These are:

- a) Did the high levels of citation since 2002 relate to the method the authors had used to operationalise ethnicity?
- b) Secondly, given that the answer to that question is largely in the negative, why and how had this paper been used as authoritative support in the accounting literature?

- c) Thirdly, when use of surnames were used as a proxy for ethnicity in two further studies, did they project similar characteristics /stereotypical behaviours onto the two ethnic groups, and did they offer similar results?

In answering these three questions, we hope to alert readers to some issues about how the academy builds up a strong and robust platform of research in accounting. Culture may be very complex in its application, but a successful approach in accounting research may be found, for example, in the study by Efferin and Hopper (2007), who examined Indonesian Chinese businesses, in Indonesia with a dominance of peoples of Javanese descent. The Chinese control almost all of the country's wealth, albeit their power in the country is close to non-existent because of hegemonic domination by the Javanese. This 'micro-level ethnography in an Indonesian Chinese-controlled company enabled the researchers to be immersed in the day-to-day business operations, many of which were tinged with the issues surrounding being a minority ethnic group. This permitted a rich and contextualised insight into the dynamics between the two ethnicities, despite some longstanding ethnic tension between them; and the triangulation of etic and emic approaches simultaneously used added great value this this study.

In contrast to the relative rarity that type of immersion study, there are also few studies which combine an operationalisation of ethnicity (as compared with 'culture') with a quantitative analysis of company report data. So this also makes the H&C study of interest to researchers aware of continuing issues in measuring and quantifying either racial attributes or ethnicity. The core issue faced when studying accounting in relations to ethnicity and diverse cultures is the inclination to group people as homogenous and from that group, all characteristics of those within the group are thereupon generalised to be the same based on initially some minute similarities. This would cause marginalisation of various minority groups in the discourse on accounting. As succinctly written by Hammond and Preston (1992, p. 801), "if accounting research is to take serious note of 'culture' then a greater recognition of plurality and diversity is required than presently exists." This study aims to offer a step in this direction.

In order to answer these research questions as described, this study will proceed as follows: further details of the H&C study in 2002 are provided, before a more general review of the Malaysian context for such studies. This is followed by a citation analysis, asking "did the high citation levels relate to the method H&C (2002) had used to operationalise ethnicity". As the answer is negative,

a further review offers some appreciation of the extent to which surnames been used as a proxy for ethnicity in other studies, including some management studies of family boards, asking: is this an effective means of operationalising ethnicity? Lastly, we examine how three typical studies, which are the focus of this report, predict the direction in which ethnicity might impact on corporate governance and accounting choices. More details on the findings in Yatim et al (2006) and Abdullah et al (2015) are then followed by a discussion and conclusion.

1. The Haniffa and Cooke study in 2002

In their article, H&C (2002) were testing for the possible association between ‘cultural’ values, board or shareholder dominance, and voluntary disclosure practices by describing some cultural values typical of the *Bumiputeras* and the Chinese. Other mainstream corporate governance variables were used in testing factors influencing company disclosure practices such as proportion of non-executive directors, proportion of family members on board, role duality, educational background of directors, existence of a non-executive chairperson, and cross-directorships of chairpersons.

When considering their underlying analysis, it is of note that H&C (2002) refer to ethnicity to some extent, but more often use the term ‘culture’ to refer to a set of beliefs and values, and they refer to racial characteristics when “the prevailing societal values may not reflect the values of the nation as a whole, especially if each racial group has chosen to maintain its own ethnic identity and values” (2002, page 324). So in terms of how to assess and then use racial identity, for the race of the chairperson, managing director and finance director, this study offered a dichotomous variable between ²*Bumiputera* and *non- Bumiputera* i.e. local Malaysians, and others, as had been undertaken in the earlier quantum of audit research already alluded to. This identifying information was found in the surnames of these officials, from the Register of Companies and from the annual reports. The surnames provided the means of this dichotomous identification of ‘race’.

There were two further ‘race’ variables:

- The racial ownership structure (the ratio of *Bumiputra* shareholders to total number of shares on issue); and

² In a footnote H & C note: “Bumiputra refers not only to Malaysians of Malay but other indigenous ethnic groups. However, for the purposes of this study, bumiputra refers to the Malay group since they form the majority, are all Muslims, and such a classification may help the analysis”.

- The racial composition of directors on board (the ratio of *Bumiputra* directors to total number of directors on the board),

both of which were found from surnames in the Annual Companies handbook and other data in similar sources.

Of the 27 hypotheses to be tested in the H&C (2002) study, it was in the heart of hypotheses seven – eleven that they postulated associations (or not) between the level of voluntary disclosures in the annual report, and the *Bumiputera* persona, the proportion of *Bumiputera* directors on the board and percentage of *Bumiputera* shareholdings. So the use of surnames enabled this dichotomy between *Bumiputera* and non-*Bumiputera* to be determined, but there is no discussion of the H&C approach when the director or other official had neither a *Bumiputera* nor Chinese surname in the 167 companies under study (year-end 31 December 1995). They undertook interviews with six finance directors and four consultants in order to determine the suitability and relevance of the 31 variables in analysing corporate disclosure practices in Malaysia.

In the initial regression, they found that “[d]espite the strong belief by respondents of an association between disclosure and cultural characteristics (especially with regard to race) expressed during the interviews, none of the cultural variables was found to be significant” (2002, page 339). It was only when there was an additional regression, i.e. additional to the full regression (unrestricted) model based on the 31 variables, that the reduced/restricted regression model was run, based on a selection of variables already found significant in the full regression model together with evidence from the correlation matrix (2002, page 335).

It was in this second stage that they noted one of the ethnicity variables was significant at the 5% level and the coefficient was positive (2002, page 341): the proportion of *Bumiputera* directors on the board relative to the level of voluntary disclosures. This was contrary to their expectations based on the Hofstede–Gray framework.

“According to their framework, societal values of the *Bumiputera* are in congruence with the accounting value and practice of being secretive in disclosure... The result implies that other intervening factors that have not been captured in this study, rather than ethnic values *per se*, could be driving the result” (2002, page 341).

Or perhaps the Hofstede/Gray indices were wrong; they had, after all, earlier described their reservations about the Hofstede/Gray framework, and had not used the Hofstede’s ranking of the cultural dimensions for Malaysia as they were interested in ethnic values within a nation (refer to

footnote 3, 2002, page 324). Other sources were used to construct equivalent dimensions for Malaysians in their analysis. So for the five hypotheses related to ethnic/cultural variables, being the dichotomy between Malay and Chinese directors/personal, it was only in one hypotheses that they found significant result, and one contrary to that which might have been conjectured based on the Hofstede–Gray framework.

Thus this study might not have been important for any review of how ethnicity is operationalised in accounting, except for

1. their conclusion that their analysis supports arguments that disclosure practices cannot be culture-free (2002, page 343);
2. their method of determining ethnicity (by surname); and
3. it is a highly-cited article in the accounting academy.

Before answering the three core research questions as described in the Introduction, the background context of these studies needs to be further explored, as follows, as a detailed consideration of this particular jurisdiction will also assist in assessing the validity of such studies.

2. The Malaysian context

Malaysia is a country situated in Southeast Asia constituting of the mainland West and almost all of the northern part of the Island of Borneo (East Malaysia). The indigenous people (*Orang Asli*) were the original inhabitants of Malaya, which is the name Malaysia is known by prior to the country's independence in 1957. However its strategic location and abundance of natural resources had the region seeing an influx of Malays from the surrounding islands within the Malayan Archipelago sometime around the middle of the 1st millennium AD. Thereupon, as already noted, *Bumiputera* is used as a collective name to represent the 60 % of Malays and the small number of aboriginal people within Malaysian states (Hiery *et al.*, 2005, p. 607). Malay as a construct is identified solely with Muslim Malay speakers and religion continues to be a central part of the Malay identity (Cheng, 2008, p.51).

The immigration of Chinese and Indian workers from their respective countries during the British occupation in the Malay Peninsula sometime between the 19th and early 20th centuries helped provide labour resources for the proliferating rubber, mining, and transportation industries then. Today, the Chinese form approximately 30% of the country's population whilst Indians and other minority ethnicities constitute only 10% of the total population. Non-Muslims in Malaysia practice

either Buddhism, Christianity, or Hinduism (Hiery *et al.*, 2005, p. 608). Ethnic categories were initially introduced by the colonial government for use in various legal codes and subsequently this usage became widespread across all levels of social interaction up till today (Shamsul, 1998, p.137). Thus, the whole conception of ethnic and race differences and identity is heavily influenced by British ideas and epistemology and this provides for a clearly distinguishable concept of race and each group's commitment to race in Malaysia. The British's "divide and rule" policy is said to be the origins that separated the races in Malaysia which has further reinforced the differences between the main ethnicities in Malaysia. The reification of the differences in ethnicity is one the barriers of the Malaysian people from asserting their identity based on nationality rather than ethnicity.

The rich historical background of the country and the values and norms practiced by the country's population contribute towards the structure of the multi-ethnic society that Malaysia thrives on today. As mentioned previously, a country with multiple racial groups, each holding on to their own values and beliefs may occasionally be a blessing and also a source of undesirable conflict. Thus the government will be responsible in formulating public policies to minimise the degree of differences between different ethnic groups and promoting national unity. The façade being portrayed to the outer world as a harmonious multi-ethnic society fusing into one is often used to mask underlying frictions within the society itself. Issues such as superior rights of *Bumiputeras*, inter religious conflicts, economic disparity, and racial discrimination are often politicised leading to further rifts between the citizens (Sofjan and Trojnar, 2011). The situation in Malaysia is that policies and the political ideology are still extremely racially-based, aligned predominantly with the *Bumiputeras*, as evidenced by their dominant presence within important sectors, such as education, economy, and politics (Lan, 2002 , p.208).

