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Intellectual Capital: A Focus on Human Capital Reporting Practices of Top Malaysian Listed Companies

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Editor's Note

Strengthening bilateral economic cooperation between two countries will provide significant benefits for them. For example, in the case of bilateral trade, the benefits enjoyed here are in accordance with the law of comparative advantage, which mentions that two countries will enjoy the benefits of trade between them if the relative costs of producing goods and/or services are different. In other words, since one country is more efficient in producing certain goods or services, the other country will be better off if it imports those goods and/or services from that country instead of producing them domestically.

In an effort to strengthen the bilateral economic cooperation between Indonesia and Turkey, Turkish President Abdullah Gul visited Indonesia on 4th-5th, April 2011. A year before, President Susilo Bambang Yudhoyono paid a visit to Turkey.

In welcoming the visit of President Gul, the Indonesian Chamber of Commerce and Industry held the Business Forum on 5th April, 2011 which invited Indonesian and Turkey's businessmen, experts and academics.

In his speech, President Gul said that there are some important economic cooperation between Turkey and Indonesia in terms of the bilateral trade and investment, as well as cooperation in education. Data shows that the bilateral trade value between Turkey and Indonesia increased USD1.7 billion in 2010, up from USD1.2 billion in 2009. Of the total USD1.7 billion, around USD1.4 billion was in favor of Indonesia. The two countries have set a target of bilateral trade value at around USD5 billion by 2014 and up to USD10 billion in the future, including by boosting investment cooperation. Turkey`s investment in Indonesia has reached USD70 million, while Indonesian investment in Turkey is only USD600,000.

Regarding the data, Indonesia has offered the special economic zone development project to Turkish businessmen. In terms of international trade and management, this special zone could create the advantages in trade and investment sector for the Indonesia-Turkey bilateral trade; so far it is also expected to also provide the countries in the ASEAN Community with the spillover of opportunity. However, Turkey could be the gate to the European Union markets, which means that this international cooperation will help Indonesia expand its export market in the European Union.

Gul revealed at a joint press conference with Yudhoyono that the two countries are expected to sign an agreement on free trade within the framework of comprehensive and strategic cooperation in the near future. Both Gul and Yudhoyono are optimistic that the bilateral trade value target could be achieved given the two countries` huge economic potential.

Rofikoh Rokhim

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Intellectual Capital: A Focus on Human Capital Reporting Practices of Top Malaysian Listed Companies

Norhayati Mat Husin*, Noormala Ahmad**, and Raedah Sapingi***

This paper aims to examine the extent of human capital (HC) reporting among top Malaysian companies and introduce an HC reporting guideline that can be used by Malaysian companies and regulator. It begins by developing the HC framework based on previous intellectual capital (IC) frameworks. This framework is then used to examine each of the top 100 Malaysian companies listed on the Bursa Malaysia in year 2008. Using the content analysis method, it reviews the annual reports of these companies to determine the extent of HC reporting. The findings of this paper highlight the need for the development of IC framework particularly on HC. HC differences were also identified between Malaysia and other countries such as Sri Lanka and Australia, and it is argued that these differences can be attributed to the social, economic, and political factors.

Keywords: *Human capital, intellectual capital, Malaysia*

Introduction

Malaysia has embarked on a mission to develop a knowledge-based society by launching a Knowledge-Based Economy Master Plan in 2002, which outlines various strategies to accelerate the transformation of Malaysia to a knowledge-based economy (Economic Planning Unit, 2001). It aims to achieve a sustainable economic growth where Malaysia can no longer rely on investment in capital or physical assets but rather growth must be driven by productivity and innovation supported by effective management of both tangible and intangible resources, i.e. the intellectual capital (IC). IC generally made up of the combined knowledge of human capital (HC), internal capital, and external capital (Guthrie et al., 2004). HC is a component of IC, for companies' knowledge is stored within its employees and the flow

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from organizational assets is determined from companies' ability to utilize their employees.

It is expected that the number of knowledge workers will increase in the near future of Malaysia and this new phenomenon will force companies to further develop and manage their HC. However, other than the concern on HC management, what is equally important is that the accounting discipline reflected in financial reporting as currently conceived can no longer provide what is being demanded by information users and investors. What this paper trying to propose is the need for a much more broadly conceived concept of company's reporting in Malaysia, based on the dual requirements of financial and operational reporting, and within this context, HC reporting.

Apart from IC, HC reporting under corporate social responsibility (CSR) reporting has also becoming a subject of increased attention by academics and regulators. Even though CSR reporting is only at the voluntary adoption stage, Malaysian Securities Commission (SC) views CSR reporting as one of its ongoing work towards developing a strong framework for good corporate governance. This leads to the launching of CSR framework by Bursa Malaysia on September 2006 that looks at four main focal areas i.e. the Environment, the Workplace, the Community, and the Marketplace. Nonetheless, it is assumed that since development of CSR is still considered as new in Malaysia, it is expected that there will be ample opportunities for improvement for Malaysian companies in the area of CSR.

With this background on the importance of HC reporting, it is worth investigating how Malaysian companies produce report on their HC. This paper employs content analysis to investigate HC reporting in the annual reports of the top 100 firms (by market

capitalization) listed on the Bursa Malaysia Stock Exchange in 2008. The paper has four aims. *First*, this study will propose a HC reporting guideline that can be used to assess the extent of HC reporting. *Second*, using a sample of 100 top Malaysian listed companies, this study will examine the extent of HC reporting, from both quantity and quality perspectives. *Third*, the findings are then analyzed and compared with those previous IC studies, either conducted in Malaysia or in other countries. *Finally*, the study identifies avenues for future research into HC and IC reporting.

The paper is structured as follows. The next section gives a review on development of IC and development of HC in Malaysia. Section 3 sets out the research design and methodology. Section 4 explores the research results. Section 5 summarizes the findings and indicates the limitations of the research and potential research directions.

