

Relationship between Unionized Companies, Government Ownership and Reporting Human Capital Information in Corporate Annual Reports

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ABSTRACT

Investors, employees, and societies are interested in human capital information. This information will assist investors to assess the effectiveness of human capital management to deliberate their investment capital allocation. The employees will also know the extent of their development and value in organizations. Despite the significant role of human capital in the success and survival of an organization, human capital information disclosure is still limited in annual reports. Thus, investors or other stakeholders have scarce information to distinguish between organizations that develop human capital and those that constrain human capital. The factors that explain the disclosure is still unknown. In light of stakeholder's theory, this study investigated the relationship between highly unionized companies and government-owned companies, which are factors that can pressure companies to disclose human capital information in annual reports. Companies from the banking and financial institution industries were selected as highly unionized companies, whereas companies from the real property industry were selected as poorly unionized companies based on the Malaysian Trade Union Congress (MTUC) dataset. Government ownership was also identified in these sample companies. A total of 192 annual reports gathered from 48 companies for the financial year from 2010 to 2014 were analyzed in terms of content. Control variables, such as age, size, profit, and leverage, were also associated in the relationship. This study determined that highly unionized companies (banks) and government ownership demonstrate significantly positive relationship with human capital information reporting in annual reports. For control variables, only the size of companies shows positive relationship with the disclosure. Therefore, the presence of stakeholders in companies (i.e., union membership and government) is considered a good predictor for reporting human capital information in annual reports.

Keywords: Annual reports; content analysis; government ownership; human capital reporting; labor union

INTRODUCTION

Human capital disclosure (HCD) is scarce in annual reports. Thus, investors or other stakeholders have limited information to distinguish between firms that develop human capital through recognition of workforce and those that do not. This issue has long been a challenge for the relevance of traditional corporate disclosure practices (Campbell & Rahman 2010). The absence of HCD results in the uncertainty of real economic value, particularly for services and technology companies that heavily hinge on human intelligence. Thus, investing in these companies is substantially risky (Marr, Mouritsen & Bukh 2003; Orens, Aerts & Lybaert 2009). Although no mandatory requirement is necessary to disclose human capital information, numerous companies around the globe voluntarily report such information, particularly through their corporate annual reports.

Evidence of HCD practice in annual reports can be mainly found in intellectual capital disclosure (ICD) studies. Previous ICD studies consistently showed that HCD in annual reports was predominantly disclosed after relational capital disclosure (RCD) (e.g., Guthrie & Petty 2000; Brennan 2001; Bozzolan, O'Regan & Ricceri 2006; Campbell & Rahman 2010; Abhayawansa & Azim 2014). However, several other recent studies (e.g., Wagiciengo &

Belal 2012; Bellora & Guenther 2013; De Silva, Stratford & Clark 2014). The results of these studies may reflect the expanding interest on reporting human capital over relational and structural capital information.

The lacuna in previous studies was considered in the effect of stakeholders on HCD. Stakeholder theory believes that the motivation for companies to practice HCD may partially hinge on pressure from labor unions and government presence. The presence of labor unions and government interest in companies may pressure the management to disclose human capital information. Against this background, this study tested the relationship between highly unionized companies (i.e., banking) and government ownership over HCD in 192 annual reports of 48 companies. The findings of this research are congruent with the expectation that unionized companies and government ownership are good predictors of HCD in annual reports. The contributions of this study are twofold. The findings add new relevance to stakeholder theory in understanding the role of labor unions on corporate reporting behavior. The results of this study also provide an incentive for all companies to focus on HCD because disclosure would likely foster a harmonious relationship with employees and maintain "good government image."

HCD

HCD has no definitive concept; to date, no stand-alone HCD that is systematically compiled by companies has been established. Instead, HCD is only made voluntarily and can be found interspersed throughout annual reports. As long as the information disclosed in annual reports pertains to human capital, such information can be classified as HCD. In general terms, the intent of such disclosure is to provide relevant information for related users to satisfy the need that enhances decision-making and accountability (Guthrie & Petty 2000; Verrecchia 2001). In particular, HCD is the information on the knowledge, capabilities, and motivation of the workforce that a company discloses.

The community, employees, and shareholders expect companies to manage and utilize human resources for competitive advantage and public approval. These stakeholders expect companies to disclose information relating to the management of human resources in their annual reports to grant approval about the activities of the companies (Subbarao & Zeghal 1997). The frequency, content, and extent of disclosure found in annual reports are considered to be associated with the importance that companies place on human resources (Vuontisjarvi 2006). In general, HCD can be derived from the annual reports in various methods and aspects, and often in sections that pertain to a company's human resource, including individual capabilities, competencies, talents, communications, knowledge and experience of staff and managers, welfare, and health and safety (Ja'fari, Rezaei Nour & Hosnavei 2006).

HCD is important because it signals the legitimacy of a company toward society, as well as provides a clear image of a company's vision and mission with regard to human capital. Subbarao and Zeghal (1997) argued that investors, employees, and societies are interested in human capital information. They contended that this information assists investors assess the effectiveness of human capital management, thereby resulting in prudent investment decisions. Moreover, HCD enables employees to be apprised of the extent to which human capital is valued in the companies that employ them.

PREVIOUS STUDIES ON HCD

Previous studies have demonstrated the practice of HCD encapsulated within ICD (Guthrie & Petty 2000; Yi & Davey 2010; Campbell & Rahman 2010). The first study in this stream was conducted by Guthrie and Petty (2000) in Australia. This study has been extensively cited and has paved the way for other studies worldwide. Their study investigated ICD in the 1998 annual reports of 20 Australian companies. The findings suggested that human capital was the second most popular information disclosed (after relational capital) and accounted for 30% of the total ICD. Many subsequent studies followed the similar genre of Guthrie and Petty (2000), in which the content analysis technique is used to analyze the content of human capital information. The majority of these studies (e.g., Bozzolan,

Favotto & Ricceri 2003 in Italy; Abeyssekera & Guthrie 2005 in Sri Lanka; Yi & Davey 2010 in China; Campbell & Rahman 2010 in the UK; Wagiciengo & Belal 2012 in Africa; Yıldız 2014 in Turkey; De Silva et al. 2014 in New Zealand) used corporate annual reports as the study subject. In the Malaysian context, similar studies were conducted by Haji and Ghazali (2012) and Amin, Saringat, Hassan and Ismail (2013). Typically, these studies determined the trend of HCD marginally escalated over times. However, none of these studies have provided evidence of the real factors that contributed to the increment trend.

A few specific HCD studies (i.e., means not within the IC framework) were also conducted (Huang, Abidin & Jusoff 2009; Huang, Tayles & Haniffa 2013; Saad & Salleh 2010; Khan & Khan 2010; Moller, Gamerschlag & Guenther 2011). Huang et al. (2009) investigated HCD in the annual reports of the top 100 Malaysian listed companies. This study determined that 42 companies did not disclose human capital information, and the remaining 56 companies merely disclosed between 1 and 5 of the 20 human capital item categories. The aforementioned study concluded that the companies were not transparent in externally disclosing human capital information. A significant step should be taken to induce the disclosure of additional related human capital information to prevent Malaysian companies from lagging behind in reporting transparency. Saad and Salleh (2010) observed the relationship among six determinant factors of HCD, namely, firm size, leverage, profitability, age of listing, auditor reputation, and staff cost, among Malaysian Exchange of Securities Dealing and Automated Quotation (MESDAQ) companies in Malaysia. Content analysis was performed on 77 annual reports of 117 technology-intensive companies. Only size and leverage were determined to be positively related to human capital reporting. In Europe, Möller et al. (2011) investigated the determining effects of HCD in the annual reports of the top 130 German listed companies for 2006, 2007, 2008, and 2009. These researchers determined that the percentage of companies that disclosed human capital information in annual reports intensified over the periods and accounted for 66% in 2006 to 84% in 2009. Large companies provide the most HCD. Large companies are considered politically attentive, thereby providing extensive disclosure to manage political cost.

However, previous studies have clearly privileged cross-sectional information with research that focus on a magnitude of disclosure. In addition, only the typical characteristics of companies, such as size, industry, and profit, have been treated as antecedents of the disclosure. These factors would not facilitate the understanding of the "changeable factors" that could encourage companies to report extensive human capital information. The pressure of stakeholders is considered a changeable factor that could be managed and induced in certain ways. Given the assumed incremental pressure of stakeholders' groups over human capital information (Khan & Khan 2010; Wagiciengo & Belal 2012), the time was apt to observe the manner by which such disclosure could be affected by the

presence of stakeholders (i.e., in this case, labor unions and governments). Limited information on the pressure from stakeholder groups over HCD has driven this research to delve into the effect of labor unions and government on the reporting of human capital information. The reason is that both parties can pressure companies to disclose human capital information. Such reaction is expected when labor union fights for employee benefits (Brown & Warren 2011) and the government prefers social and political goals over the maximization of company profit (Mohd Saleh, Rahman & Hassan 2009).

