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THE IMPACT OF VOLUNTARY DISCLOSURE AND TRANSPARENCY ON THE CONTROL OF DIRECTORS' REMUNERATION

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ABSTRACT

The 2008-2012 global financial and economic crisis has once more brought to light the vulnerabilities of the capitalist system and the necessity to impose restrictions on specific actors who possess substantial sway over the trajectory of the economy and business.

The remuneration transgressions that certain boards of directors, particularly in the financial sector, have engaged in have once again demonstrated the significance of agency problems. During this period, instances arose in which Egyptian corporations rewarded their executives and directors with millions in compensation, remuneration, or bonuses, only to have to be rescued by government authorities in the end. This and other comparable circumstances have eroded the morale of Egyptian society, particularly because the Egyptian government funded some companies that had been perpetrating abuses while the populace was forced to make sacrifices in order to overcome the crisis. As a result, there has been a growing focus on the administration of director compensation in recent years.

Considering these circumstances, national-level recommendations have centered on enhancing the transparency of information regarding compensation practices, particularly regarding the comprehensive remuneration policy and individual compensation received by Board of Directors members.

The significance of this research stems from the fact that while numerous studies investigate the correlation between directors' compensation and "board independence" and firm performance, comparatively few scrutinize the association between board compensation disclosure and the level of directors' compensation.

Within this framework, this article presents an empirical examination of the relationship between board remuneration transparency and voluntary disclosure and the level of directors' compensation in Egypt. The objective is to ascertain whether firms with greater transparency of directors' compensation have lower directors' compensation ("transparency control effect" and "transparency deterrent effect") or higher directors' compensation ("effects of transparency on increasing competition in pay"). To accomplish this, a singular panel of data comprising publicly traded Egyptian companies from 2013 to 2018 has been compiled.

KEYWORDS: Voluntary disclosure; Transparency; Directors' remuneration.

1. INTRODUCTION

The economic and financial crisis that gripped the global economy from 2008 to 2012 has once more underscored the necessity of imposing restrictions on specific entities that significantly influence business operations and the economy as a whole. In this context, corporate governance is accorded considerable weight by both the literature and the statements of international organizations, primarily for two reasons. To begin with, corporate governance serves as the framework through which organizations establish their goals, determine the methods to attain them, and ensure that their adherence is monitored and controlled (Cañibano, 2006) (Albitar 2015). Furthermore, an efficient corporate governance system contributes to the attainment of the requisite level of confidence essential for the optimal operation of a market economy (Organización para la Cooperación y el Desarrollo Económicos, 2004)(Al Maskati and Hamdan 2017).

One issue that has contributed to the increased emphasis on the significance of corporate governance control is the disproportionate remuneration received by certain members of the board of directors. The controversies that have arisen concerning this topic have stimulated greater interest in the manner in which companies disclose information regarding the compensation of their directors (transparency). Consequently, both the quantity and nature of documents pertaining to the remuneration of corporate management bodies have escalated (Murphy, 1999)(Hong, Li et al. 2016).

Similar to the situation in the management-shareholders conflict of interest case, remuneration contracts are frequently employed to harmonize the shareholders' and directors' interests (Boumosleh, 2009)(Persons 2012). Nevertheless, an approach that was once employed to mitigate the possible opportunistic conduct of directors and managers has evolved into a source of contention in recent times (Alzaga, 2012), as it encourages self-dealing among managers (Westbrook, 2010)(Ran, Fang et al. 2015).

The dilemma surrounding the compensation received by board members in this instance oscillates between "excess" and "sufficiency."

Put simply, the compensation should be adequate to motivate employees to carry out their responsibilities effectively. However, it should not be excessive, as this could result in a relaxation of control functions(Fama and Jensen, 1983)(Coffee Jr 2001, Badertscher, Katz et al. 2013).When we take into account the fact that the board determines the compensation of its members, which gives them sufficient authority to extract rents from firms in order to satisfy their own interests and creates a conflict of interest with regard to other stakeholders (Bebchuk and Fried, 2004; Duffhues and Kabir, 2008). the issue becomes even more apparent.

Amidst these conditions, a suggestion has been put forth at the international, European, and national levels to enhance the transparency of information regarding compensation practices, with a particular emphasis on the comprehensive compensation policy and individual remuneration received by board of directors' members (Ben-Amar and Zeghal 2011, Liu, Valenti et al. 2016). Two hypotheses exist that are complementary on a theoretical level. One potential consequence of efficient design of optimal remuneration contracts (contracting hypothesis) is that directors will be motivated to disclose their compensation. Conversely, a higher degree of transparency and voluntary disclosure would result in a moderating effect on directors' compensation. Conversely, in the event that transparency and voluntary disclosure are diminished, directors may exploit their authority to augment their own remuneration, disregarding the interests of shareholders (managerial power approach) (Manzaneque, Merino et al. 2014, Chung, Judge et al. 2015).

The correlation between "board independence" and director compensation has been the subject of the majority of empirical research on director compensation control to date (andreas, Rapp, and Wolff, 2009; Basu, Hwang, Mitsudome, and Weintrop, 2007; Brick, Palmon, and Wald, 2006; Cheng and Firth, 2005; Core, Holthausen, and Larcker, 1999). Notwithstanding the growing body of literature concerning director compensation, there remains a scarcity of research that has specifically examined the influence of information disclosure and transparency on the nature and magnitude of remuneration (Coulton, Clayton, and Taylor, 2001; Nagar, Nanda, and Wysocki, 2000; Ben-Amar and Zeghal 2011, Schmidt 2012).

This paper conducts an empirical or simulation-based analysis of the relationship between board compensation transparency and voluntary disclosure and the level of directors' compensation in Egypt. Its objective is to ascertain whether firms with greater transparency of directors' compensation have lower directors' compensation ("transparency control effect" and "transparency deterrent effect") or higher directors' compensation ("effects of transparency on increasing competition in pay"). For these objectives, a panel of data comprised of 73 publicly traded Egyptian companies from 2013 to 2018 has been assembled.

In several respects **the paper contributes** to the vast amount of literature that already exists. In the beginning of the study, the researchers investigate how the amount of directors' compensation is affected by the voluntary disclosure and transparency of information on board compensation. In spite of the fact that various research has been conducted on the connection between directors' compensation and "board independence" and the success of the company, the association among disclosure on board compensation and directors' compensation level has gotten relatively less attention. Furthermore, within the Egyptian context, this effort is groundbreaking. Furthermore, the research enhances the level of transparency regarding the disclosure of board remuneration by developing a disclosure index. It is anticipated that the transparency index, as proposed, will be beneficial to Egyptian legislators, associations, and researchers in facilitating subsequent investigations into the transparency of directors' compensation. Furthermore, the findings indicate that, in contrast to initial expectations, transparency played a significant role in the escalation of directors' compensation during the examined period. Consequently, the majority of the wage competition among the analyzed companies can be accounted for.

The present study is structured as follows: initially, a comprehensive review of existing literature is conducted; subsequently, the research design is presented, including the definition of the study sample and variables, as well as the application of pertinent statistical techniques; third, an analysis of the primary findings; and finally, a discussion of the principal conclusions.

2. TRANSPARENCY and VOLUNTARY DISCLOSURE ON BOARD COMPENSATION.

2.1. Transparency and voluntary disclosure on board compensation: literature review

The separation of ownership and control, according to agency theory, generates information asymmetries because the interests of shareholders and managers are misaligned. If there is inadequate financial disclosure, information asymmetries may result in a wealth transfer from owners to managers, causing existing and potential investors to discount share prices. To control and reduce agency expenses, it is necessary to consider control mechanisms that ensure managers act in the proprietors' best interests. Two documental mechanisms—structure of corporate governance and voluntary disclosure—help to substantially reduce the agency costs that arise from the division of ownership and control. (Alhazaimeh, Palaniappan et al. 2014, Chung, Judge et al. 2015).

However, prior research has indicated that the attributes of a company have an impact on the extent of voluntary disclosure. Transparency is crucial for mitigating the negative consequences that arise from the information asymmetry that exists between the principal (shareholders) and the agent (managers). (Willekens, Vander Bauwhede et al. 2005, Kang, Kumar et al. 2006). found that voluntary information suggested a greater degree of control by external directors on the board; as a result, there was less of a necessity to reduce information asymmetries between shareholders and directors when voluntary disclosure was greater.

According to the findings of Gul and Leung (2004), in particular, in organizations where the president and chief executive officer are the same individual, independent directors with a broad range of professional expertise serve as a crucial control mechanism.

Therefore, it has been determined that transparency and voluntary disclosure in corporate governance are crucial components in mitigating information asymmetries among stakeholders (Healy and Palepu, 2001).(Rahman Al-Janadi et al., 2013). Compensation policies and procedures, as well as comprehensive information on remuneration packages, their correlation with performance, enable shareholders to evaluate the board's bargaining power and determine whether action is warranted, including the removal of directors or the adoption of resolutions (Ferrarini and Moloney, 2005). The compensation transparency theory (Geraats 2006, Bernstein 2017) posits that an efficient design of optimal compensation contracts (the optimal contracting approach or contracting hypothesis) is contingent upon the transparency of the compensation of company directors. This enhances the conscientiousness of directors regarding their own compensation, as they are more likely to provide stakeholders with transparent disclosures to ensure they are not receiving inefficient compensation (Muslu, 2010).

