



Human Capital Disclosure Practices by Malaysian Companies

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ABSTRACT

The objective of this paper is to determine the level of human capital disclosure among Malaysian Listed Companies. A sample of 185 companies listed in Bursa Malaysia was selected consisting of five industries which are Information Technology, Consumer Product, Industrial Product, Trading/Services and Finance. The descriptive statistics, content analysis were performed to analyze the data. The result found 30.3 percent of the selected companies disclosed human capital item in their annual reports. This result revealed that most of Malaysian companies are aware and voluntarily report the items in their annual reports. However, the extent of disclosure level of the HC reporting in Malaysia is averagely low at 3.19 percent.

Keywords: Intellectual capital, Human capital, Relational capital, Structural capital, Disclosure, Malaysia.

1. Introduction

Human capital (HC) reporting has received significant attention among academic and practitioner across the world. (Abeysekera and Guthrie, 2004). For developing countries likes Malaysia, HC is recognized as a vital asset and value creator to companies in gaining a key source of competitive advantage compared to its competitors. (Huang *et al.*, 2013). Due to the new economy driven which is knowledge-based economy, companies believed that each employees plays as an important resources and shareholders willing to invest more for them. However, as the Malaysian Financial Reporting Standards (MFRS 138) "Intangible Assets" exclude the reporting for those human capital assets in the financial statement of Malaysian companies, hence, it is expected that human capital information may not be adequately reported to the stakeholders partly due to strict recognition criteria for intangible assets that do not allow human resources to be shown as an asset in the statement of financial position (Tayles *et al.*, 2007). Hence this study is conducted to examine the level of human capital disclosure practices by Malaysian public listed companies.

2. Literature Review

2.1. Human Capital Reporting

Bontis *et al.* (2000) have adopted human capital, structural capital and relational capital as the three basic dimensions of intellectual capital (IC) In particular; IC is described in one of its numerous and most famous definitions, as economic value of the combination of three categories of intangible assets as follows:

- i) Human capital (HC) is the availability of skills, talent and know-how of employees that is required to perform the everyday tasks that are required by the firm's strategy.
- ii) Structural capital (SC) is the availability of information systems, knowledge applications, databases, processes and other infrastructure required to support the firm in executing its strategy.

- iii) Relational capital (RC) takes account of the knowledge embedded in business network, which includes connections outside the organization such as customer loyalty, goodwill and supplier relations.

Various studies on human capital information and in the broader IC field have been conducted around the world such as in Australia (Cuganesan, 2006), Sweden (Beaulieu *et al.*, 2002), Canada (Bontis, 2003), New Zealand (Wong and Gardner, 2005), Spain (Oliveras *et al.*, 2004) and the UK (Li *et al.*, 2008). Studies conducted in developing countries include April *et al.* (2003) in South Africa, Abeysekera and Guthrie (2004) and Abeysekera (2007) in Sri Lanka, and Goh and Lim (2004) in Malaysia, while studies in emerging economies include Qu and Leung (2006) in China, and Murthy and Abeysekera (2007) in India. Generally, those studies discussed a few elements in development of IC such as consistent framework for reporting IC and the variation of extent of IC disclosure among those countries. (Huang *et al.*, 2013).

2.2. Underlying Theory

According to Myers and Majluf (1984), Signaling theory is based on two general assumptions. Firstly, managers are better informed than shareholders or the public concerning of firm's positions. Secondly, given that managers have information advantage, they may choose to disclose information in an attempt to signal to the public regarding firm's position. For the purpose of this study, the signaling theory suggests that more profitable firms will disclose more information to inform their stakeholders about their good performance. In other words, firms with good performance are more likely would disclose more information regarding the HC as compared to firms with bad performance. Due to this theory, it is expected public listed companies in Malaysia tend to disclose HC information in their annual reports to show their performance to the stakes.

3. Data and Methodology

The study focuses on listed companies on the Bursa Malaysia (BM) and used extracted data from the annual report year 2009. The selection of this year is because the MCCG revised is effective in 2007. The aim MCCG revised in 2007 is to emphasize on the importance of transparency, accountability, internal control, and board composition. Thus, choosing earlier (2008) might not be appropriate. Therefore, the gap of one year (i.e. 2008) was given since the introduction of MCCG (revised) to allow time for companies to take effect. In 2009, the population of listed companies on BM was 932 and they were classified into the following strata: consumer products; industrial products; construction; trading and services; properties; plantations and others (i.e. technology, infrastructure project companies, hotels and mining). Therefore, in order to have a sample representative of the population, a stratified sampling method was used. Then, a systematic sampling method was utilized as it is "statistically more efficient than a simple random sample" (Cooper and Schindler, 2003). This method (i.e. systematic sampling) was carried out within the industry groups, in order to have approximately 20 per cent of the companies in each industry as the sample. Therefore, the sample of the study consists of 185 companies with a total number of 185 annual reports for the year of 2009. The data of HC disclosure is represented by HC items. HC disclosure is measured based on a disclosure index that was developed by Vergauwen and Alem (2005) work. The disclosure index consists of 30 items that are within the three variables (i.e. 10 items for HC, 12 items for SC and 8 items for RC). For the purpose of this paper, the study only use index for HC items where a scoring system was used, where '1' is assigned when an item in the disclosure index is disclosed in the annual report and '0' otherwise. The data was analyzed using descriptive and content analysis. Table 1 show the relevant terms of IC used in this study.