UNIONIZATION AND GOVERNMENT OWNERSHIP: STAKEHOLDER THEORY PERSPECTIVE

To reduce irregularities, organizations have an obligation to provide sufficient information on financial and social issues that prevail in their milieu. Stakeholder theory states that the management of an organization is bound to meet the demands of stakeholders and report to them the activities of the firm (Friedman & Miles 2006). This theory is consistent with Deegan, Rankin, and Tobin (2002) and Boesso and Kumar (2007), thereby indicating that a stakeholder has the right to be informed about the effects of the organization's activities to them. Hence, the information should be made available to them even though they may not use it. Similarly, Guthrie, Petty, and Ricceri (2006, p. 256) stated that "An organization's management is expected to undertake activities deemed important by their stakeholders and to report on those activities back to the stakeholders... stakeholder theory highlights organizational accountability beyond simple economic and financial performance." In a few occasions, companies may use information disclosure as a strategy to gain or maintain the support of its powerful stakeholders (Deegan & Blomquist 2006). Highly unionized companies and government ownership can be the forcing factors that may influence management's disclosure of human capital information. Although most prior studies, including Bukh, Nielsen, Gormsen, and Mauritsen (2005); Firer and Williams (2005); Mohd Saleh et al. (2009); Mubaraq and Ahmed Haji (2014); and Pisano, Lepore, and Lamboglia (2017), have analyzed the role of ownerships (including government ownership) from the perspective of agency theory, only a few studies have observed the ownerships from the perspective of stakeholders. Furthermore, the current study is one of the early studies that analyzed the presence of labor union on HCD. Most prior studies related to labor unions merely focused on its roles to human resource management (HRM) practices and policies (e.g., Brown & Warren 2011). However, the role of labor unions should not be limited to management practices because their effect may result in accounting practices. Therefore, the current study extends the politics of government ownership and labor unions on HCD.

Visser (2006) explained that a union is a worker or staff association, or a person who pays his or her levy and is recognized as a member of a union association.

Union is an entity that is shaped by workers and ran as a democratic state to represent workers in any firm or government organization. Moreover, unions aim to safeguard the interests of employees and promote mutual relationships between an organization and its employees (Napathorn & Chanprateep 2011; Wilawan 2007). Labor unions have increasingly become a significant player in the labor market and political field in most developed countries because they possess significant power that influences HRM practices toward a collective decision-making approach (Cristiani & Peiró 2015). The collective approach of labor unions influences employers to establish fair terms of employment contract, ensure a healthy working environment and improved communication, and voice mechanisms. However, apart from demanding fair salary and welfare, this stakeholder group may influence companies to provide HC information to ensure the high level of transparency and responsibility of worker states. Employee-related information disclosure would clarify a company's responsibility toward an employee. The current study suggests that companies operating in industries with substantial labor union memberships (i.e., high unionization companies) are expected to provide high HCD in annual reports. Accordingly, the first hypothesis of this study is formulated as follows:

H₁: The level of company unionization has a positive relationship with HCD.

Government ownership accounts for 49.5% in privatized entities in Malaysia (Mohd Ghazali 2010). The literature suggests that the government closely monitors and oversees the activities of these companies given the importance of social objectives, as well as ensures the financial success of these companies within the boundary of national, political, and social wellness. The employee (or human capital), who is a major social element in a profit-making entity, should be safeguarded against government interest in profit-making companies. The presence of government ownership in corporate entities should partially protect the interest of employees through HCD. Moreover, HCD can be regarded as a navigating tool to trace the extent to which the government acts in a socially responsible manner toward employees in accordance with the principle of the "good government doctrine." Thus, companies in which the government is a shareholder have high investments on human capital development, thereby possibly leading to considerable HCD. Empirical studies have shown that governmental ownership positively relates to voluntary disclosures in Malaysia (e.g., Mohd Ghazali 2007; Amran & Devi 2008), Singapore (Firer & Williams 2005) and Nigeria (Mubaraq & Ahmed Haji 2014). However, prior studies also provide contradicting findings. Mohd Saleh et al. (2009) indicated that government ownership does not have a significant effect on IC performance in MESDAQ companies. However, the findings of Mohd Saleh et al. (2009) may not reflect the environment within the companies listed in the Bursa Malaysia because MESDAQ

companies are relatively young (with high growth potential) and lack established profit track records (Mohd Saleh et al. 2009). Thus, stakeholder theory and the preceding discussion indicate that companies in which the government is a substantial shareholder would disclose substantial human capital information. Hence, the second hypothesis of this study is formulated as follows:

H₂: Government ownership is positively related with HCD.

