An Empirical Analysis of the Relationship Between Corporate Governance and Corporate Disclosure Practices in Korea*

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ABSTRACT: In the aftermath of a financial crisis, Korea has worked continuously toward developing systemic soundness in order to strengthen the transparency and fairness of its financial markets. Prior studies have not examined the relationship between corporate governance mechanisms and corporate disclosure practices in Korea. This study empirically examines the relationship between corporate governance and corporate disclosure practices in terms of the traditional view and the role of disclosure in incomplete governance arrangements. The outcome of effective corporate governance is greater accountability; this yields more disclosure information, the extent of which can be used as a proxy for the responsiveness of a corporate board.
This study empirically tests the influence of corporate governance attributes on the extent of secondary market corporate disclosure practices, as provided by 1,463 listed firm-years between the years 2000 and 2003 in Korea. These corporate governance attributes include the proportion of outside directors on corporate boards, the existence of an audit committee, the percentage of foreign equity ownership, the percentage of institutional equity ownership, and the percentage of managerial equity ownership. The level of timely disclosure is used as a key dependent variable, and additional fair and voluntary disclosures are examined.

Using multiple regression analyses, the results suggest that the inclusion of a higher proportion of outside directors on corporate boards and the existence of an audit committee significantly increase the level of disclosure. Foreign and institutional equity ownership significantly increases the level of disclosure, while lower managerial ownership is also associated with increased disclosure.

Financial reporting and disclosure are the keys to enhancing and maintaining transparency; therefore, they form the basis of effective corporate governance. The findings in this study provide additional evidence for the value added by effective corporate governance and outline some of the implications of more corporate disclosure under a principle-based regime of accountability. There can be no guarantee that all plausibly correlated omitted variables have been ruled out. However, these findings contribute to the existing debate on the importance of effective corporate governance and of encouraging expanded disclosure practices in Korea.

**Key words**: Corporate Governance, Corporate Disclosure Practices, Timely Disclosure, Voluntary Disclosure, Fair Disclosure, Board Composition, Audit Committee, Corporate Ownership Structure