

Stakeholders' Expectations on Human Capital Disclosure vs. Corporate Reporting Practice in Malaysia

Salawati Sahari¹, Esmie Obrin Nichol¹ & Suzila Mohamed Yusof¹

¹Faculty of Economics & Business, Universiti Malaysia Sarawak

Correspondence: Salawati Sahari, Faculty of Economics & Business, Universiti Malaysia Sarawak, 94300 Samarahan, Sarawak, Malaysia. E-mail: ssalawati@unimas.my

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Abstract

Corporate disclosure of human capital has received growing research attention in different countries and markets. While past studies have explored the antecedent and implications of reporting human capital, studies on how far those disclosure practices actually meet the stakeholders' expectations are still lacking. Hence, this study attempt to apply the stakeholder theory to frame the human capital reporting practices by the corporations in Malaysia. The methodology of this study is twofold; firstly, to develop human capital reporting measurement items as per the stakeholders' expectation and their perceived importance of those items through a Delphi technique, and secondly, to determine the extent of human capital disclosure practices through a content analysis of the annual reports. The findings indicate that despite stakeholders' high perceived importance on human capital disclosures, the corporate reporting practices are still at an inferior stage. This study contributes in such a way to fill the gap in the literature by exploring the current extent of human capital reporting by the listed corporations in Malaysia and how far such disclosure met the stakeholders' expectations. This study also highlights the significance of the stakeholders' voice and participation as one of the main driver towards sustainability reporting.

Keywords: human capital reporting, global reporting initiative, stakeholder theory, Delphi techniques, content analysis

1. Introduction

Human and intellectual capital is one of, if not, the most prized asset of an organization. As the global economy becomes increasingly knowledge-intensive, so does the value of this intangible asset. This warrants for greater scrutiny of the people-related data, and its contribution on corporate value creation has become an important research issue in recent years. A variety of studies have tested the impact of human capital disclosures in annual reports of companies on corporate value creations (Abeysekera, 2008; Beattie and Smith, 2010), where such value creations were measured differently using both financial and non-financial performance information. Other studies (Lin et al., 2012; Dominguez, 2011; Abeysekara, 2008) tested the impact of human capital disclosures by companies on the market and stakeholders' value.

Most prior studies attempt to measure the human capital reporting by applying the Global Reporting Initiative (GRI) index (Khan et. al., 2011; Cahaya et. al., 2012; Khan et. al., 2011). However, the GRI index may lack certain issues that are deemed significant from the perception of the stakeholders in developing countries. This is because the construction of the GRI index was based on the economies and perceptions of stakeholders of developed countries. Thus, several issues unique to developing countries, such as Malaysia, may not be highlighted in the GRI index.

Existing human capital indicators, as suggested by both the regulations and prior literature may not confirm to the expectations of stakeholders. Moreover, stakeholders may see the need to suggest additional indicators, based on their knowledge and experience. Hence, the motivation of this study is driven by the desire to observe the human capital disclosure items from the personal perspective of key stakeholders, through the collection of primary data from the stakeholders. The contribution of this study to the existing literature could be view by addressing the following research questions: