

MALAYSIAN ACCOUNTING REVIEW

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Accounting



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MALAYSIAN ACCOUNTING REVIEW

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PREFACE FROM VICE CHANCELLOR UiTM

It is such a great honour for me to be given the opportunity to preface the inaugural issue of the Malaysian Accounting Review (MAR), the first international refereed accounting journal in this country. I wish to congratulate the Faculty of Accountancy, UiTM and the Malaysian Institute of Accountants (MIA) for their proactive effort in making this journal a reality. In the words of Zig Ziglar, "... if you have a vision for it, you can accomplish it". This marks a new beginning and a significant milestone for the accounting profession: practitioners and academicians at large.

This pioneering smart partnership between MIA and UiTM is timely and highly commendable. Today, we live in an era where information must be properly managed and strategically used as our competitive tool. To best manage and use the information, we must integrate descriptive and prescriptive applications. Whilst professional journals focus on descriptive and "what is" measures, academic refereed journals provide support to the accounting profession by prescribing the "what should" phenomena through research findings and empirical evidence. Both measures must be embedded and should be in tandem with each other; it is the only way for the accounting profession to stay on the cutting edge. It is without doubt that MAR will act as a catalyst to bridge the gap between theory and practice.

The publication of the MAR is part of UiTM and MIA's mission to make Malaysia a renowned and reputable centre of accounting excellence in this region. Whilst the journal provides an excellent avenue for researchers (both local and foreign) to publish their research findings, it should also serve as a platform for intellectual discourse, for others.

In closing, I wish to congratulate the Faculty of Accountancy, UiTM, for its vision in initiating a smart partnership with MIA. To MIA, I am sure that this partnership is an added value to your role as a regulatory body to the accounting profession in Malaysia.

Datuk Professor Dr Ibrahim Abu Shah
Vice Chancellor
Universiti Teknologi MARA (UiTM)
MALAYSIA

UiTM AT A GLANCE

Universiti Teknologi MARA (UiTM) started as a college known as Kolej RIDA in 1956. Incidentally, accounting programs such as LCCI, Australian Society of Accountants (ASA) and Institute of Cost and Work Accountants (ICWA) were among the pioneer programs offered by the then, School of Accountancy. Kolej RIDA continued to expand and in 1967 it was further upgraded and its name was changed to Institute Teknologi MARA (ITM).

As an Institute, ITM continued to add other accounting programs: Diploma in Accountancy (DIA), Malaysian Association of Certified Public Accountants (MACPA), Association of Certified and Chartered Accountants (ACCA), Chartered Institute of Management Accountants (CIMA) and the Advanced Diploma in Accountancy (ADIA) to its portfolio. What started, as a humble beginning in a small campus in Petaling Jaya was later expanded to other areas throughout the country. In 1996, the ITM Act was amended to allow the institute to offer various programs, viz., first degrees, Masters degrees and PhD programs. To commensurate with the university type of programs that the Institute was offering, ITM was officially conferred the university status in 1999. With effect from 26 August 1999, the Institute was known as Universiti Teknologi MARA or UiTM with 18 faculties and 13 branch campuses to its credit.

Today, being one of the most dynamic faculties in UiTM, the Faculty of Accountancy is also offering other accounting programs such as the Certified Accounting Technicians (CAT-UK), CPAAustralia, Institute of Chartered Secretaries and Administration (ICSA-UK), Master of Accountancy and Doctor of Philosophy (PhD Accounting). Within the next year, several new programs such as Accounting Information System (AIS), Taxation, Management Accounting, Internal Auditing, Corporate Governance and Forensic Accounting and the newly known Malaysian Institute of Certified Public Accountants (MICPA) will be offered.

The Faculty's two-tier mission allows it to focus on two important aspects; nurturing of professional accounting graduates as well as becoming a renowned Centre of Excellence in Accounting Research & Consultancy. In tandem with our two-tier mission, the Faculty of Accountancy strives to produce quality graduates and quality research & consultancy.

PRESIDENTIAL MESSAGE

On behalf of the Malaysian Institute of Accountants (MIA), I would like to congratulate Universiti Teknologi Mara (UiTM) for its timely effort in initiating the publication of the 'Malaysian Accounting Review'. The Malaysian Institute of Accountants is indeed pleased to be associated with this publication, which is the first international refereed academic accounting journal in this country. The Malaysian Accounting Review is a vital platform for which various key areas useful to the development of the accountancy profession can be examined, analysed and digested. Indeed, this inaugural publication will serve as a catalyst and act as an important tool for students, researchers, accountants, academicians as well as other relevant parties to enhance their knowledge in these areas.