On the contrary, the absence of transparency increases the probability that the pattern of the managerial power approach or the theory of dominance will be attributed to the administration. Given the circumstances, the administration gains additional authority to augment its own remuneration to the detriment of other stakeholders (Kalyta, 2009). This exorbitant compensation would be perceived by the shareholders as rent extraction, or an expropriation of their capital. Therefore, the management has an incentive to obscure and legitimize their rent extraction, or, more generally, to camouflage it, in this scenario (Bebchuk, Fried, and Walker, 2002).

By adhering to logical reasoning, information regarding directors' compensation serves as the appropriate basis for investors to evaluate the management's adherence to good practices in this area, thereby exerting a controlling influence on them (transparency control effect). Consequently, the transparency likely influences salary levels. Furthermore, the disclosure of compensation information may have repercussions on the directors' personal interests, including reputation, professional standing, and honor (Delaney and Magraw 2008, Bernstein 2017). As a result, disclosure of compensation information discourages unscrupulous or abusive conduct in this regard (deterrent effect of transparency). Isolated as a crucial mechanism for facilitating shareholders' comprehension of the correlation between company performance and compensation policy, individualized disclosure is a crucial component (Ferrarini and Moloney, 2005). Conversely, the shareholders lack the ability to regulate the compensation practices of their committees in the absence of sufficient information. Several empirical investigations provide support for the aforementioned theories. As an illustration, the degree of transparency in compensation disclosure is found to be inversely proportional to the magnitude of CEO remuneration and conversely proportional to the scale of the organization (Coulton et al., 2001).

This theoretical perspective stands in opposition to the fact that pay transparency enables corporate boards and executives to scrutinize the pay structure and level of their competitors (Swan and Zhou, 2006). Consequently, disclosure of information will lead to an increase in director compensation, which is necessary to prevent directors from defecting to rival firms enticed by the inflated salaries offered by competitors (Friedman 2014). Swan and Zhou (2006) (Friedman 2014) demonstrate that Canadian CEOs received higher total compensation compared to their American counterparts subsequent to disclosure. However, the increase was attributable to increased incentive pay as a consequence of a more robust pay-performance correlation.

The assertion that transparency and disclosure regarding remuneration are crucial in elucidating the reasons behind the substantial levels of compensation that instill market mistrust in business administration is supported by this theoretical and empirical framework. This justifies the regulatory interest in this particular domain.

2.2. Transparency and voluntary disclosure on board compensation: reform in Egypt

The study was initiated in accordance with regulations of good governance practices that provide guidance on the disclosure of directors' remuneration policy and the specific compensation received by those directors (refer to Table 1).

Table1. Standards and recommendations on information regarding director’s compensation

Voluntary disclosure
Board of Directors-approved remuneration policy for the organization should include at a minimum the following provisions:
a) The amount of the fixed components of board and board committee attendance fees, itemized where applicable, along with an approximation of the fixed annual payment they generate;
b) Variable components, in particular: i) This section describes the directors to whom they are submitted, along with the relative importance of variable and fixed remuneration components. ii) The criteria for determining eligibility for the issuance of shares, share options, or any other form of remuneration tied to performance. iii) The fundamental criteria and foundations of any annual bonus or non-monetary benefit system; and iv) An assessment of the aggregate value of variable compensation resulting from the suggested remuneration policy, calculated in accordance with the level of adherence to predetermined benchmarks or targets.
c) An analysis of the primary attributes of pension systems, including supplementary pensions, life insurance, and analogous arrangements, accompanied by an approximation of their annual equivalent cost.
d) The contractual conditions that must be met by executive directors performing senior management duties. Among them: i) Duration; ii) Notice periods; and