Literature Review

The rise of IC

The concept of IC were first advanced by an economist, John Kenneth Galbraith, who in 1969 wrote to a friend called Michal Kalecki, claiming the world owed a lot to IC over these last decades (Bontis, 2001). The claim is supported by the rise of the "new economy" identified by Organization for Economic Co-operation and Development (OECD), driven by the increasing importance of information and knowledge (Petty and Guthrie, 2000). According to the OECD report, Scoreboard 2001 – Towards a Knowledge-Based Economy, in Edvinsson and Bounfour (2004), in this "new economy" any country that has knowledge intensive activities will be the winners in terms of future wealth creation. This explains the change in investment pattern in countries like United States (US) and Sweden. Based on a research conducted

by Lev (1997) at Stern University, New York, by 1990 the investment pattern in US and Sweden has changed from mostly on tangible goods to dominantly intangibles, such as education and competencies, and IT software (Edvinsson, 2000). Furthermore, it is estimated that on average more than 10% of OECD countries' GDP go to intangible assets or IC (Edvinsson, 2000).

This new situation indicates there will be a change in company's structure from traditional scale-based manufacturing that relies mainly on tangible assets, to new innovation-oriented activities, which are based mainly on IC such as human capital and knowledge (Bismuth and Tojo, 2008). Bontis (2001) has provided evidence on the acceptance and inclusion of IC as part of companies' productive assets in developing strategic performance measure. In Bontis (2001) study, Arthur Andersen revealed very interesting results from an international survey conducted on a total of 368 companies from European, North American, and Asian companies. The results showed among others that the majority of respondents believed IC reporting will increase in the future, even though it will still be done on a voluntarily basis, and that most admit that knowledge measurement would improve company's performance. This evidence supports the assertion that IC is becoming instrumental in the determination of companies' value and consequently national economic performance.

However, with this development emerges a new paradox that investing on IC could lead to short-term deterioration of profit which in turn reduces the book value of a company particularly those investments that is visible on company's balance sheet such as investment on information technologies (Edvinsson, 1997). This will probably hamper the development of IC reporting but ignoring the investment on IC might be out of question since most IC

items are beneficial for long–term benefits. Therefore, for a company that has a major proportion of investment stream goes into intangible assets, Edvinsson (1997) suggests for a need to move to a new level of accounting system particularly a new reporting system that can measure this new investment momentum.

Apart from the need for a new accounting system that can cope with this new investment structure of a company, a new system is also crucial to prevent more corporate collapse. According to Abeysekera (2005), the relevance of traditional financial reporting has diminished over the years due to its limitation in preventing series of accounting scandals and corporate collapse in recent years. As stated in Abeysekera (2003), one of the increasing importance of IC is it has the potential to explain many of the difference between companies' market value and book value, which might not be able to explain by the traditional accounting system particularly the financial reporting system (Petty and Guthrie, 2000). This potentially leads to lots of corporate collapse in the recent years. Therefore, what is needed is a construction of a new accounting system that enable the non-financial, qualitative, items of IC to be measured alongside traditional, quantifiable, financial data (Johanson et al., 1999). Furthermore, the shift of companies' investment into IC has also been observed by users of accounting information that further accentuate the importance of having IC reporting (Abeysekera, 2006). Countries like Denmark, for example, has already launched a project in 1998 to look at intellectual accounting that aimed to transform Denmark from an industry to knowledge-based economy (Edvinsson and Bounfour, 2004). One of the initiatives developed by Danish government is the introduction of IC statements guideline that can help companies to report their IC

information (Edvinsson and Bounfour, 2004). Nonetheless, despite this effort made by Danish government, IC concept is still at its infancy stage for certain countries particularly developing countries like Malaysia.

Development of IC frameworks

The ongoing disagreement on how to define IC highlights the need to provide a classification of IC instead of proposing a set of IC definition. Classification is said to be less stringent than definition (Choong, 2008). This could be the reason why Petty and Guthrie (2000) propose OECD's definition as one of the most workable definitions of IC. OECD describes IC as: *"The economic value of two categories of intangible assets of a company i.e. organizational (structure) capital and human capital (OECD cited in Petty and Guthrie, 2000)"*.

OECD definition is supported by a number of IC studies such as Edvinsson and Malone (1997) and Roos et al. (1997) (Schneider and Samkin, 2006). However, most of these IC studies have used IC frameworks (will be discussed later) that assume three categories of IC, i.e. external capital, internal capital, and human capital. The difference between two or three categories is interpreted by some researchers as due to differences in acknowledging management method for structural capital and human capital (Tan et al., 2008). Note also OECD definition has used the term intangible assets rather than IC. In fact, a detail analysis on the definition shows that OECD's definition has made appropriate distinction between these two terms by locating IC as a subset of intangible assets (Petty and Guthrie, 2000). Therefore, there is a possibility of some intangible nature such as company's reputation that could not be part of company's IC as reputation may be a by-product of the judicious use of

company's IC, but it is not part of IC per se (Petty and Guthrie, 2000).

Apart from OECD definition, this study identifies three other main IC frameworks that provide three different categorization of IC:
(1) The Intangible Assets Monitor (Sveiby, 1997);
(2) The Scandia Navigator (Edvinsson, 1997);
(3) Technology Broker Framework (Brooking, 1996).

Choong (2008) claims Sveiby (1997) is the first from non-accounting perspective to propose the classification of IC under a framework called "The Intangible Assets Monitor". One of the most interesting quotes coming from Sveiby (1997) is: *"The combination of a manufacturing perspective and a financial focus prevents managers from seeing the new, largely intangible, world that is emerging. If we measure the new with the tools of the old, we will not see the new. Our common sense will prevent us (Sveiby, 1997)"*.

Sveiby (1997) then proposes a new tool to measure the new and "invisible" part of the balance sheet that can be classified as a family of three: (1) Employee or people competence; (2) Internal or organization structure; and (3) External or customer structure. This classification suggests that all assets structures, whether tangible physical product or intangible relations, are the result of human action and depend ultimately on people for their continued (Sveiby, 1997) and that non-financial measures can provide a mean of complementing financial measures (Huang et al., 2007). In brief, employee competence denotes employees capacity to act in a wide variety of situation in a company, internal structure represent everything created by employee that generally owned by the company, and lastly external structure includes company's relationship with external parties like customers and suppliers (Sveiby,1997).