As the regulatory body for the accountancy profession in this country, MIA recognizes the need to provide continuous support and to be involved in research and development activities relating to the accountancy profession. We believe that this smart partnership between the accounting academicians and the profession will strengthen MIA's position to become a globally recognized and respected business partner committed to nation building. With the continued support and cooperation from all stakeholders and through this publication of the Malaysian Accounting Review, we are confident that the profession will further progress in its commitment towards making the country a center of accounting excellence.

Abdul Samad Haji Alias (Dr)
President
Malaysian Institute of Accountants (MIA)

THE MALAYSIAN INSTITUTE OF ACCOUNTANTS

The Malaysian Institute of Accountants (MIA) is a statutory body set up under the Accountants Act, 1967 to regulate and develop the accountancy profession in Malaysia. The functions of MIA are, inter alia:

- To regulate the practise of the accountancy profession in Malaysia
- To promote in any manner it thinks fit, the interests of the accountancy profession in Malaysia;
- To provide for the training and education by the Institute or any other body, of persons practising or intending to practise the profession;
- To determine the qualifications of persons for admission as members; and
- To approve, regulate and supervise the conduct of the Qualifying Examination

Vision of MIA

To be a globally recognised and respected business partner committed to nation-building.

Mission of MIA

To develop, support and monitor quality and expertise, consistent with global best-practises in the accountancy profession in the interests of stakeholders.

MIA regulates its members who are Chartered Accountants in public practice, commerce and industry, the public sector and academia. A qualified person who wishes to hold himself or herself out as a Chartered Accountant or an accountant in Malaysia has to be registered with MIA.

MIA is responsible for promoting and regulating the accountancy profession in Malaysia. The Institute is actively involved in the development and issuance of approved auditing standards and also participates in the development of applicable approved accounting standards by the Malaysian Accounting Standards Board. Additionally, MIA also actively participates in legislative initiatives and developments, spearheaded by the Securities Commission, the Kuala Lumpur Stock Exchange and Bank Negara Malaysia. These initiatives relate to the regulation of the capital and financial markets, corporate governance, and the Companies Commission of Malaysia, in the regulation of companies pursuant to the Companies Act 1965.

MALAYSIAN ACCOUNTANCY RESEARCH AND EDUCATION FOUNDATION

The Malaysian Accountancy Research and Education Foundation (MAREF), a trust for the promotion, encouragement and advancement of accountancy research and education in Malaysia, was set up in 1990 and received its certificate of registration as a corporate body under the Trustees (Incorporation) Act 1952 on 26 July 1993. MAREF is a trust body sponsored by the Malaysian Institute of Accountants (MIA)

The objectives of MAREF inter alia are:

1. To encourage and promote the advancement and development of accountancy in Malaysia.
2. To pay all or part of the fees payable including other expenses incurred and/or incidental to the education, training and/or maintenance in respect of deserving persons who are being educated or wish to be educated or wish to be trained in the accountancy profession in recognised institutions of learning.
3. To carry out such other legally charitable purposes for the advancement of education and training in the accountancy profession.
4. To carry out research in and to promote development of the profession of accountancy in general and in particular the development of accounting and auditing standards.
5. To publish and disseminate literature in advancement of the accountancy profession.

CORPORATE DISCLOSURE AND DISSEMINATION OF HUMAN RESOURCES INVESTMENT INFORMATION

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ABSTRACT

This study seeks to bring three theoretical perspectives to bear on uncovering motives for the disclosure of human resource (HR) investment-related information in corporate annual reports. Institutional, agency, and resource-dependency theories of organizational behaviour are used to support arguments about attitudes of finance managers and HR managers to such disclosure decisions. Drawing from listed companies in Malaysia, a field survey was conducted amongst the finance and HR managers of those companies. Malaysia is particularly suitable for this study because corporations have relatively high levels of investment in human resources (mainly training and development expenditure) due to federal government subsidies. The survey results reveal contrasts in the significance of relationships between institutional, agency and resource dependency-driven variables and the extent of corporate disclosure of HR information. Multiple-theory modelling implications for studies of corporate disclosures, as well as practical implications of the findings for the voluntary corporate reporting of HR information, are discussed.

