

Annual Reporting Practices: Human Capital Information by Malaysian Services Companies

(Amalan Pelaporan Tahunan: Maklumat Modal Insan oleh Syarikat Perkhidmatan Malaysia)

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ABSTRACT

The importance of human capital reporting has increased in recent years. Stakeholders such as financial analysts and investors are calling for more transparency and fuelling interest in the value that employees bring into a company. To date, annual reports rarely provide quantitative data on human capital; the information provided is often general and of little value. This study examines the human capital disclosure practices of listed services companies in Malaysia. The study uses a qualitative approach of content analysis to analyze disclosure in the 2009 annual reports of companies. The findings reveal that human capital disclosure varies across industries. This study indicates that majority of firms (in trading and services, finance, and hotel industries) generally provide more information on the related attribute of "employees". Among the three industries, the finance industry provides the highest frequency. However, firms in the technology industry disclose more information on attributes related to "training and development". These findings indicate that the nature of work expectation leads to variance of disclosure on human capital attributes (HCA) among firms within the services industries. Technology firms disclose more information on training and development to indicate that these attributes will help their employees stay updated with new developments in the technology industry. This study also indicates that there is inconsistency in disclosing HCA among firms in the services industry. Firms in the finance, technology, and hotel industries disclose more information on "facilities and benefits provided" whereas firms in the trading and services industry disclose more on attributes related to "effort for human capital development".

Keywords: Human capital reporting; human capital disclosure; qualitative approach

ABSTRAK

Kepentingan pelaporan modal insan telah meningkat sejak tahun-tahun kebelakangan ini. Pihak-pihak berkepentingan seperti penganalisis kewangan dan pelabur memerlukan maklumat yang lebih telus berkaitan dengan nilai kakitangan sesebuah syarikat. Pada masa kini, data kuantitatif berkaitan dengan modal insan yang dilaporkan dalam laporan tahunan adalah sangat minimum, lebih bersifat umum dan rendah nilainya. Kajian ini mengkaji amalan pendedahan modal insane dalam syarikat-syarikat perkhidmatan yang tersenarai di Bursa Malaysia bagi tahun kewangan 2009. Kajian ini menggunakan pendekatan kualitatif, di mana analisis dokumen dilakukan untuk menganalisis amalan pendedahan modal insan di dalam laporan tahunan syarikat. Secara umumnya hasil kajian mendapati bahawa pendedahan maklumat modal insane adalah berbeza antara industri. Maklumat berkaitan 'pekerja' adalah yang tertinggi dilaporkan bagi ke semua industri yang dikaji (industri perdagangan dan kewangan, dan industri perhotelan). Antara ke semua industri, syarikat dalam industri kewangan mempunyai kekerapan pendedahan makluma tmengenai modal insan yang tertinggi. Seterusnya, dapatan kajian mendapati bahawa frekuensi pendedahan untuk modal insan adalah paling tinggi bagi industri kewangan. Tetapi, syarikat dalam industri teknologi lebih banyak mendedahkan maklumat berkaitan "latihan dan pembangunan". Dapatan ini menunjukkan sifat jangkaan kerja menyebabkan perbezaan pendedahan sifat modal insan dalam kalangan syarikat dalam industri perkhidmatan. Syarikat industri teknologi menekankan kepada latihan dan pembangunan kerana factor ini membantu pekerja sentiasa dikemaskini dengan perkembangan baru dalam industri teknologi. Kajian ini juga mendapati wujudnya ketidakselarasan dalam pendedahan HCA dalam kalangan syarikat dalam industri perkhidmatan. Syarikat dalam industri kewangan, teknologi dan perhotelan mendedahkan lebih banyak maklumat berkaitan dengan "fasilitas dan faedah yang disediakan" manakala syarikat dalam industri perdagangan dan perkhidmatan pula lebih banyak mendedahkan maklumat berkaitan dengan "usaha-usaha berkaitan dengan pembangunan modal insan".

Kata kunci: Laporan modal insan; pendedahan modal insan; pendekatan kualitatif

INTRODUCTION

The business dynamics of the k-economy are driven by knowledge-based assets, which are becoming more vital in corporate value creation compared with physical factors (Ahn & Hang 2004; O'Donnell et al. 2003; Demediuk 2002; Teece 2000; Dzinkowski 2000). The emphasis on knowledge is identified as the primary source of competitive advantage (International Federation of Accountant [IFAC] 1998). Knowledge-based assets comprise knowledge embedded in individuals (employees, suppliers, and customers) and organizations (Demediuk 2002; Sullivan 1999; Stewart 1997; Brooking 1996). However, traditional financial statements are said to provide insufficient information to enable stakeholders to understand how company resources create value in the future. The traditional accounting model is based on the principle of historic cost. Thus, only a narrow range of intangibles is included in the financial report. The importance of knowledge assets has increased in the recent years, but reported inadequately in the financial reports of companies (Ng 2008). As a result, financial reports fail to reflect a wide range of value that creates knowledge, which is required by most stakeholders to evaluate company performance, particularly because these knowledge assets comprise of human capital that may create the capital accumulation of firms (Abeysekera 2008b; O'Donnell et al. 2006; Edvisson & Sullivan 1996).

Companies are starting to recognize that having good human capital who are skilled and motivated can make a significant difference. The management must recognize the value and contribution of its human capital to grow and adapt. Arguably, treating money spent on human capital as an investment in an important asset is a more appropriate mindset than treating it as expense (Stockey 1991) because human capital is a critical part of the productive capacity of the company. A company can never own its human capital, but it can wholly control employee motivation or productivity. However the importance of human capital in creating value for companies still not acknowledged by some Chief Financial Officers (CFOs). A research conducted by CFO Research Services (2003) indicates that only 16% of their respondents value the importance of return on investment on human capital. Although 36% of their revenue is spent on human capital, these "assets" are not recognized as one of the important assets that generate their income.

The disclosure of knowledge assets information (especially human capital) in Malaysia remains unregulated (Ching et al. 2008). Therefore, human capital disclosure is voluntary, where companies have discretion in deciding the information to be disclosed. A study by Hassan et al. (2009) found that human capital component is the lowest level of intellectual capital information disclosed by Malaysian firms listed on the MESDAQ market. Malaysian Exchange of Securities Dealing & Automated Quotation (MESDAQ) is part of Bursa Malaysia that deal with securities market mostly for listing technology-based companies and now

has been changed to the ACE market. This finding is consistent with those of Striukova, Unerman, and Guthrie (2008), Bozzolan, O'Regan and Ricceri (2006), and Goh and Lim (2004). The most relevant study that specifically examined human capital reporting in Malaysia is that of Ching et al. (2008). The study reports the low level of human capital disclosure among the top 100 companies in Malaysia. The lack of information on human capital disclosure can be attributed to the ignorance of companies on the importance of this information in decision making. Therefore, management may neglect or refuse to disclose this information in their annual report (Ching et al. 2008). Malaysian companies may not be aware that human capital information enables investors to assess the ability of the company to produce wealth in the future. In addition, disclosure of human capital information may attract highly skilled individuals to join the company (Bontis 2002). A highly skilled workforce can contribute to the survival and sustainability of the companies, especially in a highly competitive knowledge-based economy (Finney, Campbell & Powell 2004; Demediuk 2002; Groves 2002).