iii) Additional provisions pertaining to hiring incentives, indemnities, or "golden parachutes" in the event that the contractual relationship between the organization and the executive director is terminated early.
The notes to the annual accounts should list individual directors' remuneration in the year, including:
a) A detailed breakdown of the compensation received by each director of the company, including pertinent information: i) Attendance and participation fees in addition to other fixed director compensation; ii) Supplementary remuneration for serving as chairman or committee member of the board; iii) Payments made pursuant to profit-sharing or bonus schemes, along with the justification for their accumulation; iv) Contributions to defined contribution pension plans on behalf of the director, or any augmentation of the director's vested rights with respect to contributions to defined contribution pension plans. Benefit programs; v) Any severance packages agreed or paid; vi) Any compensation they receive as directors of the other companies in the group; vii) The compensation received by executive directors is commensurate with their prominent management positions.; viii) Any form of compensation not explicitly mentioned above, regardless of its source or nature within the group, with the exception of situations where its exclusion would compromise the accuracy and fairness of the director's total remuneration or constitute a related-party transaction. b) An individual breakdown of deliveries to directors of shares, share options or other share-based instruments, itemized by: i) The number of shares or options awarded during the year, as well as the terms for their execution; ii) Option exercise count for the year, with the exercise price and quantity of shares involved specified. iii) Quantity of outstanding options as of the end of the fiscal year, with their respective dates, prices, and additional exercise criteria; iv) Any change in the year in the exercise terms of previously awarded options. c) Data regarding the correlation between executive director compensation and the company's profit or another metric of enterprise performance during the given year.

It is the study that replicates the code of business governance that was proposed in the Olivencia Report (1998). This code of governance advocates for the openness of each director compensation packages and, to the greatest extent that is feasible, the specific components of remuneration. Furthermore, it establishes the comprehensive information that ought to be contained in the yearly financial statements.

3. RESEARCH METHODOLOGY

3.1. Sample

This study uses a sample consisting of 73 firms that traded publicly on the Egyptian stock market between the years 2013 and 2018 with the objective to evaluate the effect that voluntary disclosure has on the compensation of directors.

The rationale behind selecting Egyptian companies is rooted in the unique attributes of their corporate governance system, which is a unitary board system, as well as the Board of Directors' characteristics that are applicable to this particular geographic and normative context. Furthermore, this context is significant because of the mounting political pressure to promote the transparency and rationality of compensation systems.

To ensure comprehensive coverage of voluntary information regarding director compensation, the study analyzed the following information sources: notes on annual accounting reports, company regulations, board of directors’ regulations, annual report of board compensation, and meetings with board members.

3.2. Variables

3.2.1. Transparency index of directors’ compensation

In order to facilitate our analysis, the study computes two disclosure indices: a) the voluntary disclosure index concerning pay strategy to directors (PSVD); and b) the voluntary disclosure index concerning individual compensation received by directors (ICVD). Both of these indices are calculated for the purpose of our analysis. When it comes to board compensation, the global index of transparency (ITR) is calculated by considering both types of data. This is an important consideration. Table 2 provides a comprehensive breakdown of the recommendations that were taken into account during the process of determining the transparency rates. The study employed the subsequent classification scheme for the disclosure variable: "N.A." denotes non-applicability of the recommendation; "1" indicates presentation of the information; and "0" signifies absence of presentation of the information.

Table2. Voluntary disclosure on directors' remuneration items list.

THE COMPANY'S REMUNERATION POLICY	
FIXED COMPONENTS	
a.1.	Quantum of the fixed elements.
a.2.	Detailed breakdown of compensation for attending board and board committee meetings.
a.3.	Calculation of the predetermined yearly payout.
VARIABLE COMPONENTS	
b.1.	Applicable directorial categories
b.2.	Weighting of variable and fixed remuneration components.
b.3.	The performance evaluation criteria utilized to determine eligibility for the allocation of shares, share options, or any kind of performance-based compensation..
b.4.	The primary factors and justifications for implementing a system of yearly bonuses or alternative forms of non-monetary perks.
b.5.	The calculation of the overall sum of variable payment resulting from the planned remuneration scheme, based on the level of compliance with predetermined targets or benchmarks.
PENSION SYSTEMS	

c.1.	Key features of pension schemes.
c.2.	Estimation of the quantity or yearly equivalent expense.
CONTRACTS CONDITIONS	
d.1.	Terms and terms of contracts for executive directors who perform senior management duties.
SUB TOTAL REMUNERATION POLICY DISCLOSURE INDEX	
INDIVIDUAL DIRECTORS' REMUNERATION	
COMPENSATION	
e.1.	Participation fees, attendance fees, and other predetermined director payments.
e.2.	Supplementary remuneration for serving as the chairman or member of a board member.
e.3.	Specify the details of any payments made as part of profit-sharing or bonus systems, including the rationale for their accumulation..
e.4.	Contributions made by the director to defined-contribution retirement savings plans, or an improvement in the director's vested rights in the event of payments to defined-benefit schemes.
e.5.	Any severance packages that have been agreed upon or paid for.
e.6.	The remuneration they get as directors of other firms within the group.
e.7.	The compensation that executive directors earn for their senior management positions.