INTRODUCTION

This study brings multiple theoretical arguments to bear on seeking to uncover management motives for the corporate disclosure of human resource (HR) investment information (and related aspects of employee welfare). In the literature on social accounting, HR-related information is treated as one element of corporate "social responsibility" disclosure, along with the corporation's performance in relation to environmental impacts, community service and consumer welfare (e.g., American Accounting Association, 1971; Estes, 1976). The practice of corporate social reporting was prominent in the 1970s, with particular attention to the reporting of corporate financial information of relevance and understandability to employees. The practice lost prominence in the 1980's because of resistance by managements of large corporations. It re-emerged in the 1990s with a greater emphasis on environmental reporting (Gray, et al., 1998). By 2000 a more comprehensive corporate reporting movement had emerged, as exemplified by the "global reporting initiative" (www.globalreporting.org) which promotes the practice of triple-bottom-line reporting. Within the triple-bottom-line framework, corporate disclosure of the development and maintenance of human capital is a primary element of the "social" component. This study considers the social accounting element of HR information disclosure in the context of annual reporting by listed companies in Malaysia.

While HR investment (especially in employee training and development) and its disclosure is at the discretion of management in Malaysian companies, there is a federal government scheme that encourages the undertaking of this on a regular basis. Under this scheme, companies (with 10 employees or more) are subsidized through the Malaysian federal government's Human Resource Development Fund, after a mandatory levy of 1% is extracted from their wages expense. Each company is charged this levy, regardless of whether it takes advantage of applying each year for its entitlement in the form of defrayment of allowable HR investment expenditures. This scheme has been promoted to the public by the government since its introduction in 1993. Such promotion has created a widespread expectation in the Malaysian workforce that corporate employers will undertake and report substantial HR activities, particularly training and skills upgrading of employees each year.

Nevertheless, the extent to which companies take advantage of the scheme varies considerably from one year to the next, as evidenced by the Human Resource Development Fund's ratio of grant payments to levy collections (Human Resource Development Council, 1998, 1999, 2000). Thus, there exists a relatively high but variable level of HR investment and associated HR activities by corporations in Malaysia, together with a government-generated public expectation of disclosure of information about such activities. These circumstances add importance to decisions by management about the extent and range of voluntary external disclosure of corporate HR investment activities and performance.

A British study by Balabanis et al. (1998) found that the practice of disclosure of HR investment (and related employee welfare) information tends to become subsumed in aggregate measures of "social responsibility disclosure" or only partially considered by measures of the ways advancement of women and ethnic minorities are facilitated. Why, then, is research warranted into the narrow area of corporate HR investment disclosure? To answer that question, the contemporary importance of investment in HR to a corporation's stakeholders needs to be established.

Business environments have progressively become exposed to high competition (usually global) and advances in communication technology since the 1980s. According to Harrell-Cook and Ferris (1997), the need for enterprises to have a workforce that can produce and deliver products and services of quality, flexibility and dependability at low cost, means that the many organizations should treat their human resources as a valued asset to be maintained and developed. They argue that investment in HR is strategically imperative to corporate competitiveness. There is considerable evidence in the HR development literature that the competencies of the workforce of an enterprise are a primary source of sustained competitive advantage and successful long-term financial performance (Barney, 1991; Kinicki et al 1992; Wright and McMahan, 1992; Terpstra and Rozell, 1993; Huselid, 1995). According to Al-Khayyat (1998), "one thing which is true about the twenty-first century is that the development of HR is no longer an option but a must". Many Chairpersons and Chief Executive Officers (in Malaysia where this study was conducted) make reference, in their statement in the published annual report, to the importance of their entity's human asset. To paraphrase a typical assertion found in CEOs reviews in their corporate annual reports: a well-trained workforce is the key to competitiveness and the more the company seeks excellence, the more employee training and education becomes imperative (e.g., President and CEO, ASTD).

