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# Human Capital Disclosure: The Stakeholders' Expectations and Practice by Malaysian Listed Firms

Salawati Sahari\*, Michael Tinggi, Sharon Cheuk

*Faculty of Economics & Business, Universiti Malaysia Sarawak*

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## Abstract

The research on human capital reporting in corporation has established numbers of increasing studies where the prior literatures focus on the factors influencing the human capital disclosure and its impact towards performance within different countries and markets. Even though there were growing research attention on human capital reporting, there were small number of studies on how far those disclosure practice by the listed corporations actually meet the stakeholders' expectations. Therefore, this study attempt to apply the stakeholder theory to frame the human capital reporting practices by the listed firms in Malaysia. The methodology of this study would be two folds where firstly, to develop the stakeholders' expectation on the human capital reporting measurement items and the perceive importance through a Delphi technique, and secondly, to determine the human capital reporting practices through the content analysis technique from the measurement item develop from the prior Delphi technique. This could fill the gap in the literature by exploring the current extent of human capital reporting by the listed firms in Malaysia and how far such voluntary reporting met the stakeholders' expectations. The findings indicate that regardless of the excessive expectations on human capital reporting by the stakeholders, the corporate reporting practice are still at a lower stage. The researcher explains such findings from a stakeholders' judgmental value, power and the stakeholder-management relationship- as from the point of view from the stakeholders' theory.

**Keywords:** Human capital reporting, Global Reporting Initiative, stakeholder theory, Delphi techniques.

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## 1. INTRODUCTION

Prior research on human capital disclosure and its significances accentuates more on the corporate value creations (Abeysekera, 2008; Beattie and Smith, 2010) where such value creations were measured differently by using both financial and non-financial performance or for further capital accumulation. Moreover, there were also other studies (Lin et al., 2012; Dominguez, 2011; Abeysekara, 2008) which reflect the influence of human capital reporting with the market value in general which focuses more on the stakeholders' value. Most past literatures attempt to quantify the human capital disclosure by applying the Global Reporting Initiative (GRI) index. However, GRI are still deficient on certain issues that maybe be found substantial from the sensitivity of the stakeholders in developing countries. This is because GRI index are mostly constructed centred on the developed countries and the stakeholders' insights are obtained from developed countries. Thus, several issues in the developing countries such as Malaysia may not be emphasized in such index.

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\*Corresponding author. Tel.: +082-584437  
E-mail: [ssalawati@unimas.my](mailto:ssalawati@unimas.my)

Moreover, stakeholders on the other hand, might not agree with such human capital measurement items suggested by the regulations, prior literature, and GRI; or the stakeholders might suggest further indicators based on their understanding and familiarity. Hence, collecting primary data from the stakeholders have motivate this study to further observe the human capital reporting from their personal point of view. Hence, based on the significance as mention before, it is important to ask the following questions for this study:

*Research question 1:* What type of information on the human capital reporting considered significance from the stakeholders' opinion?

*Research question 2:* What is the extent of human capital reporting among the listed firms in Malaysia?

*Research question 3:* Does the information being disclosed by the listed firms meet the anticipations of the stakeholders?

Based on research question 3, stakeholder theory explains the responsiveness of firms to report human capital indicators following the interests of those who have a stake in the activities with regards to the human capital disclosure. Through the stakeholder theory, the objective of this study is to examine whether the extent of the human capital reporting by the listed firms met the expectations of the stakeholders or not. Therefore, the importance of human capital measurement as perceive by the stakeholders constructed here would be useful for the management to quantify their level of disclosure in order to achieve a competitive sustainable reporting.

## **2. LITERATURE REVIEW**

The application of GRI as a guidelines in prior study to measure the voluntary reporting are driven by the following motives: (1) GRI intended to develop a voluntary reporting framework that tries to encourage sustainability reporting practices to a level equivalent to that of financial reporting in rigour, comparability, above all its universal recognition, (2) GRI guidelines setting the qualitative and the quantitative information which covers wide-ranging procedures, and (3) GRI provides a structured framework on the base content of sustainability reporting (Khan et. al.,2011). Therefore, this study develops the initial human capital indicators from the GRI supported by the following previous literature.

### **2.1 Human capital indicators**

According to Pedrini (2007), human capital reporting covers area that collects and disclose information about the composition of the workforce in terms of its belonging to different countries, to different educational levels, the type of contracts offered as well as the sharing of workers with other organisations. The composition also stressed out by Abeysekera and Guthrie (2004) where their study reveal that the 'headcount of firms', or the total workforce as one of the significant attributes in their study. According to them, this probably reflects the fact that firms in Sri Lanka (the sample in that study) are continually restructuring to adopt new technology in order to replace low value adding activities. Further, they justified that it could also be one of the reasons why details on the 'vocational qualifications of employees' were least mentioned.