e.8.	Any form of remuneration beyond the ones specified earlier.
SHARE, SHARE OPTIONS OR OTHER SHARE-BASED INSTRUMENTS	
f.1.	The quantity of shares or options granted over the year, as well as the conditions established for their exercise.
f.2.	The total number of options executed during the year, including the quantity of shares involved and the corresponding exercise price.
f.3.	The user is requesting information about the number of outstanding options at the yearly closure, including details such as their price, date, and exercise conditions.
f.4.	Any modification to the exercise terms of previously granted options during the year.
RELATION BETWEEN REMUNERATION and MEASURE OF RESULTS	
g.1.	The relationship between the compensation received by executive directors and the company's profits, or another metric of business performance, in a given year.
	SUB TOTAL INDIVIDUAL REMUNERATION DISCLOSURE INDEX

In accordance with prior research, this study constructs an index in which every item under consideration is given equal weight (Camfferman and Cooke, 2002; Inchausti, 1997). Thus, as of year t (J=1 to 73), the disclosure index for company "J" is as follows:

$$I_{jt} = \frac{\sum_{i=1}^{n} X_{it}}{n_j}$$

$$0 \leq I_{jt} \leq 1$$

where X_it denotes the voluntary disclosure of the pay strategy to directors or the individual compensation received by directors for business i during period t (when the dummy variable representing disclosure is assigned the value 1) and n_j represents the total number of points that could compel the company to disclose all recommended aspects.

3.2.2. Board of Directors' compensation.

The variable being measured in this study is the average amount of remuneration given to each member of the board. Aside from fixed and variable pay, the whole compensation package may also include attendance fees, travel compensation, stock options, and other financial benefits (Merino, Manzaneque, and Banegas, 2012). To address the issue of heteroscedasticity, a logarithmic transformation of the dependent variable was used, following the methods used in earlier studies (Boyd, 1994; Finkelstein and Hambrick, 1989). Similarly, concepts related to compensation such as redundancy pay and insurance premiums were excluded from the analysis due to their atypical nature and substantial value, which could potentially introduce bias into the findings and complicate their interpretation. A more detailed description of the variables included in Table 3.

Table3. Variables description

Variable		Description	Typology
Compensation variables			
LnHCA		The logarithm of the total remuneration divided by the number of members on the Board of Directors	Numeric
Transparency index			
PSVD		Index measuring the extent to which a company voluntarily discloses its pay policy to directors.	Numeric
ICVD		Index measuring the extent to which directors voluntarily provide information about their individual compensation	Numeric
ITR		Index of voluntary disclosure on board compensation	Numeric
Control variables			
Board independency	**BOWNER**	Board ownership measured by proportion of shares owned by the board of directors	Numeric
	CD	CEO duality measured by dummy variable which takes value 1 when both roles (Chairman and CEO) are held by the same person, an 0 when they are not	Dichotomic
	LID	Lead independence director, measured by	Dichotomic

		dummy variable which takes value 1 if there is a lead independence director and 0 in other case	
	BO	Board outsider measured by proportion of outside independent directors on the board of directors	Numeric
	BS	Board size measured by number of members in the board of directors	Numeric
Business characteristics	**PER**	Performance measure by ROA (Return on assets, ratio of operating income to net assets)	Numeric
	CS	Corporate size measured by the logarithm of total assets	Numeric
	INDUS	1. Oil and energy 2. Basic materials, manufacturing and construction 3. Consumer goods 4. Consumer services 5. Financial services and real estate 6. Technology and Telecommunications	Dichotomic

3.2.3. Control variables.

The impact of board and business characteristics on directors' compensation in various countries has been demonstrated in prior research. As control variables, therefore, some variables that are emblematic of these have been employed.

(a) Board Characteristics and directors' compensation.

The desirability of board independence as a governance characteristic is virtually universally acknowledged (Nelson, Gallery, and Percy, 2010). Principal determinants of "independence" include duality, the number of independent directors on the board, board shareholding, and board size.

Duality exists within an organization when the positions of chairman and chief executive officer are held by the same individual. According to several authors (Baek, Johnson et al. 2009) (Jensen and Meckling, 1976; Jensen M. , 1986)(Chen, Chen et al. 2011, Oded 2020) the presence of duality heightens the possibility that the CEO may formulate policies that prioritize their personal interests at the expense of the organization. "When a company's Chairman is also its chief executive, an independent director should have the authority to request the convening of board meetings or the inclusion of new business on the agenda; to coordinate and voice the concerns of external directors; and to lead the board's evaluation of the Chairman," in accordance with international codes. The primary responsibility of this independent director, who is frequently referred to as Lead or Senior Director, is to oversee the CEO's performance in order to mitigate the risks associated with the concentration of power in a single individual (Dube and Pakhia 2013). Hence, the research hypothesizes that the absence of duality (CEO/Chairman separation) or the presence of a Lead Director will have an adverse impact on the remuneration received by board of directors. Alternatively, it suggests that this factor acts as a moderating influence on the compensation granted to board of directors members.