Especially when issues like equal citizenship is still considered a taboo, many have avoided addressing the racialisation of Malaysian politics and challenging ethnocentrism for fear of breaching sensitive issues (Tyson, 2011, p. 79) and being accused of having the intention to bring discord to the country's harmonious society. The majority-minority discourse in Malaysia has commonly been between the Malays and the Chinese such as the longstanding controversy on the Malay language being made national language and the proposal for the abolishment of vernacular schools which faced resistance especially from the Chinese community (Shamsul, p. 148). This is

reflected in the subsequent section where almost all research papers include only the Chinese and the Malays.

The country's pluralistic identity is not without contention, with the major episode being the May 1969 tragedy where tensions between the Malays and the Chinese heightened due to several reasons. One is the overpowering influence of the Chinese over the economy, leading to a violent clash between the two dominant races (Ali, Haniffa, & Hudaib, 2006). Another reason was that the new government alliance consisting of multiple races that won the first election, was sceptically seen by the Malays as not being able to uphold intrinsic rights and privilege of the "sons of the soil", the Malays, who were also exacerbated with the Chinese people's abhorrence of the undemocratic citizenship status granted to them (Saad, 2012). The increase in the number of non-Malays and their economic stature could possibly be threatening to the majority status of the Malays especially.

As a result of that, the government has engaged in multiple efforts to create a positive attitude towards cultural assimilation and the creation of one national culture such as the National Culture Policy (NCP) and more importantly the National Economic Policy (NEP). NEP, introduced in 1971, was aimed at reducing inter-racial resentment due to socio-economic disparities where the Malays are generally associated with the agricultural sector whilst the Chinese are known to be primarily involved in commercial business and trading activities (Saad, 2012). The result, observable several years later, was that NEP not only failed in achieving its objectives but enhanced the Malay capitalists' stature in the economy. Even though most companies underwent privatisation from being state-controlled, it is still somehow monitored by the government through individual Malay elites with close political connections residing on the company's board of directors. Nevertheless, up until now, the NEP still remains an important part of the government's policies in addressing socio-economic differences such as raising tariffs to protect local industries and with the intention of increasing Malay participation and also the setting of government enterprises which are to be held in trust for the whole of the Malay community (Ali *et al.*, 2006).

The government's efforts in 1990 to create the concept of *Bangsa Malaysia* (Malaysian race) barely achieved its aim in uniting the people in the country as it may be more of a political rhetoric rather than a genuine effort because the structure of the system still somehow alienates the rights of non-Malays. More recently, the current Prime Minister's promulgation of the "One Malaysia"

concept has pervaded the Malaysian public sphere be it in official government websites, mainstream newspapers, official government correspondence, and even in hospitals and at schools. The notion of one nation still however remains to be a conflicting issue, and is yet to be a concept that everyone lives by. Even though the terminology changes, the spirit and essence of the concept is still bounded by extant institutionalisation of racially based policies as shown in this excerpt,

“For the concept to succeed, I think the Government should stop with the race politics. It’s tiring, really. We grew up with application forms asking us to tick our race. We should stop painting a negative image of the other races, stop thinking about ‘us’ and ‘them’ and focus on ‘we’, ‘our’ and ‘Malaysians’” (Lunjew, 2009).

Much research concentrates on Malaysia as a country embodying one culture, instead of a pluralistic society with differing values and principles, and is an attempt at closing the gap between racial differences and be recognised as one nation and the reluctance of differentiating people by race. It affects research in a way that locals are reluctant to cross that border. This leads to a marked over-simplification and overgeneralisation of the ‘cultural variable’. Many of the papers referred to in this study exhibit a tendency to ‘homogenise’ populations, and not contextualise different roles within a certain society even though there may be definitive differences between them. Papers such as Nazri *et al.* (2012) consider the Chinese as a race that is the same anywhere in the world, especially through usage of Hofstede’s cultural dimensions. This conjecture is problematic because by extracting such ethnicities out of the context of the society in which they dwell, ethnic tension between groups within the wider society is often indiscernible.

Conflict may arise specifically in corporate governance between the groups, as one of the market listing requirements is to have at least one *bumiputera* and most listed companies in Malaysia are Chinese family owned. So the *bumiputeras* are usually non-executive directors with little impact on governance; *bumiputera* directors being mostly politically connected. On the surface, there is little threat to Chinese companies from this, as they may well comply with rulings and regulations set by the government which may appear to favour the *bumiputera* but really have little impact on their business operations. But in terms of interaction and social stigma in corporate governance, there are few studies to further investigate this issue.

In addition, most local Malaysian researchers do not attempt to delineate the sharp differences between different races, and would rather not select that aspect as a defining feature on which to

analyse data. And when explaining the differing values held by each ethnicity, researchers find the need to find a balance between exposing adequately the differing ethnic values and yet not exposing too much so as to cross the accepted boundary; potentially disregarding or offending others. It is possible that authors within Malaysia are less keen to delve into matters of ethnocentrism and touch on sensitive issues, as it would further complicate matters especially at the workplace or constrain adequate research funding.

There are varying contributing factors that make up the Malaysian culture, thus inevitably, these political developments are reflected in the country's business practices and the economic structure as well, and provide a rich context for the H&C (2002) study and their operationalisation of ethnicity, as operationalised in accounting. To address now the first research question in this paper, it was from noting such a stellar level of citations that led us to query if these high citation levels relate to the method the authors had used to operationalise ethnicity?

3. Citation analysis: did the high citation levels relate to the method the authors had used to operationalise ethnicity?

The high levels of citation of this study are indicated by 893 citations on Google Scholar up to the end of 2015.

Insert Table one: Sources for citation analysis around here

Of the 562 which were journal articles, there has been a steady increase over the period of analysis (excluding 8 where the year was not apparent).

Insert Figure one: citations of H&C (2002) around here

But 562 is a large number of articles to interrogate closely. For the purposes of answering this research question, 27 journal articles and one book were isolated on the basis that these were of recognised merit, each having more than 100 citations. Naturally, most of these were from earlier years pre-2013. Any self-citations were extracted from this list of 27, leaving 20 articles remaining and one book (*Earnings Management*, by Ronen & Yaari, 2008). Based on the citation levels, these 20 articles may be taken to be widely regarded, and cited, by our peers.

These 20 were then analysed in order to determine exactly how H&C (2002) was used (refer to Appendix one for the full list). Was it as a source of inspiration, to validate, or to challenge? The

analysis of these twenty articles is as follows; it is conjectured that this may offer some insight into what would be a ‘typical’ utilisation of H&C (2002) in those 562 journal citations. Heugens *et al* (2009) only listed it in the list of references. We further examined the remaining 80 references to H&C (2002) within these 19 journal top-cited articles. It was being used as authoritative support for two major categories of citation: authority for studies of voluntary disclosures, and, to a lesser degree, as authority for a particular method.

4.1 80 references to H&C (2002) in these “Top 20”

- 54 were references to H& C (2002) as an authoritative source regarding voluntary disclosures
- Seven were references to H& C (2002) as an authoritative source regarding corporate governance generally; and
- 19 were references to H& C as an authoritative source for a method

Insert Table two: Categories of cross-referrals to of H&C (2002) in top-cited articles

We are taking the position that these 19 top-cited articles may be typical of the manner in which H&C (2002) has been used in the 562 journal articles citing this study. It had been anticipated that some of these would use H&C (2002) as authority for the method of operationalising ethnicity, but not in these “Top 19”; the very heavy citation levels are clearly generated for other reasons. The most use by an author appears in the research by N. A. M. Ghazali, who has further studied intellectual capital disclosures, ethics, CSR and corporate governance in Malaysia. In order to now focus more directly on the method of operationalising ethnicity, the next section goes beyond these “Top 20” to look for other studies with research aims similar to H&C (2002), using surnames in Board /governance analysis

4. Have surnames been used as a proxy for ethnicity used in other studies before or after this particular use, and is it an effective means of operationalising ethnicity?

The discussion of the use of surnames in business research has been used in some audit research, as described in the Introduction, but surnames have been used even more widely to examine the degree or not of family directorships, and the implications thereof. This interest in the impact of closely-held family dominated boards has long been of interest in the literature on management and governance, and it is not the place for this study to cover that particular research focus. But it

did lead to a useful debate on the validity of using surnames to analyse the composition of Boards of Directors, with the caveat that making identification of family is more ‘fine grained’ than making the identification of ethnicity or race. To take four of these as examples:

Analysis of the occurrence of the surname common to two individuals on the lists of boards of Jakarta Stock exchange listed companies was used by Tabalujan (2002) to study “Family Capitalism and Corporate Governance of Family-Controlled Listed Companies in Indonesia”. There are some limitations in using a common surname as the criterion for determining family relationships, as identified by Tabalujan (2002):

- it is possible for two individuals to have the same surname but not have a family relationship, but he considers this unlikely in an Indonesia context;
- some Indonesians do not have surnames at all; and
- two individuals may have a family relationship that is not reflected by a common surname.

He concludes that overall, his findings may be biased towards understatement of the existence of family relationships. A similar conclusion was reached by Hackethal and Zdantchouk (2004) in their study of share buy-backs on the German stock exchange: that the use of surnames under-measures ‘connectivity’.

In contrast, in a further application in Mexican entities undertaken by Machuga and Teitel (2009) measured the impact of “family-concentrated ownership” as the ratio of the independent non-related board members to the total board. Related board members are identified via family surnames, although they concluded this approach may over-state the number of related board members. For the UK, Hillier and McColgan (2008, 2009) studied family-managed firms, defining a family CEO when any of the following criteria are met: (i) the CEO is explicitly described in the annual report or news sources as being the founder or a descendant of the founder; (ii) the CEO shares their surname with the company; or (iii) where the CEO shares their surname with one or more members of the board of directors, as described by André (2009), who took issue with this approach, due to missing some connectivity (e.g. sons in law), and the lack of attention given to the significance of the minimum voting threshold. Such criticism would also apply to the study as follows of corporate governance analysis by surname in Malaysia.

A further criticism is that we suggest it is impossible for the companies sampled to have only Chinese or Malay directors and investors. This means that other ethnic minorities like the Indians, Kadazans, Ibans and many other ethnic groups of Borneo are side-lined as if they cease to exist. Papers such as Ahmad *et al.* (2006) justified their focus on Chinese and Malays, as they were explained to have more distinctive roles, economically and politically whilst Salleh *et al.* (2006, p. 77) claims that the exclusion is due to the unavailability of data on Indian directors and chairpersons.

The lack of attention to the importance of the Indian ethnic influence may be because of their lack of political representation in the political arena, thus being of little threat to the two other major ethnicities (Aznam, 1990). This reality is shown in the research realm where their roles are similarly desensitised because they are perceived as bearing no influential impact on the country's economy. Therefore the full situation with regards to the plight of minority groups is not portrayed in the discourse on culture in a pluralistic society.

Since H&C (2002) there have been two key studies regarding disclosure-related research issues with an ethnicity focus, using the surnames of Boards of Directors of listed companies in Malaysia, although the later of the two does not refer to the earlier study. These were both undertaken on data after the introduction of the Malaysian Code on Corporate Governance into the Listing Requirements of Bursa Malaysia 2001. Both studies included identification of ethnicity from the surnames of the members of the Board, and the names of largest shareholders, in order to determine

- (1) the proportion of *Bumiputera* directors on boards; and
- (2) the proportion of *Bumiputera* substantial or dominant shareholdings.

In both studies the ethnicity is determined by examining the names of directors and largest shareholders:

“If the names are of Chinese origin, for example, having surname of Tan, Chan, or Lee, the criterion is satisfied, that is, the director is assumed to be Chinese. A similar approach is also used for directors who are Non-*Bumiputeras* (i.e., foreign directors or other ethnicities other than *Bumiputeras* or Malays [or Chinese]). For *Bumiputera* names or Malay names, the same procedure is used. The Board of Directors is categorised as Non-

Bumiputera directors in the case of uncertainties between *Bumiputera* directors and Non-*Bumiputera* directors” (Yatim *et al*, 2006, Footnote 8 page 29)

Similarly, in Footnote 22, Abdullah *et al* (2015) described that “[I]n Malaysia, ethnicity of an individual can normally be identified by his/her name. Malaysian Chinese names are typically Chinese in origin; Malay names are typically Arabic patronymics” (2015, page 338). This appears the same as the H&C (2002) method; but with different times of the sampling, it is not surprising that these studies found different percentages in their analysis, as summarised in Table 3.

Insert around here Table 3: The results of Company analysis in three studies

The study of Yatim *et al* (2006) did not refer back to the H&C data to compare their percentage findings, as in Table 3; so possible reasons for the disparity of the “ethnicity” data in this study compared with H&C (2002) remains unexplored. The changing Stock Exchange requirements from 2001 may also be producing some demographic / hegemonic shifts, reflected in Table 3, which could be further investigated.

But is the use of surnames really an indicator of ethnicity? It is problematic because of the assimilation process of ethnicities in Malaysia. Firstly there is the possibility of a Chinese director adopting a Malay name while inherently still practicing and emulating Malaysian Chinese values. It is customary when a Chinese converts to Islam for reasons such as marriage or out of interest, he or she would opt for an official name change too. However occasionally one’s Chinese family name is maintained. Thus using the authors’ chosen proxy for culture, Muslim Chinese would automatically be identified as Malay because all Malays are Muslim. Another reason for the impracticability of using the director’s name is because some Chinese may have grown up in areas where the domination of one race and culture is evident. Thus minority Chinese growing up in a Malay or Indian community may be so integrated in the culture of the ethnicity that has pervaded the area. Thus they would have absorbed the values and culture of the majority as can be seen in Malaysian Chinese that reside in the densely Malay populated East Coast region of the Malay Peninsula. A person may also be of Chinese ethnicity but embrace the Malay culture. Therefore without looking at the background of the directors, it is highly presumptuous to classify them as Malays or Chinese and assign them the attributes of that particular ethnicity in understanding the rationality behind their actions in corporate governance.

Lines determining ethnicity are not as easily demarcated in Malaysia as the accounting and audit research would infer. To further demonstrate how the assimilation of ethnicities in Malaysia has obscured the process of identifying people based on their ethnicity, several excerpts are presented from a local online newspaper which shows that ethnicity in the Malaysian context may not always be as easily defined as in H&C (2002) :

“Because of my name and the fact that I speak fluent Malay, I am always mistaken for a Malay or Muslim. Though I’m Christian, I have difficulty buying meals, especially during Ramadan.”

“I usually tell people I’m Chinese, but they’ll retort with: ‘Are you sure you’re not mixed?’ Sometimes, I just smile and reply that I’m Malaysian”

“Nine out of ten people will mistake my race. Am I Chinese? Malay? Eurasian? My reaction? I am Malaysian.