Few major studies on IC is said to have adopted Sveiby's three categorizations of employee, internal and external capital with different ways in interpreting each of the categories (Choong, 2008). Guthrie and Petty is one of the most prominent studies on IC that has adopted Sveiby's framework. However, Guthrie and Petty (2000) modifies Sveiby's framework from a structure based of IC into capital based of IC which means all IC items are classified into three groups of capital namely internal capital (instead of internal structure), external capital (instead of external structure), and human capital (instead of employee or people competence). This framework is then adopted by more recent IC studies like Guthrie et al. (2006) and Abeysekera (2007).

The Scandia Navigator is developed by Scandia AFS headed by Leif Edvinsson, Director of Intellectual Capital, the first ever in the world (Edvinsson, 1997). This IC framework incorporates two elements: (1) A theoretical framework for public reporting of intangible assets brought forward by a group of members from several Swedish knowledge companies called "The Konrad Group"; and (2) The Balance Score Card introduced by Kaplan and Norton (1993), in Sveiby (1997). According to this framework, company's value is created due to the interaction between people (HC) and the company's organizational structural capital, and when are added together equivalent to IC (Edvinsson and Bounfour, 2004). HC represents the combined knowledge, skill, and ability of company's employee to meet task on hand, while structural capital includes any organizational capability that support employee's productivity (e.g. software and databases) or anything that gets left behind at the office when employees go home (Bontis, 2001). Interestingly, unlike Sveiby's framework, customer capital is not treated as one separate category but is considered as one of the expansions from structural capital. Customer capital, under this framework, represents the relationship developed by employees with key customers (Bontis, 2001).

Finally, the Technology Broker framework introduced by Brooking (1996) provides IC categorization from the assets perspective. Brooking (1996) in her book on IC states that company's market value is determined by two elements: tangible and intangible assets. The framework for intangible assets or IC has the following categories:

(1) Market assets (consisting of service or product brands, backlog, customer loyalty, etc);
(2) Intellectual property assets (patents, know-how, trade secret, etc.);
(3) Human-centered assets (education, work related knowledge, vocational qualification, etc.);
(4) Infrastructure assets (management philosophy, corporate culture, networking systems, etc.) (Abdolmohammadi, 2005).

This framework has also been used by major IC researchers over the years. For instance, Guthrie and his colleagues has revised Brooking's framework to conduct IC study on Australian companies and the latest refined revision is presented in year 2003 of their study (Abdolmohammadi, 2005). However, the most significant contribution of Brooking (1996)' framework comes from its introduction of a diagnostic process, using the Technology Broker Framework, to audit the strength of company's IC and then offers a toolbox to assign value to the IC (Bontis, 2001). This approach is said to provide a practical contribution to the business society (Bontis, 2001).

Given the availability of these various framework and that some researchers might prefer one framework over another, the issue

remains whether the chosen framework is better than the others, which means there is still no agreed classification scheme across studies of IC. However, it is safe to conclude that looking at many IC models being created, it is increasingly understood that IC and more prominently HC are, in general, invaluable assets in contemporary knowledge-driven economies (Bontis, 2003; Edvinson and Sullivan, 1996). Edvinson and Sullivan (1996) further argue that managing IC is about managing knowledge and leveraging HC, and HC is vital as it is the component of IC that gets transformed into value through the medium of structural capital.

IC reporting (ICR)

Studies on ICR can be grouped into three: (1) Studies that focus only on one country (Goh and Lim, 2004; de Pablos, 2005); (2) Studies that intent to compare ICR performance between countries (Abeysekera, 2008; Vergauwen and Alem, 2005); (3) Studies that look at ICR performance of same countries over several numbers of years (Vandemaele et al., 2005; Williams, 2001) .

Overall, three main conclusions can be derived from the findings of these ICR studies. *First*, result from most of the studies show there is an increasing trend of ICR among companies that indicate companies growing concern on the importance of IC, particularly between the end of 20th century and the beginning of 21st century. For instance, in Williams (2001), from year 1996 to year 2000, the quantity of ICR among United Kingdom (UK) companies has increased from a mean of 0.2363 (1996) to 0.3709 (2000). Guthrie et al. (2006) study on Australian companies has also shown a different result as compared to the study conducted in year 1998. There is an increase on internal capital reporting and external capital reporting from 30% and

40% respectively, in year 1998, to 41% and 49%. However, interestingly, this is not the case for HC as the reporting has decreased substantially from 30% to only 10%. This is supported by another study conducted by Sujan and Abeysekera (2007) that shows a reduction in HC reporting among Australian companies to 21%. Even though more investigation need to be done, but one of the possible reasons for this decrease could be due to the change in labour laws that give employers more freedom to hire and fire employee leading to reduction in interest to win employees' loyalty (Sujan and Abeysekera, 2007).

Second, results from most of these ICR studies have led to a conclusion that there are differences in ICR practices among countries. For example, a study conducted by Vandemaela et al. (2005) has revealed that Swedish companies report significantly more (at 5% level), in their annual reports, as compared to the Dutch and UK companies, which is consistent with the leading role taken by Sweden in the debate on IC management, measurement, and disclosure. The same conclusion can be found in Abeysekera (2007) study, where differences have been identified between Sri Lankan and Australian companies. It is argued that these differences are attributed by the economic, social, and political factors (Abeysekera, 2007). *Lastly*, most of the studies have shown that among the three commonly known IC capitals, external capital reporting has earned the highest amount of reporting. This is proven in studies like Bozzolan et al. (2003) and Striukova et al. (2008). Both studies have revealed an external capital reporting level of 49% and 61.08%, respectively. An explanation for this higher level of reporting, as compared to other types of IC, could be due to the globalization and liberalization of trade leading to a more intense competition between companies (Sujan and Abeysekera, 2007) that has

forced companies to value the importance of external relationship.

Another interesting finding from the review of ICR studies is that most studies concentrate on high income countries (according to the World Bank list) or developed countries (according to the Human Development Index). The remaining studies have been conducted on countries like South Africa, Malaysia, Sri Lanka, and India that falls under the developing countries category. Therefore, it is safe to conclude that there is dearth of studies on developing countries or low/middle income countries that lead to a gap between IC literature on developed countries and developing countries. IC studies on developing countries could be of interest as with the growing important of globalization, which lead to relatively free flow of capital between countries, investors' interest have moved to developing countries (Abeysekera, 2007). Malaysia, in particular, has embarked in new economic development where cheap labor is no longer a competitive advantage as it can be found in countries like Vietnam, leading to new type of investment, i.e. human knowledge, that is expected to create high value-added in production and give Malaysia a competitive advantage in the new knowledge based economy (Goh and Lim, 2004). The study conducted by Goh and Lim, therefore, has provided a good starting point for further studies on the extent of ICR among Malaysian companies. However, while the findings of this study is consistent with most of IC studies conducted on developed countries, a more comprehensive study on ICR could be made to support the findings by applying a more comprehensive research methodology. Note that apart from the study conducted by Goh and Lim (2004), there are other IC studies conducted on Malaysian companies (e.g. Bontis et al., 2000; Huang et al., 2007). However, their studies focus more on investigating IC performance in Malaysian companies instead of analyzing ICR through corporate reports.

The preceding review on ICR literature shows there is an increase interest on the reporting of IC that motivates the need to explore the extent of reporting among Malaysian companies. However, this study will only explore the extent of HC reporting (subcategory of IC) as the first stage of potentially a more comprehensive research that will look at the overall ICR level of Malaysian companies. The next paragraphs will review the development of HC reporting in Malaysia.

Development of HC reporting in Malaysia

Malaysia aims to be a developed country by year 2020 and as declared in 'Vision 2020, the government has introduced many initiatives to improve Malaysian economic growth, for examples The Malaysia Plans (MPs) and New Economic Policy (NEP). In addition, these long-term plans have contributed to the average growth of Malaysian economy of 6.2% per annum starting from the year 1995 to 2005. Several Malaysia plans have been initiated and the seventh Malaysia plan (7th MPs) for period 1996 to 2000 has taken into consideration education and skills training. The government has urged major utility companies to upgrade their training facilities and at the same time, many skills training institutions have to be set up both by the government and private sector.

Traditionally, the function of HC is providing administrative support on day-to-day companies' operation. Ulrich (1997) states that in today's business environment HC roles need to be transformed into providing administrative expert, employee champion, change agent and strategic partner to the organization. Employees are now need to be provided with chances to change their roles by becoming true-value-adding partners to the companies that can

play a major path in the process of wealth creation (Goh, 2005). This transformation is also important due to the monumental improvement in information and communication technology and the emerging of the knowledge economy (k-economy). Zainol (1999) highlights that in enhancing work and economic performance and sustaining competitiveness, a trained, a skilled and well-educated workforce is critically needed to transform Malaysia into knowledge–based society. Shifting to a knowledge-based economy means our country need to build more efforts and focus lies with the development of HC in order to produce adequate supply of agile and mobile workforce with relevant knowledge and skills. This development involves providing education and training that can be measured in many ways, for instances, expenditure on education and training, years of schooling, number of enrolment and level of education of the labour force.

Malaysia has taken steps to show the importance of HC development by significantly links government spending on education and training to economic growth variable represented by GDP (Ismail and Jajri, 1998). Other evidence can be seen from the 7th Malaysia plan when the federal government has increased their spending on education and training from MYR19.7 billion to MYR22.7 billion in 8th Malaysia Plan (2001 to 2005). Furthermore, the increase in allocation of education and training is also due to the substantial increase in the number of population having access to education at all stages. For example, students' enrolment in Malaysia, from year 1995 to 2000 has shown a double figure at the tertiary level in local public educational institutions. This situation is consistent with overall pattern of employment which shows high average annual growth rates for administrative and managerial category followed by professional and technical

category. This pattern shows that there was a strong demand for manpower which required both skills and tertiary education.

Since Malaysia is undergoing transformation process into a knowledge-based society where employees must be ready to be trained and retrained, it is expected that there will be a change in investment structure of a company. There will be a growing realization that company's value can no longer rely dominantly on tangible assets, but has shifted to intangible assets that mainly derived from HC. This means, there is a need for Malaysian company to change it way of reporting and more information on HC is needed to better reflect company's activities and eventually company's value. From observation of this study, there is still lack of evidence showing how far Malaysian company has gone in changing their reporting system to accommodate information on HC and even the regulators are yet to come out with a proper guideline on how to report IC. This leads to one of the objectives of this study, i.e. to propose a guideline that can be used not only to prepare but also measure HC reporting.

HC reporting and CSR

There has been argument in the literatures on HC as one of the elements presented in CSR. The debate mainly concentrates on whether HC belongs to at all in the realm of social reporting with the term human resource (HR) accounting. Social reporting can be defined as the process of communicating the social and environmental effects of organizations economic actions to particular interest groups within society or at society at large (Gray et al., 1987). The line of reasoning behind social accounting literature is that a better-informed society will be empowered to ensure that organizations operate to the benefit of the society (Cooper, 2004) and

therefore it is hoped that a 'more benign' form of business activity will result (Gray et al., 1997).

In comparison, the scope of HR accounting is much narrower, and it can be argued that the major impetus for the development of HR accounting has been a desire to improve managerial decision-making and not for the interest of society (Harte, 1988). HR accounting, at its simplest, attempts to value the employees of an organization. According to Gray et al. (1996), this is done for various reasons, including (a) the recognition that employees may be the principal asset of an organization and so should appear on the balance sheet; (b) accounting-driven arguments that expenditure on employees may often be in the nature of an investment and therefore, following the matching principle, should not all be shown as a cost of the period; (c) to attempt to assess the investment on employees and whether or not the investment is gaining or losing financial value to the organization; and (d) as an element in the assessment of management performance in that a 'good' manager will manage the HRs as well and carefully as other resources and not, for example, exploit them for short-term gains.

In contrast to Harte (1988), Gray et al. (1996) provides argument and evidence on how reporting on employees has become one of the CSR requirement for European Union (EU) countries which provide directly for employee related CSR. As an illustration, the BMW Report provides a bar chart depicting the standard yearly working time in the metal working industries of countries like Germany and France. This is done not only as relatively novel example of CSR but also illustrates one example of how companies might use disclosure to attempt to manage their legitimacy or the political economy of the environment through attempting to influence perceptions of the corporate climate. Furthermore,

providing a report on HC is also useful for prospective employees (as part of members of the public). The information provided offers the potential employee opportunities to assess the security and prospects of employment, and provides information for the purpose of collective bargaining.

This study, therefore, accept the notion that HC reporting is also part of CSR and therefore, any outcomes from this study will also be of interest for researchers and regulators in the area of CSR. The following section will explain the research design of this study.

Methodology

The research methodology for this study is divided into five categories: (1) development of HC index; (2) content analysis; (3) development of coding framework; and (4) sample selection.

Development of HC index

As stated in previous section, there are varieties of IC framework available and since there is no evidence stating one framework is better that the others, this study has chosen to adopt Sveiby (1997) framework. Sveiby (1997) concludes that IC can be categorized into three subcategories, i.e. employee competence, internal structure, and external structure. Other prominent researches on IC such as Petty and Guthrie (2000) and Abeysekera and Guthrie (2004) have also adopted the three group categorization of Sveiby, but they have termed them differently. The three categories of IC are detailed in Table 1.

A review on the IC literature yielded a list of items that can be classified under each IC category. Table 2 provides list of items pertaining to HC. This list is developed from previous content analysis studies of IC (see Abeysekera and Guthrie,

Table 1. Categorization of IC

IC categories	Alternative labels	Description
Internal capital	Organizational capital Structural capital Internal structure Internal relations	Refers to the knowledge embedded in organizational structures and processes, and included patents, research and development, and systems (Petty and Guthrie, 2000)
External capital	Customer capital External structure Relational capital External relations	Refers to the knowledge embedded in the organizational relationship with customers, suppliers, stakeholders, and strategic alliance partners (Bontis, 1998)
Human capital	Employee competence Personnel competence	Refers to the knowledge employees take with upon leaving a firm, such as knowledge, skills, experiences, abilities, motivation and tasks (Roos and Roos, 1997)

Table 2. List of HC items

Human Capital	Illustration
Number of employees	Employee count of a company and employee breakdown by job function, including information on changes in the numbers.
Employee age (other than board of directors – BOD)	Other than quantitative data, should also includes qualitative description of age-related advantages/strengths of a company's employees (other than directors), and indicators such as average age of a company's employees and age distribution.
Employee diversity	Refers to the mix of e.g. ethnicity, gender, color, and sexual orientation. Relevant information includes the mix and breakdown of employee by race, religion, and culture.
Employee equality	Information on equal treatment of employees irrespective of social and cultural differences. Relevant information includes policy on employee equality and evidence of enforcement.
Employee education (other than BOD)	Education of employees
Employee work-related competence (other than BOD)	The knowledge and skills that can be useful to accomplish jobs. It refers to e.g. professional recognition/qualification, awards won, and employee publication
Employee work-related knowledge (other than directors)	Mainly refers to knowledge that employees have related to their current job description, including employees' previous working experience.
Employee attitudes/behavior	Information on employees' attitudes towards their working environment. Relevant disclosures could be employee commitment to the organization, employee friendliness, and identification of individuals with company's goals.
Employee motivation	Information on company's policies to motivate employees and evidence on the implementation of those policies. This includes reward (internal) and incentive scheme e.g. employee explicit recognition.
Employee productivity	Typically measured as output per employee or output per labor hour. Indicators include e.g. employee value added, revenue or customer per employee.
Employee training	It includes e.g. training policies, description of programs, time, number of employees trained per period, and training results.
Employee development	Employee career development. Disclosures included employee development policies, change of employee seniority, rate of internal promotion, and termination of employee.
Entrepreneurial skills/spirits	It refers to companies effort in developing employee's entrepreneurial skills
Employee teamwork	Concept of employee working together cooperatively. Covers information about culture of teamwork and programs that enhance relationship between employees within/across department.
Employee capabilities	Other employee abilities apart from the above discussed e.g. communication ability, interpersonal skills, sensitivity, and reflexibility.
Employee involvement with community or environment	Employee social competence that can be reflected by their involvement with community or their contribution to the environment.
Employee welfare	Employee compensation plan, employee benefits, employee share and option ownership plan, employee safety, and the welfare of employees' family members.

2005; Jing et al., 2008; Schneider and Samkin, 2006; Sujan and Abeysekera, 2007).

Note that in this guideline, BODs' information is not tested together with employees to avoid the possibility of directors' information overshadowing employees' information. In Malaysia, part of listing requirement is to report information regarding company's BOD. Therefore, if BODs' information is considered together with employee, some item with regard to employee will be considered as disclose simply because of BODs' information.

Content analysis (CA)

CA of annual reports has been used, and held to be empirically valid, in social and environmental reporting (SER) research (Gray et al., 1995; Guthrie and Parker, 1990). However, at the start of 21st century, with the growing popularity of publication and research on IC measurement and reporting, CA is no longer limited to SER studies but has been seen as one of the most popular method in the area of IC.

Kripendorff (2004) defines CA as *"a research technique for making replicable and valid inferences from texts (or other meaningful matter) to the contexts of their use"*. For CA to be effective, certain technical requirements should be met (Guthrie and Mathews, 1985):

i. The categories of classification must be clearly and operationally defined;
ii. It must be clear that an item either belongs or does not belong to a particular category;
iii. The information needs to be able to be quantified;
iv. A reliable coder is necessary for consistency.

As the first and second points has been covered through development of HC index, this section will focus on the third and fourth requirements as in the accounting literature debate continues on which unit of analysis should be used to quantify the disclosures item and use as a basis for the coding. Note, that in the SER research, it is recognized that the quantity of disclosure only does not indicate what is actually being disclosed and that is why prior research in the SER literature have examined both the amount of disclosure and quality of the data disclosed (Guthrie et al., 2004).

Unit of analysis

One of the key assumptions underlying all quantitative CA studies is that the quantity of disclosures signifies the importance of an issue (Krippendorf, 2004; Gray et al., 1995). However, one complication in examining unit analysis used in ICR studies is that many accounting researchers have not been explicit about their unitizing practices which make their discussion ambiguous and require interpretation (Steenkamp and Northcott, 2007). This can be seen in studies like Guhtrie and Petty (2000), Goh and Lim (2004), Abeysekera (2007) and Abeysekera (2008). Because of this limited guidance, this study will have to refer to SER studies for more discussion on different type of unitizing. Gray et al. (1995) reported that there is some debate around the unit of analysis in SER reporting but the preferred units of analysis in written communications tends to be words, sentences, and pages. Most of ICR studies, however, have used sentences as the basis for coding.

Generally, most of the above methods (except for pages) were appropriate for coding written text only, but visual images do not have the natural grammatical of written texts (Steenkamp, 2007). Therefore, another approach that can be used is to use the above methods (except pages since pages already capture visual images) to capture ICR messages and using the visual itself and its surrounding to capture IC messages

that were conveyed through visual images (see Bakhtiar, 2005; Steenkamp, 2007).

Reliability of CA

Even though unitizing using sentences seems to be a more popular method among ICR' researchers, it seems that whatever method being chosen, researchers need to demonstrate the reliability of their instruments and/or the reliability of the data collected using those instruments. This will permit replicable and valid inferences to be drawn from data derived from CA (Milne and Adler, 1999). Krippendorf (2004) identifies three types of reliability for CA; stability, reproducibility, and accuracy. Table 3 provides a summary of all three types of reliability.

Milne and Adler (1999) have conducted an experiment on these reliability tests and concluded that to establish a minimum standard to be achieved in CA is complex. The choice between methods is often arbitrary. They further advice researchers that what is more important are to understand the tools, their limits, and the research context, before making careful interpretations of results. For the purpose of this study, as there is no strong agreement on which test is more reliable, stability test

is chosen to test the reliability of the chosen unit of analysis.

Development of multidimensional coding framework

Beretta and Bozzolan (2008) argue that to appreciate what has been disclosed by a company, researchers need to adopt a multidimensional framework that jointly considers not only how much is disclosed (the quantity of disclosure) and also what and how it is disclosed (richness of disclosure). Therefore, this proposed IC index will look at both quantity and quality of disclosure and the scoring framework is presented in Figure 1.

Quantity of reporting

The concern of this study is to find meaning in the information disclosed in the annual report and thus the chosen unitising method will be sentences as compared to word or pages. All HC information expressed using text will be captured through counting number of sentences with one sentence will be counted as one and will be categorized accordingly according to the quality of disclosures categories.

Table 3. Types of reliability

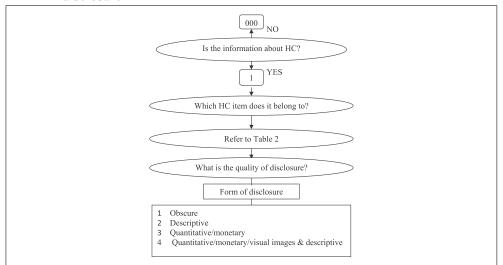| Reliability	Definition	Test
Stability	The ability of a judge to code data the same way over time	Test-retest procedure e.g. annual reports analyzed by a coder could again be analyzed by the same coder three weeks later. If the coding was the same each time, then the stability of the CA would be perfect
Reproducibility	The extent to which coding is the same when multiple coders are involved	Test-test e.g. two or more individual, working independent of each other, apply the same recording instructions to the same units of analysis. The measurement would be based on both intraobserver inconsistencies and intraobserver differences in the interpretation and application of given recording instructions
Accuracy	Assessing coding performance against a predetermined standard set by a panel of expert or know from previous experiments and studies	Test-standard i.e. researcher must compare the performance of one or more data-making procedures with the performance of a procedure that is taken to be correct. The reliability would be measured based on intraobserver inconsistencies, intraobserver differences, and deviations from a given standard

Source: Krippendorf (2004)

Figure 1. A multidimensional framework for assessing the quantity and quality of disclosure

```
                              ┌─────┐
                              │ 000 │ NO
                              └─────┘
                    ╭───────────────────────────╮
                    │  Is the information about HC?  │
                    ╰───────────────────────────╯
                               ┌───┐
                               │ 1 │ YES
                               └───┘
                    ╭───────────────────────────╮
                    │  Which HC item does it belong to?  │
                    ╰───────────────────────────╯
                    ╭───────────────────────────╮
                    │        Refer to Table 2       │
                    ╰───────────────────────────╯
                    ╭───────────────────────────╮
                    │  What is the quality of disclosure?  │
                    ╰───────────────────────────╯
                       ┌──────────────────┐
                       │  Form of disclosure  │
                       └──────────────────┘
        ┌──────────────────────────────────────────────────┐
        │  1   Obscure                                       │
        │  2   Descriptive                                   │
        │  3   Quantitative/monetary                         │
        │  4    Quantitative/monetary/visual images & descriptive │
        └──────────────────────────────────────────────────┘
```

The biggest obstacle in measuring the quantity of disclosure is how to measure charts, graphs, and pictures (referred as visual images in this study) containing IC information. Most of the previous studies on ICR either choose to ignore this part of information (see Schneider and Samkin, 2006) or simply do not offer any explanation on how they capture the IC information (Goh and Lim, 2004; Garcia-Meca and Martinez, 2005) that raises the issue on whether or not they have considered those visual images. For the purpose of this study, to reduce the amount of judgement need to be made, only visual images that comes together with caption are included in the analysis. Each line/row in a chart/table will be considered as equivalent to one HC information while each picture (regardless of the size) will be considered as one HC.

Quality of reporting

One of the biggest contributions of this paper is to measure the quality of reporting on HC information as most of the previous IC studies focus more on the quantity of reporting (see Steenkamp, 2007; Sujan

and Abeysekera, 2007). As for IC studies on Malaysian companies, all of the studies either concentrate more on IC measurement or only on the quantity of reporting (see Goh and Lim, 2004; Huang et al., 2007; Seetharaman et al., 2002) instead of quality of reporting.

However, the concern remains on what is the best way to measure quality as there is no universal agreement on what constitute the measurement of disclosure quality. On the other hand, this disagreement on how to measure quality should not undermine the importance of measuring quality of reporting as quantity does not reflect quality and even if the quantity of information disclosed influences the quality of information, an assessment on disclosure quality cannot be based purely on this association (Beattie et al., 2001). One of the commonly used measurements is form of disclosure as applied in studies like Sujan and Abeysekera (2007) where disclosure information are classified into qualitative or quantitative. However, instead of categorizing forms of disclosure into only qualitative or quantitative, this study has modified the six-point scale from Schneider and Samkin

(2006) to a new four-point scale. This new scale has taken into consideration not only qualitative/quantitative information but also information conveyed through visual images. Table 4 provides a description for the four-point scale of forms of disclosure.

Sample selection

The largest 100 public listed Malaysian companies, by market capitalization, are identified as the sample size of this study. Main reason that leads to this decision is to conform with a view suggested by Guthrie et al. (2006) that large companies are more likely to be more progressive and innovative because they have the financial resources that enable this type of behavior. Given that Malaysia is a developing country and HC/IC reporting is still at voluntarily stage, it is generally expected that, due to resource and visibility factors,

large companies are more likely to be active in the area of HC/IC reporting (Guthrie et al., 2006). Moreover, the size effect is largely controlled by selecting only top 100 companies by market capitalization which is the same approach taken by Guthrie and Petty (2000), Abeysekera and Guthrie (2005), and Sujan and Abeysekera (2007).

This study will use annual reports as source documents as they are most widely distributed and regularly produced documents (Campbell, 2000). Other types of resources, for instance, a separate statement on CSR, are ignored on the basis that producing a separate statement is not compulsory to all companies. It is expected not all companies will produce the additional statement whilst all companies need to produce annual reports. For a long time, annual report has been used by companies as a channel to establish an image in the public domain, and communicates with

Table 4. Forms of disclosure

0	Information not disclosed
1	Obscure i.e. the disclosed information was discussed in limited reference or whilst discussing other topics
2	Descriptive i.e. the disclosure item was discussed (not with other topics) using sentences
3	Quantitative/monetary i.e. the disclosure item is clearly defined in monetary or actual physical quantity
4	Quantitative/monetary/visual image and descriptive i.e. the disclosure item is clearly defined using sentences and supported with either quantitative/monetary or visual images

Table 5. Summary of results

IC items	Quality of disclosure				Quantity
Human resource	1	2	3	4	
Number of employees	11	0	14	52	77
Employee age	0	0	186	0	186
Employee diversity	2	12	16	46	76
Employee equality	3	23	0	11	37
Employee education	0	386	0	8	394
Employee work-related competence	5	153	0	0	158
Employee work-related knowledge	1	620	0	0	621
Employee attitudes/behaviour	60	21	0	3	84
Employee motivation	6	51	14	14	85
Employee productivity	1	8	18	28	55
Employee training	54	460	28	200	742
Employee development	34	110	4	22	170
Entrepreneurial spirit	1	5	0	17	23
Employee teamwork	2	0	0	1	3
Employee capabilities	0	0	0	0	0
Employee involvement with community	0	130	10	94	234
Employee welfare	94	1562	430	1960	4046
Total:	**274**	**3541**	**720**	**2456**	**6991**

investors (Lang and Lundholm, 1993). Due to the differences in the financial year ends of the companies in the sample, 31 December 2008 has been used as a cut-off point.

Result and Discussion

State of HC reporting

The analysis on HC reporting reveals that generally a Malaysian company does not have a well and consistent HC reporting system. It is noticeably that some companies presented lots of information on their HC. For instance, given the nature of Malaysian culture that has different major races, i.e. Malay, Chinese, and Indians, it should be expected that there is diversity of employee employment. Therefore, there should be a consistent report on employee diversity in all annual reports but as shown in the result only 1% (76 disclosures over 6,991 total disclosure) of the total disclosure of HC information is related to employee diversity. This inconsistency reconfirm the findings of previous studies on IC such as Sujan and Abeysekera (2007) and Guthrie and Petty (2000), which means it could be explained using similar arguments.

In Malaysia, apart from the CSR framework introduced by Bursa Malaysia, there is still no established Malaysian framework for IC reporting and hence HC reporting. Even though CSR framework offers a guide for Malaysian public listed companies to report their IC, the framework offers fairly limited amount of guideline on what kind of information is expected. For example, one of the main focal areas under this framework is "the workplace" which is relevant for HC reporting. The framework then provides a list of seven initiatives that companies should aim to become a sustainable employer of choice. The list consist of employee volunteerism, health, safety and welfare, employee

communication channels, company-wide employee opinion survey, sports and wellness programmes, and employee training. Even though this list provides a good starting point for companies, a more thorough guideline is needed to ensure a more consistent and well structured HC report.

Another reason for the inconsistency is that some companies might have lack of measurement tools or mechanism for assessing and reporting changes in their HC. However, this justification becomes weaker if the analysis is conducted on top 100 Malaysian firms. One of the reasons that lead to the choice of large companies as sample size is that it can be assumed large companies will have all financial resources to support a move to IC reporting (Guthrie and Petty, 2000) and in this case HC. Alternatively, as HC reporting is still at voluntarily stage as compared to other types of information particularly the financial information, companies may regard this information as only internal management issue (Sujan and Abeysekera, 2007) and should be reported internally. As mentioned in Guthrie et al. (1999), companies may set priorities as to what is to be reported and at this early stage of HC reporting, they might have not seen yet the importance of external reporting such as HC or IC.

Note however, majority of the companies examined offer information on employee welfare with a percentage of 58% from the total disclosures. The main attribute that lead to this consistency in report for employee welfare could be due to mandatory disclosure of employee benefits in the company's annual report under FRS 119 – Employee Benefit. As most of the companies, particularly large companies, are now offering employees' share scheme benefits to their employees, therefore it is expected that companies offer detail information on this scheme. On the other hand there is also consistency in reporting

of employee capabilities that include information on employees other abilities such as communication skills, interpersonal skills, and reflexibility. None of the companies have disclosed information on this which could be due to the reason that all these skills are not directly related to the company's production process. Instead, these are more related to employee personal skills and if reported it will enhance employee personal development and will not directly affect company's value.

Quality of reporting

Of the HC information reported, 86% (combination of quality level 2 and quality level 4) of total disclosures were in a descriptive format. It is acknowledged that most information on employee is difficult to quantify (such as employee attitudes and motivations). Therefore it is expected that companies offer a descriptive explanation for these items. Note however, there are avenues to quantify certain types of employee information. For instance, even though is it difficult to put a monetary value to employee equality and diversity, company can still disclose quantitative information by providing ratio between different genders or ratio between different types of races.