The principles of corporate governance advise all organizations to appoint "independent" directors to their boards. The primary responsibility of these directors is to offer their professional judgment to the executive directors and ensure that the board operates with an impartial standpoint (Parthesarathy, Menon, and Bhattacherjee, 2007). Thus, it is anticipated that the inclusion of independent directors on the board will provide the highest level of safeguard for shareholders in their oversight of management (Baysinger and Bautler, 1985).(Ho, Tower et al. 2013) and to diminish the authority of the CEO (Kalyta, 2009). It is anticipated, in accordance with the theoretical considerations, that an increased number of independent directors on the board would be correlated with decreased managerial opportunism and more efficient contracts. However, the majority of empirical studies report inconsistent and contradictory results. Although some researchers, including Core et al. (1999) and Conyon and He (2008), discovered a positive correlation between the proportion of independent directors on a company's board and executive compensation, Basu et al. (2007) and Arrondo et al. (2008) report the opposite. In light of the ambiguity surrounding the correlation between directors' compensation and outside directorship, this study examines the aforementioned variables in the context of Egypt, refraining from premeditating the anticipated sign.

On the grounds that larger boards are more susceptible to the CEO's influence (as it is easier for a CEO to capture the board and individual board members are less likely to be held accountable) and consequently have a greater propensity for coordination issues, one would anticipate that the effectiveness of board monitoring would be diminished with increasing board size (Core, Holthausen, and Larcker, 1999; Jensen M., 1993; Yermack, 1996).(Kurt-Gumus Yilmaz et al., 2017). On the basis of the aforementioned hypothesis, the research anticipates that the relationship between board size and director compensation is inverse.

According to the agency theory, board stock ownership serves as a significant motivator for fulfilling control responsibilities (Beatty and Zajac, 1990; Holderness and Sheehan, 1988) (Varottil 2010). Consequently, the interest convergence hypothesis (Jensen and Meckling, 1976) posits that an increase in managers' share ownership reduces the agency conflict between inside managers and outside shareholders (Patelli and Prencipe 2007, Baek, Johnson et al 2009). Thus, directors with substantial shareholdings may have a stronger incentive to oversee the CEO and have interests that are more closely aligned with those of the shareholders (Shivdasani and Yermack, 1999). Nevertheless, this is anticipated to have a positive correlation with board control (Boyd, 1994). Furthermore, the necessity for increased direct compensation is diminished in such situations, as the shareholders already obtain significant financial dividends from their ownership of shares (Cheng and Firth, 2005). Consequently, it is anticipated that the total compensation of directors is moderated by the number of directors who hold shares.

(b) Firm characteristics

A robust correlation has been observed in prior research between the magnitude of an organization and the remuneration of its directors (andreas, Rapp, and Wolff, 2009; Brick, Palmon, and Wald, 2006). It is anticipated that larger corporations will require directors of superior caliber; consequently, these corporations remunerate their directors at a relatively elevated level (Duffhues and Kabir, 2008).

The significance of company performance in determining director compensation has been corroborated by a number of studies (andreas, Rapp, and Wolff, 2009; Cheng and Firth, 2005).

The final factor considered pertained to the sectors in which the organizations operated. Previous research has established that the sector of the industry also plays a substantial role in determining the compensation of directors. According to Schiehll and Bellavance (2009), the impact of external monitoring functions, including the product market, corporate control market, and external managerial labor market, is determined by industry categorical variables. These functions are considered industry-related mechanisms.

3.3. Methodology

In order to examine the hypothesis, a number of dependence models were constructed utilizing linear panel data regression, a technique that is utilized to analyze multiple phenomena observed for the same firms across multiple time periods (Hsiao and Lightwood, 1994). A data sample of 438 (73 companies x 6 years) was compiled in accordance with this methodology; the panel was brief (T=6), linear, and highly balanced.

In agreement with the propositions made, various iterations of the subsequent panel data model have been estimated:[1]:

$$y_{it} = \mu_i + \beta * IT_{it} + \sum_{m=1}^{n} \delta CV_{it} + y_{it-1} + \varepsilon_{it} \qquad [2]$$

[1] We assumed parameter homogeneity, which means that $\alpha_{it} = \alpha$ for all i,t and $\beta_{it} = \beta$ for all i,t.