Jindal and Kumar (2012) also employed the total number of employees as one of the human capital disclosure index item in their study where they also measured separately another part of staff breakdown on qualification, gender, and experience. Moreover, their study also employed the attrition or turnover rate and employee benefits as human capital indicators. Employee benefits also one of the human capital disclosure item frequently reported by the listed firms. Abeysekera (2008) obtained information on employee welfare or benefits that cover a full area of benefits depending on the findings in that study. For an instance, respondents (Engineering Ltd. and Toba Ltd.) in that study, reported that their firms offered funded meals during work hours through their in-house catering facilities to increase employee attendance and motivation to increase capital accumulation.

Furthermore, a study by Khan et. al. (2011) also employed the "employment and benefits" as one of item to measure the extent of disclosure. That study has found that all the samples bank selected in that research disclosed the item on the employment and benefits even though the said measurement item is a voluntary disclosure. This specifies that this item on the employee benefits was considered an important item by the banks in Bangladesh to be communicated to their stakeholders. On the other hand, Beattie and Smith (2010) highlights the importance of employee turnover, as one of the important indicators in an employment disclosure. That study received response that it was recognised that a certain level of turnover was healthy and a valuable contribution in terms of new skills and ideas entering the company. It therefore appears that an optimal level of turnover exists, which balances reappointment costs and the benefits of fresh insight. The respondent, namely the employer, informed that, at a high level, they absolutely wanted to retain their employees and does not want to have too much turnover, but at the same time, zero employees' turnover is not necessarily something that one would aspire to.

Hence, based from the prior literature and the guideline form GRI, the following related measurement of human capital reporting are selected. The following (Table 1) human capital indicators are the initial measurement from literature are not a final lists of indicators since this information will be an input to the questionnaire that will be queried to the stakeholders.

Table 1. Selected human capital disclosure measurement and source of literature

Human capital disclosure measurement	Sources of standard/ literature/ regulations
Total workforce by employment type, employment contract, and region.	GRI LA1; Pedrini (2007); Abeysekera and Guthrie (2004); Jindal and Kumar (2012)
Total number and rate of employee turnover by age group, gender, and region.	GRI LA2; Pedrini (2007); Jindal and Kumar (2012)
Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	GRI LA3; Pedrini (2007); Jindal and Kumar (2012); Khan et. al. (2011), Beattie and Smith (2010)
Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.	GRI LA13; Cahaya et. al. (2012); Pedrini (2007)
Ratio of basic salary of men to women by employee category.	GRI LA14 ; Cahaya et. al. (2012); Khan et. al. (2011);

### 3. METHODOLOGY

#### 3.1 Delphi Technique

The Delphi technique is a systematic procedure to evoke expert opinion where the intended outcome is to achieve a reliable consensus of opinion among a selected panel of experts (Sourani and Sohail, 2014). The process of the Delphi technique can go from one to as many rounds as are necessary to yield a consensus (Nworie, 2011). The instruments used in the process are both interviews and questionnaires in a predetermined number of rounds. The Delphi technique in this study aims to obtain the stakeholders' perception on the human capital indicators initially constructed from the GRI and prior literature (as shown in Table 1). The stakeholders or the panel will edit such indicators which would finally will be the lists that will be applied towards the content analysis technique.

#### 3.2 The Delphi Panel

According to Weidman, et. al. (2011), there are no specified the number of experts needed for a Delphi technique. The panel involved members with a vast knowledge and experience on human capital in listed companies, employee relations and rights, voluntary disclosure and the issue being researched. As for this study, a total of twelve experts have accepted the formal invitation whereby the panel experts represent a wide spectrum of human capital professionals in Malaysia. The composition of this group of experts provides a balanced view for the Delphi study. The details on the panel experts are as follows:

Table 2. Details of Delphi Panel

Role	Description	Number of panel members
Human resource manager	Currently holding a position as assistant vice president in the human resource group in a corporation, human resource manager in a non-listed company, or director of the human resource operations. Having experience as human resource manager or officer from 5 years and above.	5
Employee relation officer	Currently posts as assistant manager (industrial relations) in listed corporations. Having experience handling issues on employee rights in the corporation and working under the human resource department.	2
Government representative	Currently in the Ministry of human resource whom in charge on the investigation with relation to the organizational safe and health.	1
Academician	Currently doing research and teaching courses related with the labor law and rights.	1
Accountant	Accountant involves in preparing the information needed to be disclosed in the annual report of a public listed company and payroll compliance specialists whom in charged in monetary benefits for the employee.	2
Public interest group	Representative from NGO involves in protecting the employee rights among corporations.	1
<b>TOTAL NUMBER OF PANEL</b>		<b>12</b>

#### 3.3 Secondary Data Collection: Content Analysis

Content analysis for this study examined the human capital reporting in the annual reports by the listed companies in Malaysia (for the year 2014) from the indicators previously obtain in the Delphi technique. The extent of human capital reporting was measured by a dichotomous basis (0, 1). This approach is consistent with prior studies (Cahaya, 2012; Jindal and Kumar, 2012). The dichotomous approach used in scoring the extent of the human

capital disclosure assigns 0 if an item in the index does not appear in the annual report and value of 1 if an item is disclosed.