(Lunjew, 2009)

The use of name as a proxy for ethnicity is in itself rather arbitrary because ethnicity might be more based on self-perception (Baskerville, Wynn-Williams, Evans & Gillett, 2014) rather than simply based on genealogy, ancestral background or prominent biological features. Ethnicity is perceived differently to different people as one’s ethnic origins may or may not be determinative of one’s identity and thus various ethnic influences and values are reflected in one’s everyday practices. A study by Umans (2009) on the different research approaches to ethnic diversity in top management teams is relevant here. The various conceptualisation of culture in research was illustrated, and Umans subsequently suggested for culture to be studied through a combination of methods and models in studying culture and how it affects the decision of executives on management teams.

With such reservations in mind, we now examine how ethnicity was expected to impact on corporate governance, before describing the findings of each study.

5. How might ethnicity impact on corporate governance?

The authors of these three papers under review, as already described, were clearly of the opinion that the ethnicity of the dominant members of the board and shareholders may well make a

difference to matters such as perceived audit risk, or the propensity for either voluntary or mandated disclosures. This had been understood in the literature regarding audit engagement, and the inherent risk of audit under a situation of lower levels of competent governance. But how exactly would ethnicity impact on corporate governance and other board behaviours or accounting disclosures choices? There was no consensus here.

Yatim *et al* (2006) commenced from the starting position already established in the audit literature that

“Chinese business practices may influence differences in levels of agency conflicts and risks associated with Chinese-controlled companies (i.e., Non-*Bumiputera* companies), leading to lower external audit fees charged to these firms”.

The prior studies cited had been Hofstede-based in the attributes of the different ethnicities, and Yatim *et al* (2006) found it sufficient to take that as a given.

In contrast, both H&C (2002) and Abdullah *et al* (2015) extended the dimensions which originated in Hofstede *et al*, although H&C (2002) did not use the dimension measures per se from Hofstede. H&C (2002) and Abdullah *et al* (2015) concurred to represent both ethnicities as high on ‘power distance’, similar to Mary Douglas’s Grid/group dimension of Hierarchy wherein lies respect for rank, high levels of social integration with deference to tradition (filial piety) and authority (loyalty to rulers)³ (refer Table 4 as follows):

Insert Around here Table 4: The Grid and Group categories - Mary Douglas

Although this study, with its focus on H&C (2002), is not offering an extensive review of the Mary Douglas schema, this is a far preferable approach, as the propositions Douglas made towards understanding diversity and tensions within societies were based on two dynamic dimensions: Group (meaning a general boundary around a community) on the horizontal axis; and Grid (regulation), on the vertical. In their lifetime, individuals are expected to move, or be forced to move, across the Grid/Group matrix, either according to choice or according to circumstances.

³ <http://projects.chass.utoronto.ca/semiotics/cyber/douglas1.pdf> Based on *Purity and Danger* (Douglas 1966) and *Natural Symbols* (Douglas 1970)

H&C (2002) suggested the *Bumiputra* would be ranked high on uncertainty avoidance, and the Malaysian Chinese low on uncertainty avoidance. This dimension was not discussed by Abdullah *et al.* (2015). However, there was a clear distinction made between H&C (2002) and Abdullah *et al.* (2015) as far as the ethnic attribute of collectivism / individualism was concerned. This resonates with Mary Douglas's Grid/group category of individualism: a tendency to prefer weaker social regulation or social integration, a stronger belief in market mechanisms, and where failure is deemed a personal responsibility. Thus H&C (2002) suggested that the Malaysian Chinese were higher in individualism than the *Bumiputra*. H & C's (2002) higher ranking on the individualism/collectivism dimension for the Malaysian Chinese was reflected in their aptitude to accept new challenges, and take more risk. In contrast, Abdullah *et al.* (2015) suggested the Malaysian Chinese were less individualist than the *Bumiputra*, more of a collectivist mind-set, although their collectivism is restricted to Chinese society, family, or the Guanxi network (2015, page 331).

This higher 'collectivism' among the Malaysian Chinese, with the preponderance of family controlled Boards, was suggested to lead to a reduced demand for disclosures, and low disclosure compliance (Abdullah *et al.* 2015 p. 332). This may well be better described by what Douglas terms the Enclave mentality; such enclaves being characterised by strong social integration and a strong commitment to the group, and is distinctive from Individualism on the Douglas Grid/Group schema, rather than a dichotomy.

And its impact among the *Bumiputra*-controlled boards was conjectured by H&C (2002) to be different: in contrast to Abdullah *et al.* (2015), H&C (2002) suggested the higher 'individualism' among *Bumiputra* would lead to more secretive attitudes and lower voluntary disclosures. Therein lie the differences between these two studies as to how ethnicity may impact. It is not so important in this study as to which is the correct interpretation of ethnic characteristics; the Mary Douglas schema emphasises that such attributes, being within different groups within a nation state, may be dynamic and ever-changing, as already described above. Given these expectations, what were the eventual findings in these other studies?

6.1 Findings in Yatim et al (2006)

Yatim *et al.* (2006) tested whether or not *Bumiputra*-controlled firms have weaker corporate governance practices than non-*Bumiputera* controlled firms, predicating higher levels of external

audit fees associated with such a postulated ‘poor internal governance structures’ for *Bumiputera*-controlled firms. Their findings included:

- *Bumiputera*-controlled firms were found to practice more favourable corporate governance practices, which is likely to contribute to lower auditors' risk assessments, resulting in lower external audit fees (contrary to the findings of Eichenseher, 1995 and CheAhmad and Houghton, 2001 who had also studied this relationship).
- The *Bumiputera*-dominated boards are more independent and these firms are more likely to separate the roles of the board chair and the CEO (2006, p. 25).
- Chinese-controlled firms tend to have more inside directors on their boards; ownership stakes and control largely remain in the hands of family-holding companies and family members (2006, p. 26).

6.2 Findings in Abdullah *et al* (2015)

Secondly, this 2015 study by Abdullah *et al* was largely an examination of the influence of family control in Malaysian companies. This links directly to H&C (2002): they use the surname to identify a Chinese or Malay dominated board, adapt the Hofstede/Gray dimensions, and use the percentage of family related board members as the most appropriate measure of family control.

They determined that the dominant Malay culture on companies’ boards was only slightly under 50%, similar to H&C (2002); Malaysian Chinese ethnic Boards applies to family firms in particular, and it is these family firms which prefer to accept regulatory risk instead of provision of more information.

...”[C]ulture may account for the (under)performance of some family firms better than efficiency based theories which suggest that family firms may act as substitutes for weak formal investor protection. Family firms exhibit lower market value” (Abdullah *et al*, 2015, p. 343.)

6. Discussion and Conclusion

The original starting point in this study was H&C (2002), and it is certainly a popular and heavily cited study. But this is not largely because of their method of operationalising ethnicity, based on our detailed analysis of “Top 20” citing papers. Table one illustrated that from a sample of 20

heavily cited studies, it may have been predominantly used in accounting literature for both a methodological and analytical authority. A second finding in this study is that when use of surnames were used as a proxy for ethnicity in two further studies, researchers did not project the same characteristics /stereotypical behaviours onto the two ethnic groups.

In answering the research questions, we became aware that there was often little, if any, awareness in different academic communities about very similar research investigations. Many scholars appear to believe that powerful search engines allow extensive trawling to find relevant literature, but there is a concern that the large numbers of ‘hits’ a scholar may find as their reward actually becomes overwhelming, and that cross-disciplinary collaboration or awareness is reducing. Such processes of cocooning us from similar parallel research investigations was expressed by Deegan (2016): he reminded us that “[a]s researchers in a discipline (‘accounting’) that has so many rich and varied insights, we must all guard against the dangers of some form of “conditioning” and/or “cocooning” that might occur within particular research communities/paradigms” (Deegan, 2016 p. 488). The operationalisation of ethnicity is quintessentially a cross-disciplinary interest, and it is hoped that this Special Issue may alleviate some of the ‘silo’ tendencies of mono-disciplinarity. There is similarly room for improvement in building a strong and robust platform of research in accounting and related areas, especially as far as measuring and quantifying either racial attributes or ethnicity.

The complex ingredients from the multiple ethnicities within the post-colonial nation states, such as Malaysia, with lesser or greater degrees of individualistic and enclave mentalities, suggests there is a rich diversity of practice in corporate governance, many aspects of which may well be culturally embedded; but the consequences of ethnic clustering may not be as simple as suggested in the studies in this review. This was also highlighted in the findings of the Efferin and Hopper study (2007), as already described.

The inclination to define discrete ethnic groups, then attribute characteristics to such groups, and from that to make predictions concerning the influence of ethnicity in governance and accounting choices does not result in a clear consensus, notwithstanding that the scholars in these projects have invested much time and effort towards unbundling such influences of ethnicity. The three

papers as described above were all subsequent to PhD studies by the lead author⁴, and as such must be commended for their dedication to increase our understanding of the impact of ethnicity in governance, auditing or accounting behaviours.

But much remains to be done to avoid tendencies to ethnic stereotyping. Malaysia is an unusual nation state with dynamic and evolving multi-ethnic politics, moving towards first-world status, but ethnic identity remain a political force, especially when these are fundamentally a matter of self-perception rather than surname. The purpose and objectives of any such research must be carefully evaluated if it is to improve our understandings, as dynamic and localised beliefs and values continue to become increasingly influential in financial reporting and auditing activities.

⁴ Yatim undertook a PhD at the University of Queensland, Abdullah at Stirling University, and Haniffa at the University of Exeter.

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Appendix one

The “Top 20” cited studies which cite H&C (2002) in chronological order

2004: Ali, Muhammad Jahangir, Kamran Ahmed, and Darren Henry. "Disclosure compliance with national accounting standards by listed companies in South Asia."

2005: Mangena, Musa, and Richard Pike. "The effect of audit committee shareholding, financial expertise and size on interim financial disclosures."

2005: Saleh, Norman Mohd, Takiah Mohd Iskandar, and Mohd Mohid Rahmat. "Earnings management and board characteristics: Evidence from Malaysia."