Where, y_{it} is the dependent variable (the remuneration of board directors); information technologyIt is the transparency index for the company i throughout the time period t (where IT is classified as either PSVD, ICVD, or ITR depending on the particular case study).), and $\sum_{m=1}^{n} \delta CV_{it}$ are the control variables (see Table 3). Consider the long-term stability of wages by incorporating the previous value of the dependent variable into the model (Lilling, 2006; Canarella and Nouray, 2008). Consequently, three versions of the model were calculated, each corresponding to a different type of transparency index. These versions are referred to as Model 1 (PSVD), Model 2 (ICVD), and Model 3 (ITR). The details may be seen in Table 6.

With all of this procedure is to provide empirical evidence on the relationship between transparency and the level of directors´ compensation. So, under the assumption of compliance with the hypotheses of "*transparency control effect*" and "*transparency deterrent effect*", it is expected a negative relationship between the two variables (β<0, H1). However, under the assumption of compliance with the hypothesis of “*effects of transparency on increasing competition in pay”* to directors it is expected a positive relationship voluntary disclosure and directors’ remuneration (β>0, H2).

4. RESULTS

Table4. The variables' descriptive analysis is presented in Table 4.
Descriptive Summary Statistics on Panel Data Variables

	Variable	Mean	St. Dev.	Min	Max
Dependent variables (Board Compensation)	**LnHCA**	11.8507	2.2716	0	14.56
Transparency index	**PSVD**	0.6972	0.2683	0	1
	ICVD	0.3118	0.3495	0	1
	ITR	0.4793	0.2637	0	1
Board independency	**BOWNER**	0.2304	0.2397	0	0.8
	CD	0.6322	0.4828	0	1
	LID	0.3333	0.4721	0	1
	BO	0.3559	0.1679	0	1
	BS	12.0387	3.7651	5	24
Business characteristics	**PER**	0.0460	0.1298	-1.0617	0.9632
	CS	21.1180	3.3246	0	26.89
	INDUS	3.2877	1.4773	1	6

For the period 2013-2018, the average voluntary disclosure index on pay strategy to directors (PSVD) is approximately 0.70, which is greater than twice the average voluntary disclosure index on individual compensation received by directors (ICVD), which is 0.31. This underscores the reluctance of businesses to disclose specific wage information to employees, despite notable advancements in this regard.

With regard to the correlation between the transparency index and other variables, Table 5 presents the binary correlation between them.

Table5. Correlation Matrix

Dependent variables (Board Remuneration)		LnHCA	PSVD	ICVD	ITR	BOWNER	CD	LID	BO	BS	PER	CS
Transparency index	PSVD	0.347***										
	ICVD	0.094**	0.438***									
	ITR	0.259***	0.811***	0.815***								
Board independency	BOWNER	-0.080	0.081	-0.146*	-0.0624							
	CD	0.120**	0042	0.011	0.016	0.025						
	LID	0.159***	0.262***	0.041	0.159**	0.109	0.541***					
	BO	0.348***	0.235***	0.247***	0.272***	-0.190**	0.141**	0.178***				
	BS	0.131*	0.070	0.086	0.109*	-0.225***	0.122*	-0.057	-0.086			
Business characteristics	PER	0.020	0.005	-0.050	0.002	0.033	0.120*	0.077	0.039	0.125*		
	CS	0.679***	0.381***	0.320**	0.410***	-0.289***	0.099	0.099	0.255**	0.655***	-0.022	
	INDUS	-0.037	0.068	0.131*	0.107*	-0.083	-0.018	-0.103**	0.121**	0.116**	0.052	0.098

* The correlation is significant at 0.001 (bilateral)
** The correlation is significant at 0,05 (bilateral)
*** The correlation is significant at 0,01 (bilateral)
Variables are defined in Table 4.

The results indicate that an increase in the number of outsiders serving on the board (BO) and the company's size (CS) increase the level of directors' compensation disclosure (Coulton, Clayton, and Taylor, 2001; Laskmana, 2008). As a result, in order to prevent multicollinearity, the aforementioned variables were excluded from the proposed regression model.

Additional noteworthy attributes of the sample include the substantial composition of the boards, which ranges from an average of 12 to 24 members; this is the case in 63% of the examined cases notwithstanding the duality of the chairman and chief executive officer (as these positions are held by the same individual); and the significant involvement of board members in shareholder affairs (mean 0.23, maximum0.8).This is crucial for comprehending the specific circumstances surrounding the Egyptian case.

Lastly, since 2015, the level of directors' compensation (LnHCA) variable has exhibited a stable trend.

The regression outcomes are detailed in Table 6. The predicted sign for each variable in the regression is denoted in column (1). Annual indicator and industry variables are incorporated into each model in order to capture potential impact in directors' payments across industries and years.