METHODOLOGY

ANNUAL REPORTS

This study used annual reports as a source of data to analyze HCD. Annual reports were selected because they are the most broadly dispersed and frequently produced documents to diverse groups of stakeholders (Campbell 2000). Campbell (2004) stressed that many information in annual reports are prepared with a high degree of discretion and are editorially controlled by a company's management. Hence, management concerns, interests, attitudes, and policies are thought to be well-reflected in annual reports. The sections of annual reports, including vision and mission statement, letter from the chairman, chief executive review, financial overview, corporate government reports, outer and inner cover pages, remuneration report, directors' reports and corporate governance report, will be covered in this study. However, statutory financial statements are excluded from the coverage of the content analysis because of the financial nature of the statements.

CONTENT ANALYSIS PROTOCOL OF MEASURING HCD

Disclosure index was extensively used in intellectual capital and human capital disclosure studies (e.g., Guthrie & Petty 2000; Bozzolan et al. 2003; Dominguez 2011; Mubarak & Ahmed Haji 2014). However, the index also has a few flaws because the method does not count repeated information (see Bettie and Thomson 2007), which could reflect the importance attached to the messages being conveyed. In addition, disclosure index is a method used to measure the reported information against the standard (benchmark), which is inappropriate for human capital information because no jurisdiction has to be benchmarked against.

Content analysis is a well-recommended and systematic technique that has been extensively used in the corporate social, ethical, and environmental reporting fields of accounting research, as well as applied in the current study. Berelson (1952:18) described content analysis as the technique for communication content evaluation. Holsti (1969:14) defined content analysis as a technique to analyze specified messages. The current study adopted the categories of human capital information from a review of prior literature. A total of 19 items were used in this study (see Appendix B). The categories were selected based on the most detailed categories to date in determining human

capital information. Moreover, the items have achieved mainstream acceptance and have been regularly used in many previous studies (Abeysekera 2008; Campbell and Rahman 2010).

The current study employed "themes" (or clauses) as unit of analysis. Theme is an assertion about information in texts and is not restricted to specific syntactical units, such as sentences or paragraphs. Theme is an assertion about a single subject in a text that may lie in several articulated sentences or paragraphs, depending on the beginning and ending of the discussion (Campbell & Rahman 2010). In terms of counting, the current study used the frequency technique to count information. This method counts and codes repeated information and is considered a valid method to illustrate the importance attached to particular information. Krippendorff (2004) explained that information tends to be repeated in the text when deemed important to senders and receivers. Hence, failure to count and record repeatedly iterated information would prevent an analysis of the importance of particular information categories to the communication process (Beattie & Thomson 2007; Abhayawansa & Abeysekera 2009). A specific coding scheme was developed during the pilot test over 10 annual reports to establish reliability. The current authors collaborated to establish clear category construction, recording instructions, and rules of disambiguation.

MEASURING THE UNIONIZATION OF COMPANIES

Zunker (2011) formulated and used the measurement method. This method was also adopted in the current study because of its simplicity and straightforwardness in determining the level of unionization in a particular industry. Accordingly, this method assumes that the industry with numerous union memberships is categorized as a highly unionized industry; thus, this industry is deemed to have a powerful labor union. In general, the classification of industries into highly or poorly unionized is made by not comparing the percentages of the union memberships of each industry with the average percentage of union membership across all industries (see Appendix A). This formula is applied over labor union lists in 2013 and 2014 reported by Malaysian Trades Union Congress (MTUC). The formula is divided into three simple steps as follows. The percentages of union membership over the total national membership are calculated for each industry per year. For example, the agriculture, forestry, and fishing industries in 2013 was 8%. The percentage was derived by dividing 73,901, which is the number of memberships in the industry in 2013, by 914,677, which is the total national membership in 2013.

The average percentages of membership per year are calculated. The percentages were calculated by dividing the total percentage of all industries each year by the total number of industries (i.e., 19 industries). The average percentages of memberships in 2013 and 2014 are 5.4% and 5.3%, respectively.

The average percentage calculated in Step 2 is used as the cut-off point to differentiate the type of unionization. Industries with union membership of over 5.4% (2013) and 5.3% (2014) are categorized as highly unionized industries, whereas the remaining industries are categorized as poorly unionized industries (see details in Appendix A).

Appendix A shows the seven industries have percentages of membership above the average of 5.4% in 2013 (5.3% in 2014), which are categorized as highly unionized industries. Meanwhile, 12 industries are categorized as poorly unionized industries because of lower percentages than the average. The next step is to select one industry from highly and poorly unionized industries. The selection of industries is a matter of judgment and a valid reason must be provided in selecting the industry that answers the question of this study.

Despite having considerably high percentages of union memberships, the education, public administration, and social security industries were excluded from the final sample because they are not listed in Bursa Malaysia. Thus, no annual reports are publicly available. Furthermore, human health, transportation and agriculture, and forestry and fishing were excluded because these industry categories were incomparable with the industry categories listed in Bursa Malaysia. The remaining samples were between the manufacturing and bank and financial and insurance industries. The banking, financial, and insurance industries were selected because they are service-based and substantially depend on human capability. Thus, these industries most likely provide more human capital information than the manufacturing industries do. In addition, the MTUC record shows that the union membership from this industry in 2013 and 2014 was over 45,000 members. The ratio of membership numbers (+45,000 members) to number of companies (23 companies) in such industry is considered enormous, thereby indicating the strength of the labor union within the industry. Moreover, several previous studies showed that human capital information had high value in the annual reports of banks (Branco et al. 2011; Khan & Ali 2010). The real estate and property industries were selected to represent poorly unionized industry instead of other industries because of the low number (i.e., 180) of memberships registered in MTUC. In addition, this industry is clearly categorized in Bursa Malaysia, thereby facilitating the selection of companies. In summary, the final samples of the current study comprise 23 companies from the banking and financial industry and 25 companies from the real-estate and properties industry, for a total of

48 companies. In this study, scores of 1 and 0 were given to highly and poorly unionized industries, respectively.

The annual reports for the financial years of 2011, 2012, 2013, and 2014 for each company were downloaded. Table 1 shows the 192 annual reports that were analyzed.

MEASURING GOVERNMENT OWNERSHIP

Government ownership can play an effective role in promoting the extent of human capital information disclosure. Consistent with the study of Amran and Devi (2008); Said, Zainuddin, and Haron (2009); Zunker (2011); and Ahmed Haji and Mohd Ghazali (2013), the present study measures government ownership based on the percentages of shares owned by the government to the total number of shares. Thereafter, government ownership was coded as "1" when the government owns 5% or above of the shares of the company and "0" otherwise.

CONTROL VARIABLES

Four control variables, namely, size, profit, age, and leverage of companies, are associated in the model of this study. The majority of previous studies have proven that these control variables affected the amount of corporate disclosure. This study measured the size of companies by market capitalization. The greater the market capitalization, the more likely the firm will make HCD in the annual report (Amran & Devi 2008). The companies' ROE (total equity to net income) was used to measure profitability. Profitable companies will provide substantial voluntary disclosure (Ahmed Haji & Mohd Ghazali 2013).

In line with Akhtaruddin (2005) and Soliman (2013), the current study measured the age of the companies based on year of incorporation. Older companies are expected to disclose more human capital information than newer companies because the former have more resources, attained considerable competitive advantages, and normally take a lead in better corporate disclosure. Lastly, the total debt to total assets was used as a measurement for leverage. This variable has been extensively incorporated by other studies considering that companies with high leverage will provide substantial voluntary disclosure to conceal their level of financial obligation (Saad & Salleh 2010; Zunker 2011).

MULTIPLE REGRESSION MODEL

Multiple regression analysis was used to test the relationship among independent variables (i.e., level of companies unionization and government ownership), control variables

TABLE 1. Lists of sample data analyzed

Industry	No. of companies	No. of annual reports
Banking and financial	23	92
Real estate and properties	25	100
Total	48	192

(e.g., size, profit, age, and leverage), and dependent variables (i.e., human capital information disclosure). The assumptions underlying the regression model were tested for normal distribution, linearity between independent and dependent variables, multicollinearity, homoscedasticity, and uncorrelated error terms. The regression model based on human capital disclosure is depicted as follows:

$$HCD = \beta_0 + \beta_1 LCU + \beta_2 GOV + \beta_3 SIZE + \beta_4 PROFIT + \beta_5 AGE + \beta_6 LEV + \varepsilon,$$

where:

- HCD* = Human capital disclosure
LCU = Level of companies unionization
GOV = Government ownership
SIZE = Market capitalization
PROFIT = Return on equity (ROE)
AGE = Age of incorporation
LEV = Total debt to total assets
 $\beta_0 \dots \beta_6$ = Coefficients to be estimated
 ε = Error terms

FINDINGS

Table 2 shows that 3,045 themes related to HCD were determined to have been disclosed in 192 annual reports (average of 16 themes per annual reports). From a longitudinal perspective, the analysis showed that the HCD frequency in 2011 was 692 themes, and slightly decreased to 662 themes in 2012. However, the total HCD frequency increased to 734 themes in 2013. Lastly, the HCD frequency reached its zenith of 957 themes in 2014. The results indicate that the increasing amount of human capital disclosure over the years in annual reports testifies to the growing awareness and understanding of companies to value their employees through explicit disclosure about them.

Table 2 shows that the average frequency of HCD by high level of companies unionization (banking and financial sector) were 24.7 themes per annual compared to only 7.7 themes per annual report found in annual reports of low level of companies unionization (real estate and properties industry). The distribution of the HCD frequency by government ownership clearly demonstrates a vast difference between government- and non- government

ownership companies. Government ownership companies were determined to be substantial disclosers with 31.8 themes per annual report, which is considerably higher than non-government ownership companies with only 11 themes disclosed per annual report.

Furthermore, this study reveals the frequency distribution by HCD theme categories for all years. In general, not all HCD categories received the same weight of disclosure importance from companies. For example, the information on incentive programs was the most popular disclosure, which recorded the highest frequency of 273 themes, followed by information relating to career development [271 themes] and policy on competent training programs [248 themes]. Moreover, the information on employee facilities and benefits, as well as employment health and safety, are significant with a total score of 233 themes. Other information that received equal importance was that on vocational qualifications [232 themes], employee's share option scheme [223 themes], community involvement [213 themes], and the company's expressions of gratitude toward employees [206 themes]. The HCD categories that received limited importance in annual reports were information on employee's education and loyalty, company's philosophy about the employee, equity issues, training and recruitment programs, and employee share scheme, all of which accounted for below 100 themes for all years (see Appendix B).

This study diagnosed VIF and tolerance. The finding indicates no case of multicollinearity in the data set. Table 3 shows the tolerance for industry's size = 0.392 and VIF = 2.548; tolerance for industry's profits = 0.650 and VIF = 1.538; tolerance for industry's age = 0.884 and VIF = 1.131; tolerance for industry's LEV = 0.935 and VIF = 1.070; tolerance for degree of unionization (high) = 0.696 and VIF = 1.437; and tolerance of government ownership (GOV) = 0.638 and VIF = 1.569 (see Table 3). Thus, these values are below the threshold of the maximum tolerance of 1 and VIF of 10. Thus, the researchers concluded that no case of collinearity exists in the data. Therefore, the data set has met the assumption of multiple linear regression analysis.

Multiple regression analysis was conducted to test the relationship between independent variables and HCD in annual report (see Table 4). Both hypotheses formulated in this study are supported by the analysis. The standardized regression weight shows that the high High LCU is a significant predictor of the HCD frequency

TABLE 2. HCD themes frequency

	<i>n</i>	2011	2012	2013	2014	Total
Total HCD themes	192	692	662	734	957	3,045
Average HCD themes per annual report in :						
High LCU	92	5.6	5.3	6.2	7.6	24.7
Low LCU	100	1.7	1.7	1.7	2.7	7.7
Government ownership	44	8.3	7.0	6.8	9.7	31.8
Non-Government ownership	148	2.4	2.4	3.0	3.6	11.0

TABLE 3. Multicollinearity Test Tolerance and VIF

Variables	Tolerance	VIF
<i>LCU</i>	0.696	1.437
<i>GOV</i>	0.638	1.569
<i>SIZE</i>	0.392	2.548
<i>PROFIT</i>	0.650	1.538
<i>AGE</i>	0.884	1.131
<i>LEV</i>	0.935	1.070

TABLE 4. Multiple Linear Regression on HC Disclosure

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta (β)		
(Constant)	-34.937	5.148		-6.786	0.000
<i>LCU</i>	8.404	1.304	0.302	6.443	0.000*
<i>GOV</i>	10.301	1.620	0.312	6.359	0.000*
<i>SIZE</i>	6.902	0.991	0.435	6.964	0.000*
<i>PROFIT</i>	-0.594	1.506	-0.019	-0.395	0.694
<i>AGE</i>	2.728	2.192	0.052	1.244	0.215
<i>LEV</i>	0.018	0.031	0.024	0.590	0.556

Note: $R^2 = 0.717$, adjusted $R^2 = 0.707$

Note: *significant at $p < 0.05$

($\beta = 0.302$, $t = 6.443$, $p < 0.05$) and government ownership companies are also a significant predictor of the HCD frequency ($\beta = 0.312$, $t = 6.359$, $p < 0.05$). Moreover, this study indicated that a significant relationship between company size and the HCD frequency ($\beta = 0.435$, $t = 6.964$, $p < 0.05$) is observed. Meanwhile, *PROFIT*, *AGE*, and *LEV* are not significant predictors of human capital disclosure.