The research questions addressed in this study are whether the extent and range of disclosure of HR investment-related information in corporate annual reports, and the scope of use of internal and external channels for the dissemination of this type of information, are related to organizational behaviour variables embedded in institutional, agency or resource dependency theories. These three theories, are widely used as underlying bases to inform empirical research into managerial behaviour. Earlier studies of corporate social disclosure have sought to find support for both agency arguments (particularly through the political cost hypothesis) (e.g., Heard and Bolce, 1981) and legitimacy arguments (e.g., Cooper and Sherer, 1984). A contribution of this study is that it brings to bear on determinants of corporate social disclosure, a further set of arguments drawn from institutional, resource dependency and agency (through manager-stakeholder agency conflict) perspectives.

The finance manager (i.e., chief financial officer or equivalent in this study) will have a major input into corporate external reporting decisions. Additionally, the HR manager (i.e., chief human resource officer or equivalent in this study) is likely to have input into that aspect of corporate external reporting related to HR activities and performance. Motives underlying such input by these managers may well be more multifarious than the general legitimacy and political cost perspectives on impressions management considered in prior corporate voluntary disclosure research. It is contended that specific aspects of institutional theory concerning 'management dominant logic', specific aspects of agency theory concerning 'shareholder-manager agency conflicts' and specific aspects of resource dependency theory concerning 'shareholder versus employee dependency' can shape the motives of finance and HR managers as they provide input to the determination of HR-related corporate social disclosures.

A MULTIPLE THEORY APPROACH TO THE MODELLING OF DETERMINANTS OF HR INVESTMENT DISCLOSURE

Ulrich and Barney (1984) identify a lack of comparison and integration among perspectives of organizations which often results in an under-examining of many important similarities and differences in organizational behavior. They contend that a multi-perspective approach to organizational research can help to more fully explain certain behaviors and their

implications. As Hirsch et al. (1987) claimed, the strength of organizational research is its "polyglot of theories that yields a more realistic view of organizations".

The three theoretical perspectives of institutional, agency and resource dependency are three alternative ways of thinking about influences on HR investment disclosure decisions. Each of the perspectives focuses on a different unit of analysis. From the institutional perspective, the unit of analysis is isomorphism (or legitimacy) between economic actors. This unit of analysis appears to stand in marked contrast to the resource dependence perspective, in which the organization and its relation to the larger environment is the primary unit of analysis (Pfeffer and Salancik 1978). In the agency perspective, the principal-agent conflict of interest is the relevant unit of analysis.

At first glance, these three units of analysis seem distinct. However, from a HR investment disclosure decision-making point of view, they are, in fact closely related. In the institutional perspective, the phenomenon of isomorphic behavior that tends towards legitimization of management's actions is the key unit of analysis. However, as managers engage in isomorphic behaviour (that is mediated by economic actors through transaction governance mechanisms), the accumulation of legitimacy concerns begins to take on its own structure (Meyer and Rowan, 1983). In the agency perspective, such a structure is called an organization, and it may be conceived as a bundle of transaction governance mechanisms with certain characteristics in common. In this sense, there is an aggregating relationship between the transaction as the unit of analysis and the organization as a unit of analysis. In turn, an aggregating relationship may exist between organizations and their resource dependencies as units of analysis. In this sense, resource dependencies are simply bundles of resource-providers that have certain characteristics in common.

A discussion paper by Harrell-Cook and Ferris' (1997) brought institutional, agency and resource dependency theories to bear on the research question of why there is variability in emphasis placed by organizations on HR investment. However, no empirical evidence has been provided to support their contention that a rich model of the determinants of HR investment outcomes, or the disclosure of information about these outcomes, can be provided by the integration of these three theoretical perspectives. Triggered by Harrell-Cook and Ferris' (1997) study, our study attempts to consolidate a set of variables drawn from these theories. Instruments for measuring these variables are available from previous empirical studies in different contexts. They will be adapted where appropriate, to fit the empirical context of this study.

Before considering measurement instruments, an explanation of the nature of these variables, their modeling in an empirical schema and the generation of testable hypotheses is required.