Table6. Estimation: OLS, Fixed and Random Effects

		Compensation by director LnHCA					
	(1)	(2)		(3)		(4)	
	Expected signs	Model 1 PSVD		Model 2 ICVD		Model 3 ITR	
		OLS	Fixed effects	OLS	Fixed effects	OLS	Fixed effects
LnHCA_1	+	**0.593*** (0.031)**	**-0.069** (0.034)**	**0.822*** (0.040)**	**-0.234*** (0.087)**	**0.577*** (0.036)**	**-0.154*** (0.037)**
PSVD	-	**1.156*** (0.254)**	**0.566** (0.284)**				
ICVD	-			-0.018 (0.215)	-0.063 (0.281)		
ITR	-					**0.719** (0.312)**	**0.726** (0.350)**
BOWNER	+	-0.208 (0.276)	**-0.188*** (0.621)**	-0.181 (0.336)	-0.072 (1.589)	-0.041 (0.332)	-0.581 (0.715)
CD	+	-0.044 (0.132)	0.220 (0.184)	0.065 (0.162)	0.079 (0.361)	-0.016 (0.163)	0.263 (0.217)
BS	+	0.026 (0.018)	-0.003 (0.043)	0.017 (0.022)	-0.036 (0.075)	0.032 (0.022)	-0.017 (0.059)
PER	+	0.253 (0.492)	0.517 (0.398)	0.325 (0.805)	1.224 (1.123)	-0.039 (0.575)	0.171 (0.446)
Intercept		**4.187*** (0.442)**	**12.430*** (0.725)**	**1.934*** (0.604)**	**15.197*** (1.471)**	**4.786*** (0.531)**	**13.668*** (0.893)**
Industry (dummies)		Yes		Yes		Yes	
Hausman test			407.48***		179.74^^		110.11***
F test		4,18*** [11 , 350]	1.83** [6, 283]	42.34** [11, 205]	1.47 [6,138]	32.38*** [11, 278]	3.75*** [6, 211]
Wald Chi^2							
R-squared		0,611		0.6944		0.5616	
Within			0.0374		0.0600		0.0964
Between			0.0823		0.8545		0.4552
Overall			0.0333		0.5937		0.2370
Number of firms		73	73	73	73	73	73
Number of observations		362	362	217	217	290	290

This table displays the impact of characteristics of the board and performance on the level of compensation.
Variables are defined in Table 2.
Random or fixed effects are shown, depending on the value obtained for Hausman´s test.
Industry dummies are included in all models.
In bold, significant coefficients
Standard error in brackets
*.**.*** respectively indicate significance levels at 10%, 5% and 1%

The findings of the Hausman test indicate that a fixed effect model is universally the most appropriate approach; therefore, details pertaining to the outcomes achieved using ordinary least squares (OLS) and fixed effects methodologies are incorporated.

The findings from Models 1 and 3 indicate a positive correlation between the directors' compensation and the total transparency index (ITR) and the transparency index on pay strategy to directors (PSVD). This finding supports hypothesis 2, while it refutes hypothesis 1. Thus, it appears that the effect of transparency on increasing competition in remuneration predominates in the case of the study.

Nevertheless, it appears that the degree of voluntary disclosure regarding the personal compensation received by directors (ICVD) does not have a substantial impact on the remuneration level. This conduct may be attributed to the reluctance of businesses to divulge this information prior to the release of the revised regulations regarding the subject.

5. CONCLUSIONS

The impact of voluntary disclosure on the levels of remuneration received by directors remains uncertain, as indicated by prior research. Thus, two distinct categories of relationships (positive and negative) have been delineated. By conducting an empirical analysis of the correlation between directors' compensation and voluntary disclosure (ITR) for 73 Egyptian companies from 2013 to 2018, this paper examined the validity of the arguments supporting both positions. The study established two indices that are pertinent to Egyptian listed companies: the transparency index on pay strategy to directors (PSVD) and the transparency index on individual compensation received by directors (ICVD), both of which are based on the indexes established by the study.

Consistent with the hypothesis that transparency increases competition in compensation, the result indicates that voluntary disclosure of directors' compensation has a positive correlation with the level of payment. Therefore, it is anticipated that administrators who possess greater knowledge in the past will request increased remuneration within the Egyptian context. This phenomenon can be attributed to the extremely limited management market in Egypt, where a significant number of directors serve on the boards of directors of multiple companies. As a result, corporations are compelled to offer higher compensation in order to attract and retain competent directors.

It is likely that comparable levels of information, as mandated by recent disclosure reform laws, will prevent similar circumstances in the future; consequently, salaries will likely be more comparable.

This study concludes by demonstrating that disclosure increases the compensation of directors and provides regulators and investors with cause to recognize the significance of this matter.

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