DISCUSSION

This study presents an initial material on the extent of HCD practiced by listed Malaysian companies from two industries with high and low labor union associations. The analysis illustrates an important change in the disclosure frequency within four years is observed, thereby emphasizing the increasing understanding and awareness of managers to disclose employee-related information. The increasing trend of HCD determined in this study is corroborated by other Malaysian research findings, such as Ahmed Haji and Mohd Ghazali (2012) and Rashid, Ibrahim, Othman and See (2012). The transition from a traditional to a knowledge economy experienced by Malaysian companies witnessed the changes from the traditional commodities and manufacturing-based industries to those that are service based. The shift of economic base has been an impetus that fostered gradual change in the reporting behavior of companies to cope with the changes in corporate strategies and value creation. Accordingly, companies used HCD as an effective strategy of corporate disclosure to signal to stakeholders their responses, responsibilities, and values toward their human capital. In such a case, as suggested by stakeholder theory

(Abeysekera 2006), the disclosure strategy may seem less effective through the traditional symbol of corporate success (e.g., through mandatory disclosure of financial and hard assets) (Guthrie & Ricceri 2004; Whiting & Miller 2008).

In terms of the HCD elements, the companies placed different weights of importance among the elements, that is, the importance of information varies across elements. The results illustrate that the information on incentive programs has received considerable attention by reporting companies, followed by information on career development, and policy on competent training programs. These types of information may be regarded as strategic information by companies to attract the best potential employee and to motivate and retain existing employees. Other information, such as that on gender, ethnic and religious issues, and education, was less common for Malaysian companies possibly due to the sensitivity of the topics.

In line with the first hypothesis, the result determined a positive and significant relationship between the high *LCU* and HCD. The result is consistent with the current understanding that banking and financial institution companies are highly unionized. Thus, the strong force of their labor unions may influence the companies to disclose substantial human capital information. A total of 45,113 banking employees were members of the labor union in 2014 (45,013 members in 2013) reflect the significant power of the labor union which can exercise its clout over the bank. Operating within the highly unionized environment, the banking and financial institution sector in Malaysia may be considerably responsive and sensitive to their respective

labor unions. Thus, they are likely to disclose substantial information related to their employees to gain acceptance from their labor unions. These findings are congruent with stakeholder theory, which suggests that the disclosure of human capital information would make companies meet their stakeholders' needs and further improve their reputation for transparency, credibility and good company–stakeholder relationship (Abeysekera 2006).

Furthermore, reporting on human capital information is important in service industries, such as banking, because humans are considered core assets in consulting and serving customers on finance-related matters. Accordingly, disclosing additional information on human capital may be part of a strategy to attract potential employees or signal that existing employees are being acknowledged as assets in the companies and unveil their highly capable staff before investing in these companies (Abeysekera 2008). The findings of the current study also corroborate the findings of Khan and Ali (2010), who determined a predominance of HCD in Bangladeshi banking companies. Similarly, Branco, Delgado, Sausa, and Sa (2011) discovered a high proportion of HCD in the banking industry in the annual and website reports.

The second hypothesis is also supported in this study. The present study provides evidence that government ownership is significantly associated with HCD based on the annual reports of Malaysian companies. The findings of this study are consistent with those of previous studies, which demonstrated that GLCs provide substantial voluntary disclosure in their annual reports compared with non-GLC companies (Mohd Ghazali 2007; Amran & Devi 2008; Yau & Balaraman 2009). Therefore, the presence of the government through share ownership inducts the government's social objectives into the company's report to protect the well-being of employees. The social objectives of the government can be partially supported by the presence of human capital information reported by companies. Companies use HCD to signal that the government (being a strong stakeholder) operates in line with government objectives to uphold and maintain social order. The government also uses human capital information disclosure to convey an image of good governance to the public.