The lower level of human capital disclosure may reflect the unsupportiveness of Malaysian companies toward national agenda. Thus, a clear understanding of the usefulness of human capital information to the nation, particularly to the Malaysian economic sector, is important to achieve Malaysia's national mission in a knowledge-based economy. However, recent studies on intellectual capital that examined the level of disclosure found that human capital component is low compared with the other two components of intellectual capital, namely, internal and external capital (Rahim, Atan & Kamaluddin 2011; Hassan et al. 2009; Whitting & Miller 2008, Ching et al. 2008; Bozzolan et al. 2006; Guthrie et al. 2006). Hassan et al. (2009) and Ching et al. (2008) focused on the top 100 companies and the technology intensive companies listed in MESDAQ companies, respectively; thus their findings may not reflect other industries. Moreover, human capital is considered immutable, which can differentiate between product and services companies (Abeysekera 2008a). Therefore, examining human capital disclosure practice within the services industries is relevant because this industry is highly dependent on human capital. Human capital can be a source of competitive advantage (Barney & Wright 1998) because they perform the mission and strategy of the firm (Wright & McMahan 1992). Therefore, the current study aims to gain insight into the level of human capital disclosure (we acknowledge that human capital has been examined as part of intellectual capital disclosure. However, studies that specifically examine human capital disclosure are limited, although human capital is the most important resources in this knowledge-based economy) among the Malaysian services companies and determine the dimension of human capital information that were given more disclosure by these firms.

This paper is organized as follows. The following section discusses previous studies related to human

capital. Section three elaborates on the methodology used. Section four presents the results. Finally, section five concludes the paper.

LITERATURE REVIEW

CONCEPTUALIZATION OF HUMAN CAPITAL

Human capital means a stock of knowledge and a flow that include human resource management practices, policies, procedures, organizational culture, systems, and culture that leverage this knowledge to create value (Abhayawasa & Abeyssekera 2008). The above definition indicates the importance of human capital in the success of companies. Thus, a company must understand its human capital and tap into its collective human resource to be more competitive. However, according to Mayo (2000), a company's statement on the importance of its human capital has become *cliché*. He argues that people's experiences are not necessarily consistent with their interpretation about the company's statement.

Schultz (1961) defines human capital as abilities and skills of a certain group of people or an individual person that has value. According to Schultz (1961), all human abilities, whether innate or acquired, are considered human capital. Within the intellectual capital components, human capital is often singled out as primarily important to organizational value creation (Bontis & Fitz-Enz 2002; Fitz-Enz 2000). Human capital is also important for organization innovation (Bontis 1997), and is used in the process of creating value from intellectual capital (O'Donnell et al. 2003; Edvisson & Sullivan 1996). Skilled and engaged employees are required to drive innovation (Cuganesan, Carlin & Finch 2009) because both create and subsequently realize the benefits of favorable customer, supplier, and broader external relations. Therefore, the management of human capital is critical for effective business competition (Sveiby 1997).

Previous studies on human capital strive to quantify the value that individuals bring to the organization (Grojer & Johanson 1998; Roslender 1997; Pfeffer 1995). However, unlike other type of assets, human capital is not owned by the company, but is held through the employment link (Sveiby 1997). Thus, attempts to quantify human resource are challenging and have yet to be resolved.

THEORY IN VOLUNTARY DISCLOSURE

Existing literature identified four theories that relate to voluntary disclosure, namely: (1) stakeholder theory, (2) legitimacy theory (Guthrie, Petty, Yongvanich & Ricceri 2004; Miller & Whiting 2005), (3) signaling theory, and (4) decision usefulness theory (Miller & Whiting 2005). The stakeholder theory states that the management of a company should act in a way that is expected by all affiliate groups and persons. Therefore, management

should act in the best interest of the stakeholders by reporting relevant information (Clarkson 1995), which include intellectual capital information (Miller & Whiting 2005). Intellectual capital, particularly human capital, is of interest to the stakeholders because it creates value. Therefore, reporting human capital information is relevant to the stakeholders.

The legitimacy theory addresses the social contracts between the organization and the general public. According to Guthrie et al. (2004), companies will act in a way that is considered legitimate by society. Thus, companies should disclose significant information (e.g., human capital) to be considered legitimate. This theory argues that companies should communicate with their human capital whenever their success or loss is not visible in the tangible assets, and thus, may not be considered legitimate (Miller & Whiting 2005; Guthrie et al. 2004; Mouritsen, Bukh & Marr 2004).

According to signaling theory, companies voluntarily disclose information in their annual reports to signal positive information (Miller & Whiting 2005). This disclosure will reduce information asymmetry (that will lead to adverse selection) among parties involved in a business transaction (Akerlof 1970). In addition, this disclosure will change the belief of stakeholders especially investors (Williams 2001; Spence 1973), which eventually results in better valuation of the firm, thereby reducing the cost of capital (Vergauwen & Van Alem 2005). Finally, the decision usefulness theory argues that companies can better preserve or attract capital by providing information such as human capital information (Miller & Whiting 2005).

HUMAN CAPITAL AND FINANCIAL REPORTING

Previous studies identify human capital as an essential element that drives value creation for companies (Hamzah & Ismail 2008; O'Donnell & Bakery 2003; O'Regan et al. 2001). Disclosure studies on intellectual capital in a company's annual report (Branco et al. 2010; Oliveras et al. 2008; Abeyssekera & Guthrie 2005; Goh & Lim 2004; Hedlin & Adolphson 2000; Olsson 2000) have evaluated the level of emphasis placed on human capital disclosure. The relative importance placed on human capital by companies is less than the other types of intellectual capital, namely, structural capital and relational capital, because the disclosure level of human capital information is lower (Branco et al. 2010; Oliveras et al. 2008; Abeyssekera & Guthrie 2005).

Human capital disclosure is presently unregulated, which allow companies to choose what, when, and where to disclose. Human capital disclosure is proactive and voluntary. Human capital information disclosed in the annual reports are not presented in a systematic and consistent manner because there are no legislative or accounting requirements that need to be met, indicating that companies can set agendas to facilitate their capital accumulation through human capital disclosure.

Previous studies indicate that human capital information is important for the existence (Stewart 2003), survival, and sustainability (Ng 2008) of companies. Human capital disclosure positively affects a company's market-to-book ratio and return-on-sale (Lin et al. 2012). Bhattacharya, Gibson and Doty (2005) found that human capital is positively associated with return-on-sales, operating profit per employee, and sales per employee. Wyatt (2005) indicates that: a) superior human capital practices correlate with improved financial returns and b) human capital is a leading indicator of increased shareholder value. Moreover, human capital information enables investors to assess the ability of the company to generate wealth in the future (Ensslin & Carvalho 2007).

Studies on intellectual capital disclosure increased in the past decades. Human capital information has been identified as the most important asset for an organization. However, few evidence that support the notion that human capital information adds value to other economic decisions, particularly in a small economy such as Malaysia, exist (Hassan et al. 2009). Traditional accounting systems provide insufficient information for valuation and investment decision making (Garcia-Ayuso 2002). Thus, disclosing non-financial information such as human capital information would help stakeholders to understand the future potentials of companies. This process will help decrease uncertainty about future prospects of the company and facilitate more precise valuation of the company, resulting in lowering cost of equity capital (Mouritsen et al. 2004).

Researchers have endeavoured to understand the level of human capital disclosed by companies (Abeysekera & Guthrie 2005; April, Bosma & Deglon 2003; Arvidson 2003; Bergamini & Zambon 2002). Most of these studies measure intellectual capital based on Sveiby's (1997) tripartite intellectual capital classification framework, i.e., external capital, internal capital, and human capital. However, the results are inconsistent. Guthrie, Petty,

Ricceri, and Wells (1999) found that the human capital disclosure has a similar frequency with the disclosure of internal capital. This finding is consistent with Brennan (2001) and Vandemaele, Vergawan, and Smith (2005). Nevertheless, Abeysekera and Guthrie (2005) reported higher human capital disclosure than internal capital disclosure in Sri Lanka. Meanwhile, Oliveras and Kasperskaya (2005), and Bozzolan, Favotto and Ricceri (2003) found that human capital is the least reported component. In the study of Branco et al. (2010) on intellectual capital disclosure in the annual reports of 24 Portuguese companies, they found that the human capital is the most widely reported subcategory.

Previous studies also identified several firm characteristics related to the level of intellectual capital disclosure, such as company size, age, profitability, and growth. These characteristics can be considered as control variables (Taliyang 2011; White et al. 2007). In addition, the industrial sector has also been identified as an important predictor that influences the level of intellectual capital disclosure (Oliveras et al. 2006; Bozzolan et al. 2006). According to Bozzolan et al. (2006; 2003), the demand for intellectual capital disclosure is higher for companies in industries where the future variability is higher and the ability to forecast result is more difficult, such as in knowledge-intensive sectors. Therefore, knowledge-intensive sectors should disclose more intellectual information because their assets include higher level of intangibles, such as skills, people, innovations, and inventions because these information are essential in assessing firm value.

In Malaysia, the studies that examine the intellectual capital practices include those of Abdul Rashid et al. 2012; Rahim et al. 2011; Salamudin et al. 2010; Foong et al. 2009; Ching et al. 2008 and Goh and Lim 2004. These studies found the human capital category to be the least reported and are mostly reported in narrative forms. Table 1 provides a summary of the intellectual capital studies in Malaysia.

TABLE 1. Summary of Intellectual Capital Disclosure in Malaysia

Researchers	Area of studies	Findings
Goh and Lim (2004)	Examine annual reports of 20 companies in the year 2001.	The intellectual capital disclosures were mostly in qualitative forms and the external capitals were the most disclosed category.
Ching et al. (2008)	Study on human capital disclosure of Malaysia top companies based on the concept of human resource costing and accounting.	The concept of human resource costing and accounting is distant to human resource manager in Malaysia.
Foong et al. (2009)	Review top 30 and the bottom 30 companies by market capitalization at the end of year 2003.	Intellectual capital information is mostly in narrative forms and not extensive.
Salamudin et al. (2010)	Examine annual reports of 2,121 companies for the period 2000-2006.	Increase in disclosure of intangible assets was increased.
Rahim et al. (2011)	Study the intellectual capital reporting in technology industry.	This industry disclosed most on external capital.
Abdul Rashid et al. (2012)	Investigate intellectual capital disclosure of 130 initial public offering prospectuses.	Decrease in the disclosure of intellectual capital disclosure from the year 2004 to 2008.

Past studies have found evidence that suggests that the practice of human capital disclosure will result in greater competitiveness and performance. Lumpkin and Dess (2005) found a significant relationship between innovativeness and firm performance under the human capital philosophy. Similarly, Lajili and Zeghal (2006) support the positive influence of human capital information on the market value and performance of firms. However, Firer and Williams (2005) did not find any association between human capital disclosure and firm profitability and performance. Interestingly, researchers also tend to benchmark human capital disclosure against non-financial performance indicators, such as workers compensation, quality (numbers of errors in production), shrinkage, productivity, and operating expenses (Firer & Williams 2005).

Burgman and Roos (2007) suggested that development in corporate governance can be one of the factors that influence the demand for human capital information. The Malaysia Code on Corporate Governance (MCCG) was revised in 2007. The code requires public listed companies to comply with the standards of corporate governance so that stakeholders can assess the information. This requirement may encourage Malaysian companies to disclose more intellectual capital information in their annual reports. Furthermore, the development of human capital of the nations is one of the targeted areas in the Ninth Malaysian Plan. Therefore, this study examined the human capital disclosure practice among Malaysian listed companies in 2009 annual reports to determine the extent to which companies have responded to the call of the government.

METHODOLOGY

This study uses content analysis to identify the level of human capital disclosure reported by the sample firms. The analysis involves reading the entire section of the annual reports and recording the information related to each variable. The technique is established for making replicable and valid inferences from data according to their context (Krippendorff 1980). Thus, the analysis can facilitate a systematic, objective, and reliable codifying of qualitative and quantitative information into pre-defined categories to derive patterns in the presentation and reporting of information. Annual reports were chosen as the main source of reference for firm disclosure practice. This method was employed because firms use annual reports to communicate information beyond finances to show leadership and vision in a broad range of narrative information and management thought, including human capital practices in companies (Niemah 1995). This process aims to reflect the value and position of the firm, and establishes a strong public image. Therefore, we expect to capture human capital

information in firm annual reports. We examine the 2009 annual reports because this was the most recent report available at the time of the study.

This study uses the human capital disclosure measurement developed by Guthrie and Petty (2000), which has been widely adopted by several researchers (Bozzolan et al. 2003; Abeysekera & Guthrie 2005). Based on the framework developed by Guthrie and Petty (2000), human capital items are categorized into five components, namely, employees, training, education, work-related knowledge, and innovation. However, the education component is removed in the current study because this information is most unlikely to be reported by Malaysian companies. Thus, human capital is categorized into four categories, namely, employees, training, work-related knowledge, and innovation, in this study.

A comprehensive content analysis was performed to examine the company's narrative disclosure on human capital. NVIVO software was used to facilitate the coding process and text search. The software enables all sources to be organized either in the form of unstructured (free nodes) or structured category (tree nodes). Sample firms were selected from the top 100 companies listed in Bursa Malaysia based on the firm's market capitalization. Large companies were chosen as samples because they have greater tendencies to provide supplementary disclosure voluntarily (Adam et al. 2004). As evidenced from previous studies, company size significantly influences the level of intellectual capital disclosure (Bozzolan et al. 2003; Guthrie et al. 2006; Zaludin 2007; Taliyong 2011). The current study focuses on firms from four industries, namely, trading and services, finance, technology, and hotel industry. These industries rely heavily on human capital, and are thus more likely to have greater disclosure of human capital. However, some of the samples were eliminated because of unavailable data. Therefore, the final sample consists of 39 firms.

The human capital information obtained from the analysis of the annual reports is recorded by sentence count. The sentence count method is viewed to be the most reliable and complete unit of analysis (Milne & Adler 1999). Other units of analysis in content analysis, such as words, paragraphs, or pictures, were not used for this study because individual words have little meaning without context and paragraphs contain several different meanings that can be difficult to code. Meanwhile, using pages as a unit of analysis is popular in studies that require coding for pictures and charts (Guthrie et al. 2004). Furthermore, this method is consistent with other human capital disclosure studies (Abeysekera & Guthrie 2004; Guthrie et al. 2004; Bozzolan et al. 2003). Any double categories that exist during the coding process were coded accordingly. Repeated information was still counted as one item. A researcher and two research assistants were involved in the coding process to synchronize inconsistencies in coding.

RESULTS AND DISCUSSION

FREQUENCY OF HUMAN CAPITAL DISCLOSURE

Inter-industry HCD Performance

This study looks at the level of human capital disclosure by focusing on annual disclosure practices of service companies from the financial, trading and services, technology, and hotel Industry. Table 2 presents the results for the frequency of human capital attributes (HCA) disclosed for each industry. Among the four categories of HCA, namely, employees, innovation, training and development, and work-related knowledge, the highest level of disclosure recorded is for information on employees. Table 2 shows that the highest frequency of employee-related disclosure is reported by the finance industry (1,508), followed by the trading and services industry (629), the technology industry (510), and the hotel industry (53). The relatively higher disclosure level by the finance industry can be attributed to the nature of the industry, which is highly dependent on human capital. Thus, companies within this industry have the incentive to disclose more employee-related information in an effort to attract and retain employees.

Within the employees' category, information on "*facilities and benefits provided to employee*" recorded the highest level of disclosure. According to Murthy and Abeysekera (2007), firms display information about facilities and benefits offered to employees to reassure their stakeholders that they motivate their employees, thereby increasing their efficiency and competitiveness. Moreover, keeping manpower motivated is extremely important to curtail attrition rate and successfully retain skilled personnel. Information on the facilities and benefits provided can also attract more talented workforce into the company. Arora (2003) found that employees are looking for more benefits such as insurance and medical facilities for themselves and their families to provide them with a more stable and secured life. Hence, disclosure of such information can help companies obtain the talents needed.