#### 4. FINDINGS

##### 4.1 Results from Delphi

During initial round, the panel members were interviewed featuring the items in Table 3 which indicates the result of the participant perceived item as important (yes) and not important (no). According to Chan, et. al. (2001), items which had been selected as important by more than 50% will be selected for further consideration in the next round of Delphi. Hence, it could be seen from Table 3, that all items were considered important with the lowest percentage of 55% respond “Yes”. In this initial round, one additional indicator was suggested by some of the respondents which is “Compliance with minimum wage policy” and it was given a new coding B1 (coding will be applied in the content analysis).

Table 3. Percentage of Responses from Round One

		No	Yes
A1	Total workforce	0%	100%
A2	Employee turnover	9%	91%
A3	Benefits for full time employees	18%	82%
A4	Breakdown of employees per category	18%	82%
A5	Salary by employee category	45%	55%

Next, in the second round, each panel member was invited to reconsider his/her initial response based upon the responses from the previous round. Questionnaire round two was constructed with five point Likert-scales. The panel needed to reevaluate the importance of each item of human rights disclosure by selecting a degree of importance (0=unimportant, 1 = minor important, 2= quite important, 3= very important, 4= extremely important). Table 4 shows the results from questionnaire round two.

Table 4. Percentage of Responses from Round Two

		0	1	2	3	4
A1	Total workforce	0%	9%	18%	18%	55%
A2	Employee turnover	0%	18%	9%	36%	36%
A3	Benefits for full time employees	0%	9%	9%	45%	36%
B1	Compliance with minimum wages policy	0%	0%	18%	18%	64%
A4	Breakdown of employees per category	0%	0%	45%	45%	9%
A5	Salary by employee category	9%	18%	27%	36%	9%

Table 5 showed the percentage response for each degree of importance from Delphi round three. It could be seen that despite the similar panel and similar questionnaire, the findings from round 2 and 3 are different. However, it should be highlighted that the panel review the findings from Delphi round 2 before they give input in the Delphi round 3.

Table 5. Percentage of Responses from Round Three

		0	1	2	3	4
A1	Total workforce	0%	9%	36%	27%	27%
A2	Employee turnover	0%	9%	36%	46%	9%
A3	Benefits for full time employees	0%	0%	46%	18%	36%
B1	Compliance with minimum wages policy	0%	9%	18%	18%	55%
A4	Breakdown of employees per category	0%	0%	18%	36%	46%
A5	Salary by employee category	9%	0%	18%	27%	46%

##### 4.2 Level of Consensus of the Responses

The main objective for conducting a Delphi technique is to obtain a reliable consensus among participants. The consensus explains the extent to which the experts agree about a given subject matter and a stability of response from the same respondents from different rounds. The level of consensus in this study is measured by the percentage of respondents agreeing. Huges (2003) defined consensus as those descriptors that were regarded as “important” or “very important” by more than 83% of the responses. As for Kilner (2004), the terms agreement being implied by the results, or more specifically in numerical terms such as 55% or 100% agreement on certain issues. Sourani and Sohail (2014) observed agreement among respondents that a certain criterion is important based on having 75% or more of the respondents agreeing on a given ranking. Therefore, within this study, in order to observed stability among respondents, the percentage respondents agreeing on giving a ranking that is equal to or more than 2 (measures as quiet important) are considered. As what can be seen from the Table 5 (total

percentage for column 2,3 and 4), almost all the item in the questionnaire have reach a total percentage of more than 75%, which indicates the panel's agreement. This indicates the consensus have been met in the round 3.

### 4.3 Finalization of the Human Capital Disclosure Index

The participants' agreement on the human capital information and the importance to disclose was developed into an index. Table 6 shows the human capital reporting indicators established in the Delphi exercise with their importance weightings. It could be seen that the panel view all items as important with a weighting of 2.5 and above, given that the scale of 2 indicates "quiet important".

Table 6. List of human capital disclosure items and their importance weightings

		Important Weightings (0 – 4)
A1	Total workforce	2.7273
A2	Employee turnover	2.5455
A3	Benefits for full time employees	2.9091
B1	Compliance with minimum wages policy	3.1818
A4	Breakdown of employees per category	3.2727
A5	Salary by employee category	3.0000

### 4.4 The Extent of Human Capital Disclosure

Table 7 summarizes the human rights disclosure frequency and the percentage of disclosure in the annual reports among a total of 792 listed companies for the year 2014. In general, it could be seen that the percentage of disclosure are very low with only 11.2% as the highest disclosure n the item of breakdown of employees' category.