The same argument can be used for certain items which are normally very quantitative. For example, items such as number of employees is normally disclosed using quantitative term but company can still offers a descriptive information by disclosing information such as factors that lead to the changes in number of employees. The same goes for employee age as companies should not only limit their report to employees age (which is what most Malaysian companies are currently reporting) as they could also provide other information such as qualitative description of age-related advantages or strengths of a

company's employees. Another interesting finding from a study on quality is that most companies used visual images to support the information disclosed on items such as employee welfare, employee training, and employee involvement with communities. There is logic in this, as these are the items which are easy to capture through visual images particularly pictures.

Comparison with previous studies

As noted, this is a study on IC reporting that focus particularly on HC. Similar studies have been conducted in other countries including Malaysia. However, the main limitation of this comparison is that most of previous studies have used smaller sample size and there could be differences in number of items attribute to HC. Nonetheless, it is still worth to examine how well Malaysian companies perform in terms of HC reporting, as compared to other studies.

In a study conducted by Goh and Lim (2004) on 20 Malaysian companies, 80% to 100% of companies provide reports on work related knowledge, competencies, and entrepreneur spirit. However, it is important to note that the latter study used broader HC categories as compared to this current study where lots of items are not included and it is hard to know what is included under each category as detail information is not provided. For example, there is no requirement to disclose employee welfare that contributes to more than 50% of total companies' disclosure in this current study. In a comparison with other study conducted on other developing countries, it could be assumed that there is consistency between previous studies and this study. For instance, in a study conducted by Abeysekera and Guthrie (2005) on top of 30 Sri Lankan companies, the most reported sub category of HC is employee relations that feature information such as employees'

involvement with communities. Even though employees relations are not the same as employee welfare, it can be argued that both countries (Malaysia and Sri Lanka) are on the same track as they rely more on building their employees' tacit knowledge base that begins from individual employee as compared to concentrating their energies on direct codification of knowledge (Abeysekera, 2007). This is accomplished by encouraging communities practice (in the case of Sri Lanka) and providing lots of employee benefits (in the case of Malaysia) as one of the form to increase employees' happiness.

On the other hand, in a study conducted on developed countries such as Australian (see Abeysekera, 2007), the most reported HC category is entrepreneurial skills, which is among the least reported category in Malaysia. Based on Abeysekera (2007), this difference between developed countries HC reporting and developing countries can be attributed to cultural, social and economic factors. In particular, the low reporting of entrepreneurial skills could be due to Malaysian culture that borrows lots of know-how from United States (US) and United Kingdom (UK) that results in Malaysian companies to not demanding a high level of innovation from their employees.

Conclusion

It can be concluded from this study that there is still no generally accepted HC framework that can be used to guide company's reporting on HC. However, in the absence of such guideline, Malaysian companies still make an effort to disclose information with regard to their employees. Nevertheless, there are still some areas of HC reporting that could have been approved to improve the quality of reporting among Malaysian companies. This study not only provides evidence on the extent of HC reporting among top Malaysian companies, but also has helped to identify differences in HC reporting across countries. More importantly, this study has introduced a preliminary guideline that can be used, not only by companies, but regulators to develop a more comprehensive framework for HC reporting.

The study and the results are subject to three limitations. *First*, the usage of content analysis means the analysis has involved lots of judgement in determining which HC attributes belong to a given HC category. Although every effort has been made to minimize volume of judgment, there remains possibility of few coding errors (Sujan and Abeysekera, 2007). *Second*, the result of this study cannot be generalized to all Malaysian companies as it is conducted only on top Malaysian companies. *Finally*, by comparing the result with other studies, this study is making comparison between different time periods, different sample size, and different number of HC categories.

Three avenues are suggested for further studies. *First*, this study can be extended to other categories of IC, i.e. external capital and internal capital to give a more complete overview on the extent of IC reporting among Malaysian companies. *Second*, relationship could be investigated between HC reporting and other variables such as companies' performance. If IC is believed to be able to help explaining the difference between company's market value and book value, there could be potential relationship between company's performance and HC reporting or IC reporting. *Lastly*, a more comprehensive study can be conducted by adding more measures in the coding framework particularly on the quality of reporting. For instance, the location of HC information in the annual report is potentially revealing as it represents company's commitment to HC information (Sujan and Abeysekera, 2007).

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Instructions to Contributors

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The South East Asian Journal of Management (SEAM) aims to present the latest thinking and research that test, extends, or builds management theory and contributes to management practice.

Contents of the Journal will be of interest to management teachers, student and researchers as well as to practicing managers and material will be analytical rather than descriptive.

Whilst a major focus of the journal is on the Asian countries and management issues connected with it, increasingly, global concerns and conceptual topics will be covered. The Journal does not take a narrow view of business and management and will publish in other disciplines if they contribute significantly to problems considered by managers and researchers.

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Notations should be clearly explained within the text. Equations should be centered on the page. If equations are numbered, type the number in parentheses flush with the right margin. Unusual symbols and Greek letters should be identified. For equations that may be too wide to fit in a single column, indicate appropriate breaks.

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Books:

Bagozzy, R.P. (1980), *Causal Models in Marketing*, New York: Wiley.

Journals:

Singh, J. (1991), Understanding the Structure of Consumers' Satisfaction Evaluations of Service Delivery, *Journal of the Academy of Marketing Science*, 19 (Summer), 223-244.

Three or More Authors:

Zeithaml, V.A., Berry, L..L., and Parasuraman, A. (1993), The Nature and Determinants of Customers Experiences of Service, *Journal of the Academy of Marketing Science,* 21 (Winter), 1-12.

Article in a Book Edited by another Author:

Levitt, T. (1988), The Globalization of Markets, in *Multinational Marketing Management*, Robert, D.B., and Quelch, J.A. (Eds.), Reading, MA, Addison Weley, 186-205.

Unpublished Dissertations:

Paterson, K.S. (1985), The Effects of Bilingual Labels in Buyer Behaviour, *Dissertation*, University of California at Irvine.

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