The second highest HCA disclosed is "*training and development*." For training and development, the technology industry reported the highest frequency (986) followed by the finance industry (879). The skills and knowledge of employees have been posited as an important source of sustainable competitive advantage (Teece et al. 1997). Training and development contribute towards enhancing employee skills and knowledge; thus, firms can increase their value by developing firm-specific capabilities in its human capital through training and education, which cannot be imitated by others (Lado et al. 1992; Murthy & Abeysekera 2007). For the technology industry, training and development is crucial for their human capital to update them with the latest development, enhance their competencies, and ensure that companies will not lag behind. This finding is in line with Murthy and Abeysekera (2007) who reported high level of disclosure

for training and education attribute by software firms in India. They also reported that the head of HR interviewed in the study insisted that training and education is the key to improving employee competence. Moreover, studies found that the training and education attribute have been consistently given high level of disclosure by firms from various countries (Murthy & Abeysekera 2007; Abeysekera & Guthrie 2004; Guthrie et al. 1999). The disclosure will indicate the commitment of companies to the career development of their employees.

Meanwhile, the lowest frequency reported is on "*innovation*," with the finance industry reporting a frequency of 9. The trading industry reported a frequency of 3, whereas no disclosure was recorded by both the technology and the hotel industry.

Intra-industry Performance

The finance industry recorded the highest level of disclosure for HCA, as depicted in column three of Table 2. This result is not surprising given the industry's high dependence on human capital. The highest frequency reported for the finance industry is 436 for "*facilities and benefits provided*" (No. 5). This ranking is followed by "*efforts for human capital development*" at 395 (No. 23), and "*management-employee relationship*" at 347 (No. 8). The least reported items by companies in the finance industry for HCA are "*employees satisfaction*" at 6 times (No. 4), and "*innovation*" at 9 (No. 18). No disclosure on attributes related to "*turnover*" (No. 17) was reported.

The trading and service industry recorded the second highest level of HCA disclosure, as shown in column 2 of Table 2. The highest frequency of HCA disclosed in this industry is 254 for "*efforts for human capital development*" (No. 23). This item is followed by "*facilities and benefits provided*" at 128 times (No. 5) and "*health and safety*" at 105 (No. 6). Column 2 of Table 2 also shows the lowest frequency reported, which is 3 for "*number of employee in different country*" (No. 9), "*number of employees in different position*" (No. 11), "*rate of retention*" (No. 12), "*recognition*" (No. 13), "*turnover rate*" (No. 17), "*innovation*" (No. 18) and "*average hours of training*" (No. 20). However, for this industry, two attributes of human capital are not reported, namely, "*recruitment*" (No. 14) and "*relational capital*" (No. 21)

The result for the Technology Industry is shown in column 4 of Table 2. The highest frequency reported is for "*facilities and benefits provided*" (No. 5) at 193. This item is followed by "*health and safety*" (No. 6) at 78 and "*management-employees relationship*" (No. 8) at 66. Similar to trading and services, "*rate of retention*" (no. 12) and "*average hours of training*" (No.19) are among the attributes that are least disclosed at 3. The other attribute is "*training and recruitment cost*" (No. 27). No disclosure was reported for "*incentive program*" (No. 7), "*number of employees*" (No. 9), "*recruitment*" (No. 14), "*turnover rate*" (No. 17), "*innovation*" (No. 18), and "*policy on competent training*" (No. 25).