Table 7. Human capital disclosure frequency and percentage of disclosure

		Non-Disclosure	Disclosure	Percentage of disclosure
A1	Total workforce	704	88	11.1%
A2	Employee turnover	769	23	2.9%
A3	Benefits for full time employees	749	43	5.4%
A4	Compliance with minimum wages policy	780	12	1.5%
E2	Breakdown of employees per category	703	89	11.2%
E3	Salary by employee category	788	4	0.5%

## 5. DISCUSSIONS

### 5.1 The Human Capital Disclosure vs. the Stakeholders' Expectations

Table 8 shows descriptive statistics for both the percentage of human capital disclosure in practice by the listed firms and the experts weighting for importance. In broad-spectrum, it could be seen that all the percentage of disclosure are so inferior, with the highest disclosure rate of only 11.2% only. However, when matches to the expert weighting for importance, most of the item are considered highly importance with a score of above 2.55 (Likert-scale of 0 - 4).

Table 8. Human Capital Disclosure and Stakeholders' Weighting of Importance

	Expert's weighting for importance	Percentage of disclosure
Total workforce	2.73	11.1%
Employee turnover	2.55	2.9%
Benefits for full time employees	2.91	5.4%
Compliance with minimum wages policy	3.18	1.5%
Breakdown of employees per category	3.27	11.2%
Salary by employee category	3.00	0.5%

The 'compliance with minimum wages policy considered highly importance by the experts whereas the percentage as the measurement of the extent of disclosure among listed companies are the lowest in this category. The lowest percentage of disclosure is because the compliance with minimum wages policy are still quiet recent namely in 2012 when looking at the corporate disclosure for the annual report in the year 2014. Additionally, the disclosure on the compliance with minimum wages policy is an additional item suggested by the panel expert and the said issue was only hits the companies in Malaysia quiet recently in 2012.

As for the 'employee turnover', there were almost a consistent finding among the experts' weighting importance and the quality of the annual report disclosure by the listed companies with both low level of importance within this category. Cahaya et. al (2012) also finds a low percentage of disclosure on the item 'total number and rate

of employee turnover by age group, gender, and region' at only 5.83% of listed companies in Indonesia during the year 2007.

## 5.2 Reasoning through Stakeholder Theory

Recall that this most of the participants in this study are knowledge experts in the area of human capital. Hence, the participants or stakeholders may be “mistaken” in their value judgments in that they may not know, objectively speaking, what is best for them or for the issues they care about; such as human resource, labour rights, and policy related with such issue. Whilst it might be sufficient from a purely instrumental stakeholder theory perspective to argue that what really substances are stakeholders' subjective judgments, this is unlikely to suffice from a normative perspective. Therefore, the subjective and judgemental value of stakeholders towards the human capital maybe of high interest for them which derived their perceptions on human capital items at a high level of importance. At the same time, they might disregard the complexity to disclose some human capital item in the annual report.

Furthermore, the contradictions between the stakeholders' high expectations and low level of human capital disclosure could be relate to the “power” point of view. According to Buren and Greenwood (2011), stakeholders are dependent upon the business entity by virtue of their stake; however, the degree to which the firm is dependent on the stakeholder varies. Even withholding their human capital from the organization provides little power (especially in environments in which trade unions do not exist or are suppressed) because these employees are more dependent for their remuneration on their employers than their employers are on them for their labour. Furthermore, employers may perceive (with some justification) any particular group of workers as easy to replace. Hence, the employee as a stakeholder could be viewed as having lower “power” to control the behaviour of their management to disclose some human capital indicators which might be considered important by the employees.

## 6. CONCLUSIONS

The main motivation to conduct this study is to ascertain whether the information on human capital disclosure in practice by the listed firms met the stakeholders' expectations. When compared to the human capital disclosure by the listed firms, most of the percentage of disclosure are too low which stipulates an inferior level of reporting among the listed firms. This indicates that despite the high expectations of the panel experts on the importance to disclose the human capital items, the disclosure is still at a poorer stage. The stakeholder theory attempt to explain this finding whereby: (1) The judgmental value of the stakeholders could drive the stakeholders to perceive the human capital issues as important due to their higher interest on subject matter, (2) Stakeholder with lower level of power cannot control the management's decision, and (3) Stakeholder-management relationship where the stakeholders are dependent to the management and therefore cannot challenge the management decision. This study could contribute gives a direction to the listed firms to disclose more information on human capital to the stakeholders to fulfill their expectations. Further, the management could gain which among the all human capital indicators are considered importance to their stakeholders and therefore could focus to disclose such item in their forthcoming reports. Additionally, the significance of high expectations of the stakeholders could further pointed out the policy makers maybe in future to includes such human capital disclosure as a compulsory disclosure.

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