In terms of control variables, only the size of companies shows a significant positive relationship with HCD. This finding corroborated those of the prior studies, which indicate that the size and the extent of ICD are associated (Amran & Devi 2008; Kent & Chan 2009; Rahim, Atan & Kamaludin 2011). The result clarifies that large companies are more sensitive and exposed to political cost than smaller companies. Therefore, conveying considerable human capital information to strong stakeholders would reduce the cost. Lastly, the large volumes of information disclosed on various human capital elements in the annual reports of banking and government-owned companies provide support to stakeholder theory. These companies consistently recognize the importance of stakeholders in their business activities. Recognition can be described through the increasingly large volumes

of HCD. The disclosure enhanced the image of companies likely improved relationships with these stakeholders. With regard to the positive branch of stakeholder theory, the findings of this study suggest that the more the influence the stakeholder have in the companies, the more information about the stakeholders is disclosed in the annual reports. This assumption is commensurate with basic semiotic assumption in content analysis. In this study, the disclosure volume indicates that labor unions and government are the most powerful stakeholders that affect disclosure.

CONCLUSION

This study aims to provide a preliminary perspective regarding the relationship among unionized industry, government ownership, and HCD based on stakeholder theory. A rigorous content analysis was conducted over the annual reports of companies to capture HCD and determined that the frequency of HCD in annual reports is significantly related with level of companies unionization and government ownership. That is, highly unionized companies, such as banking and financial companies, disclose substantial human capital information and can be partially explained by the necessity of the companies to obtain approval from labor unions through HCD. Moreover, government-owned companies practice similar disclosure strategies to be seen as “good government” from the employee's perspective. The current study also determined an increment amount of HCD over four years, thereby emphasizing the growing awareness and understanding of companies to value their employees through explicit disclosure on human capital. The findings add new relevance to stakeholder theory in understanding the role of labor union on corporate reporting behavior. This study implies that labor union is not a weak stakeholder; instead, it can play a significant role to enforce the company to convey substantial employee-related information. HCD can also provide an incentive for all companies to cast focus on HCD because disclosure would likely foster a harmonious relationship with employees, unions, and government.

Several limitations and prospective research are identified in this study, which only interrogated annual reports. Companies may use another media to report human capital information, such as websites (Striukova, Unerman & Guthrie 2008). Thus, future research could solve this limitation by expanding the research focus on other media of reporting. The sample was limited to two types of industries, namely, banking and financial service and real estate and properties. Accordingly, associating sample from other industries would provide considerable generalization to the research findings. Although this study focuses on the Malaysian context, other countries with shifting legal, society, culture, and politics could provide HCD in different manners. Therefore, conducting a similar study in other countries is attractive. Future research could be consistent with quantitative research by conducting interviewing and survey to understand the actual motivation behind the development of HCD.

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APPENDIX A

Industries	% Union Membership Over total membership		Level of unionization	
	2013	2014	2013	2014
	Agriculture, Forestry and Fishing	8	8.5	High
Mining and Quarrying	0	0	Poor	Poor
Manufacturing	10.4	10.4	High	High
Electricity, Gas, Steam and Air Conditioning Supply	5	5	Poor	Poor
Water Supply; Sewerage, Waste Management and Remediation Activities	0	0	Poor	Poor
Construction	0	0	Poor	Poor
Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	5	5	Poor	Poor
Transportation and Storage	6	6	High	High
Accommodation and Food Service Activities	2	1	Poor	Poor
Information and Communication	2	2	Poor	Poor
Banking, financial and Insurance	7	7	High	High
Real Estate (real properties)	0	0	Poor	Poor
Professional, Scientific and Technical Activities	0	0	Poor	Poor
Administrative and Support Service Activities	0	0	Poor	Poor
Public Administration and Social Security	13.5	13.5	High	High
Education	36	36	High	High
Human Health and Social Work Activities	7	7	High	High
Arts, Entertainment and Recreation	0	0	Poor	Poor
Other Service Activities	0	0	Poor	Poor
Average percentages of membership	5.4	5.3		

APPENDIX B

Distribution of HCD categories, all years

No	HC Elements	Frequency (themes)	Percentage
1	Incentive Programs	273	9.00
2	Career Development	271	8.90
3	Policy on Competent Training program	248	8.15
4	Employee facilities and benefits provided	233	7.65
5	Employment health and safety	233	7.65
6	Vocational Qualifications	232	7.62
7	Employee share option scheme	223	7.33
8	Employee involvement in the community	213	7.00
9	Employee thanked	206	6.77
10	Entrepreneurial spirit and innovativeness	184	6.04
11	Employee featured	154	6.06
12	Employee compensation plan	95	3.12
13	Employee share scheme	81	2.66
14	Training and recruitment programs	79	2.60
15	Equity issues: race, gender, and religion	79	2.60
16	Executive compensation plan	69	2.27
17	Company philosophy about employee	62	2.04
18	Employee loyalty/ Employee turnover	56	1.84
19	Education	54	1.78
	TOTAL	3,045	100