2006: Barako, Dulacha G., Phil Hancock, and H. Y. Izan. "Factors influencing voluntary corporate disclosure by Kenyan companies."

2006: Brammer, Stephen and Stephen Pavelin “Voluntary Environmental Disclosures by Large UK Companies”

2006: Chavent, M., Ding, Y., Fu, L., Stolyow, H., & Wang, H. “Disclosure and determinants studies: An extension using the divisive clustering method”.

2006: Ghazali, N. A. M., & Weetman, P. “Perpetuating traditional influences: Voluntary disclosure in Malaysia following the economic crisis.”

2007: Abdelsalam, Omneya H., and Donna L. Street. "Corporate governance and the timeliness of corporate internet reporting by UK listed companies."

2007: Cerbioni, Fabrizio, and Antonio Parbonetti. "Exploring the effects of corporate governance on intellectual capital disclosure: an analysis of European biotechnology companies."

2007: Lim, Stephen, Zoltan Matolcsy, and Don Chow. "The association between board composition and different types of voluntary disclosure."

2007: Lopes, Patrícia Teixeira, and Lúcia Lima Rodrigues. "Accounting for financial instruments: An analysis of the determinants of disclosure in the Portuguese stock exchange."

2007: Mohd Ghazali, Nazli A. "Ownership structure and corporate social responsibility disclosure: some Malaysian evidence."

2007: Patelli, Lorenzo, and Annalisa Prencipe. "The relationship between voluntary disclosure and independent directors in the presence of a dominant shareholder

2008: Amran, Azlan, Abdul Manaf Rosli Bin, and Bin Che Haat Mohd assan. "Risk reporting: An exploratory study on risk management disclosure in Malaysian annual reports."

2008: Amran, Azlan, and S. Susela Devi. "The impact of government and foreign affiliate influence on corporate social reporting: The case of Malaysia."

2008: Brammer, Stephen, and Stephen Pavelin. "Factors influencing the quality of corporate environmental disclosure."

2008: Donnelly, Ray, and Mark Mulcahy. "Board structure, ownership, and voluntary disclosure in Ireland."

2008: Hassan Che Haat, Mohd, Rashidah Abdul Rahman, and Sakthi Mahenthiran. "Corporate governance, transparency and performance of Malaysian companies."

2009: Heugens, Pursey, Marc Van Essen, and J. Hans van Oosterhout. "Meta-analyzing ownership concentration and firm performance in Asia: Towards a more fine-grained understanding."

2009: Said, Roshima, Yuserrie Hj Zainuddin, and Hasnah Haron. "The relationship between corporate social responsibility disclosure and corporate governance characteristics in Malaysian public listed companies."

Table one: Sources for citation analysis

Unable to be analysed (non-English, incomplete) or duplications	54
Articles by one or both of the authors	13
Journal articles	562
Other publications (ssrn, theses etc)	264
Total citations on Google Scholar 2015	893

Table two: Categories of cross-referrals to of H & C (2002) in top-cited articles

	<i>54 were referencing H& C (2002) as an authoritative source regarding voluntary disclosures</i>
2	Voluntary disclosures and transparency
8	...and inside/outside directorships
6	... and diffusion of ownership
3	... and leverage/debt
3	... and foreign ownership
6	...and a Non-executive Board chair
11	Miscellaneous and one trivial
7	Voluntary disclosures - generally
1	...and corporate governance
7	CSR and voluntary disclosures
	<i>Seven were referencing H & C (2002) as an authoritative source regarding corporate governance generally</i>
3	Duality & Board/mgmt. relationships, checks and balances
2	Findings re Big 4 auditors
2	Corporate governance generally
	<i>19 studies were referencing the study as an authoritative source for a method</i>
3	Providing authority for Content analysis
2	.... for transforming data into normal data
2	.... for regression analysis
2	.... for the measure of ownership concentration
2	.... for a dichotomous procedure
1	.... for transforming data into normal data
1	.... for size and diffusion of ownership
1	.... for exclusion of financial sector entities
1	.... for evaluating the variance inflation factor
1	.... for the checklist
1	.... for the method generally

Table 3: The results of Company analysis in three studies

		Data from	<i>Bumiputera</i> -controlled boards	<i>Bumiputera</i> -dominated shareholdings
H&C	2002	167 firms in 1995	47% (Table 5 page 338)	27% (Table 5 page 338)
Yatim <i>et al</i>	2006	736 firms in 2003, (496 firms Main Board, 240 Second Board),	27.8% (Table II page 769)	18.3% (Table II page 769)
Abdullah <i>et al</i>	2015	Sample of 225 out of 451 firms in 2008	46% (Table 2 page 337)	48% (Table 4 page 339, 52% were Malaysian Chinese owned)

Table 4: The Grid and Group categories - Mary Douglas

High Grid	Isolate	Positional (aka. Hierarchical)
Low Grid	Individualist	Enclave
Low group		High Group

Figure one: citations of H & C (2002)