Table-1. The terms of HC used in this study

Human Capital Terms
employee expertise
employee know-how
employee knowledge
employee productivity
employee skill
employee value
human capital
human asset
human value
expert team

4. Empirical Results

4.1. Descriptive Results

Descriptive analysis refers to the transformation of raw data into a form that will make them easy to understand and interpreted. Calculating averages, frequency distributions and percentage distribution are the most common ways of summarizing data. Hence, the result for descriptive analysis is summarized in Table 2 below.

Table-2. Descriptive results

Minimum disclosed items	.0000
Maximum disclosed items	.2000
Mean disclosed items	.0319
Std.Deviation	.0501
N	185

Table 2 provide the descriptive statistics of the variables HC based on the raw data for the year of 2009. The table shows the minimum and maximum value of HC item disclosed in annual reports are as follows: HC = 2 from 10 items are disclosed. The average of HC items reported in Malaysian annual report is 3.19 percent.

4.2. Content Analysis Results

Table-3. Disclosure Rate

Samples	Disclosure Rate (%)
185 companies	30.3

Table 3 explain 30.3 percent from 185 samples used in this study are disclosing HC information in their annual reports. Meanwhile, about 129 companies selected are not disclosing HC information in their financial statements.

Table-4. Frequency of HC items appeared in annual reports

INDUSTRY	Samples	N (companies disclosed)	Frequency items disclosed
Industrial Product	37	4	6
Information Technology	37	11	19
Consumer Product	37	11	37
Trading and Service	37	12	28
Finance	37	18	83
Total	185	56	173

By scrutinizing all industries selected, the study finds that finance industry disclosed more human capital items than other industries. The results show in Table 4. The most two items disclosed in annual reports are “human capital” and “human value”.

Additionally, in terms of disclosure location, HC information is reported in several sections in the annual reports. This information is commonly appeared in the notes to financial statements, followed by director’s report and statement of corporate governance. Human capital work is mostly managed by senior management (Bontis, 2001), so the location of HC disclosure demonstrates company’s concerns in reporting intellectual capital.

5. Concluding Comments

The objective of this study is to know the level of the human capital disclosure in Malaysia. A sample of 185 companies listed in Bursa Malaysia was selected consisting of five industries which are Information Technology, Consumer Product, Industrial Product, Trading/Services and Finance. The descriptive statistics, content analysis were performed to analyze the data.

The result found that about 30 percent of the companies selected disclosed human capital information in their annual reports. This result revealed that most of Malaysian companies are aware about human

capital disclosure in their financial statements. However, the extent of such disclosure is still relatively low at 3.19 percent. The result is consistent with the study by [Huang et al. \(2013\)](#), [Husin et al. \(2011\)](#) and [Olsson \(2001\)](#) expressed that human capital information disclosed in annual reports is deficient in both quality and extent. Additionally, [Husin et al. \(2011\)](#) discussed that generally a Malaysian company does not have a well and consistent HC reporting system. Therefore, it will lead to the quantity and quality of HC reported in the Malaysian annual reports. Since intangible resources, including human resources are vital for future growth, companies would do well to voluntarily disclose more information on this aspect. Hence, the practical guideline is required and need to be established in enhancing such disclosure practice.

It must be noted that this study has limitations. Firstly, a sample size is limited to 185 companies and one year of data only. Thus small sample will not comprehensively or accurately illustrate the real situation occur in Malaysia. Additionally, the study focused on Malaysia, thus the result cannot be generalized to other countries

Secondly, the study is conducted only among public listed companies in Malaysia. Hence, the result may not be generalized to other types of companies like small or medium companies in Malaysia.

To further improve the research, the sample size could be widened and focus on all companies listed in Main Market and ACE Market. The number of years could also be increased to five years in order to see the pattern or trend of the intellectual capital disclosure among Malaysian companies. If all the above suggestions above are taken into consideration, perhaps more conclusive result could be obtained in the future.

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