TABLE 2. Frequency of Human Capital Attributes Disclosed by Industry

Items(n)	Trading and Services (n = 12)	Finance (n = 12)	Technology (n = 10)	Hotel (n = 5)
Employees				
1 : awards	69(4)	56(7)	15(8)	6(4)
2 : employee evaluation system	12(9)	72(5)	21(6)	0(6)
3 : employee expenses	90(3)	24(10)	12(9)	0(6)
4 : employee satisfaction	7(10)	6(15)	10(11)	0(6)
5 : facilities and benefits provided	128 (1)	436 (1)	193(1)	31(1)
6 : health and safety	105(2)	169(4)	78(2)	0(6)
7 : incentive program	34(8)	15(11)	0(14)	0(6)
8 : management-employee relationships	37(7)	347(2)	66(3)	8(3)
9 : number of employee in different country	3(12)	14(12)	0(14)	0(6)
10 : number of employees	63(6)	42(8)	9(12)	0(6)
11 : number of employees in different position	3(12)	13(13)	12(9)	3(5)
12 : rate of retention	3(12)	11(14)	3(13)	0(6)
13 : recognition	3(12)	0(16)	42(4)	15(2)
14 : recruitment	0(18)	40(9)	0(14)	0(6)
15 : remuneration	4(11)	196(3)	31(5)	0(6)
16 : thanking employees	65(5)	67(6)	18(7)	0(6)
17 : turnover rate	3(12)	0(16)	0(14)	0(6)
TOTAL	629	1508	510	53
18 : Innovation	3(1)	9(1)	0	0
TOTAL	3	9	0	0
Training and Development				
19 : average hours of training	3(8)	20(8)	3(7)	0(3)
20 : value added of employee	12(5)	30(3)	6(5)	0(3)
21 : relational capital	0(9)	30(3)	15(3)	7(2)
22 : career opportunity	80(3)	30(3)	8(4)	16(1)
23 : efforts for HC development	254 (1)	395(1)	21(2)	0(3)
24 : management commitment and concern for HC development	157(2)	316(2)	33(1)	0(3)
25 : policy on competent training program	6(6)	21(7)	0(9)	0(3)
26 : recruitment policies	24(4)	15(9)	6(5)	0(3)
27 : training and recruitment cost	6(6)	22(6)	3(7)	0(3)
TOTAL	542	879	986	23
Work Related Knowledge				
28 : involvement in community activities	93(1)	123(1)	45(1)	25(1)
29 : spirit and team works	49(2)	55(2)	15(2)	0(2)
TOTAL	142	178	60	25

Note: figure in () indicates ranking of each HCA disclosed (within its category) among industries.

Column 5 of Table 2 reports the results for the frequency of HCA disclosed by the hotel industry. This industry recorded the least disclosure of HCA compared with the other industries. Only 9 items were disclosed by firms in this industry. “Facilities and benefits provided” (No. 5) is the highest attribute disclosed at 31. This item is followed by “employee involvement in community activities” (No. 28) at 25, “career opportunity” (No. 22) at 16, “recognition” (No. 13) at 15, “management-employees relationship” (No. 8) at 8, and “number of employees in different position” (No. 11) at 3.

CONCLUSION

The objective of this study is to gain insight into the level of human capital disclosure among Malaysian services companies. In addition, we determined the dimension of

human capital information that was given more disclosure by these firms. Our findings indicate that employee facilities and benefits are the most disclosed human capital elements, followed by training and development and work-related knowledge. The hotel industry discloses more human capital information than the other industries. The variety in disclosure levels of human capital information across industries suggests the need for regulation to facilitate more consistent reporting.

Results from this study support the application of the signaling theory to human capital reporting. The industry will focus on certain aspects of HCA in their report on human capital information. Companies within the finance industry present more information about the facilities and benefits given to employees to attract employees to work in their organizations. This result is slightly different from the technology industry, which focuses on training and development. Companies within this industry present

more information related to the competency of their employees and the effort that the companies exert to promote human development through training.

Disclosure of human capital is predominantly voluntary because several human capital components fail to meet the accounting criteria required for inclusion in the financial reports or are not measured in financial terms. Moreover, human capital cannot be regarded as an intangible asset because employee competence cannot be passed by anyone other than the person who has the competence. The recognition that human capital is a valuable asset indicates that different assumptions are made regarding its management and measurement methods.

The key to a company's competitive advantage in this knowledge-based economy lies in its human capital. Thus, it is imperative that companies harness the full potential of their employees. Companies must compete and win the right people to work with them. Arguably, a company's success in business is based on the effectiveness of its people. Moreover, strategic investments in human capital will add value to any company in the long run. Malaysian businesses are increasingly becoming more service-based; thus, it is more important that human resource is adequately managed because the performance of the company relies more on employee performance.

This study is limited by its sample size; thus, the conclusions drawn are small, which limits the statistical inference that can be obtained from the findings. Moreover, words can appear in headings and footnotes and this can influence the results with their word usage. This study is also limited to samples from the service industry. Hence, future research can be extended to include other industries, including manufacturing and construction industries to determine whether their HCA reporting differs.

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