The Institutional Perspective

Explanatory variables arising from the isomorphic dimensions of institutional theory are identified by Kossek et al. (1994) in the notion of managerial dominant logic (MDL)¹. They used this notion to examine HR manager's institutional pressures to support the adoption of employer-sponsored childcare as a form of organisational adaptation to change. They found three dimensions of MDL. These MDL dimensions were labelled 'management control', 'environmental' and 'coercive'. These dimensions form an overall management orientation

¹ The concept of management dominant logic, which was first developed by Prahalad and Bettis (1986), includes managerial practices, specific skills used by key actors, experiences stored within the organisation and cognitive styles used to frame problems in a specific ways (Bouwen and Fry 1991)

toward employer-sponsored childcare. Kossek *et al.*'s study supports previous research on the link between work practices and institutional influences (for example, Tolbert and Zucker, 1983; Eisenhardt, 1988; Scott and Meyer, 1991). But no previous study has directly tested the belief that such institutional-theory-derived variables affect managers' decisions about disclosure of HR investment information. Nevertheless, it is reasonable to speculate that such relationship may exist. First, consider the normative perspective that 'management control' would be focused on increasing employees' productivity, job satisfaction, loyalty, and autonomy. This 'management control' over employees might be facilitated through the extent of disclosure of HR investment-related information. Second, consider the mimetic perspective that 'environmental' considerations would be focused on identifying and copying the most successful practices of other companies. This 'environmental consideration' might apply in relation to decisions about the disclosure of HR investment-related information, especially through external reporting. Third, the 'coercive' perspective that focuses on government compensation, cost-savings or the suitability of the existing labour market, could likewise impact on management decisions about the disclosure of HR investment-related information. The strategy of disclosing and disseminating such information in response to various institutional influences is likely to be advocated more strongly by HR managers than finance managers. This is because HR information is more related to the HR manager's interests than many other types of corporate information under management consideration in decisions about what to disclose and disseminate to employees and other stakeholders.

The above discussion leads to the generation of the following general hypothesis:

- H₁ Components of management dominant logic arising from institutional pressures on top finance managers and HR managers respectively, are positively related to the organisation's disclosure of HR investment-related information.

The Agency Perspective

Next, in relation to the measurement of dimensions of agency theory, the notion of shareholder-manager agency conflict (SMAC) is the most relevant to a study of pressures on managers involved in determining HR investment disclosures. When managers have private information that is not available to the shareholders (i.e. information asymmetry), the shareholders can no longer verify whether managers' decisions are in accordance with shareholders' interests. This provides managers with the opportunity to shirk by making decisions that conflict with the interests of the shareholders (Rutledge and Khondkar 1999). Byrd *et al.* (1998) provide evidence on SMAC where incentives for managers to act in their own interests arise in terms of the effort problem, the horizon problem, the differential risk preference problem, and the asset use problem. These four elements of SMAC are explained by Byrd *et al.* (1994) as follows:

- (1) the effort-based problem relates to the manager's incentive to shirk, or to exert less than full effort in creating value for shareholders;
- (2) the time horizon problem involves retiring/leaving managers giving preference to investment or operating strategies that have lower costs and produce results more quickly than more profitable but expensive long-term investments;
- (3) the differential risk preference problem involves managers using their firm's investing and financing policies to avoid projects that are expected to generate long-term returns to shareholders, but short-term uncertainties to managers;

- (4) the asset use problem relates to an excessive misuse or personal consumption of corporate assets by managers which decreases shareholder value as these assets shift from productive to unproductive uses.

These 'shareholder-manager' elements of agency conflict (SMAC), it is contended, could also be conceptually applied to the conflict of interests between employees and managers. While top finance and HR managers will not perceive themselves as agents of lower-level employees in their organisation (like they would perceive themselves as agents of shareholders), they are, nevertheless, in a similar position concerning their adverse selection behaviour. That is, they can control and filter corporate information that they release to employees (Hill and Jones 1992). When top finance and HR managers have control over aggregate information about HR investment activities and performance, it makes it difficult for employees to identify if management is shirking from acting in their interests. Current accounting and auditing standards and securities regulations are oriented to the disclosure of corporate information of relevance to shareholders, not employees. Therefore, the opportunity exists for top managers to take decisions in their own interests in relation to the disclosure of corporate HR investment (and employee welfare) information. In these circumstances, agency arguments of Byrd *et al.* (1994) could be extended the employee-manager relationship in which a manager who participates in decisions about corporate HR information disclosure is likely to consider the consequences from the viewpoint of his or her personal work effort, employment horizon, risk preference and asset use.

In relation to personal work effort and asset use, agency theory suggests that managers would seek to hide the fact that they may have been shirking in their effort or making excessive personal use of assets for perks. Management disclosure of information about HR investment activities and performance would be low and limited in scope if the information had the potential to reflect the extent to which managers were shirking or excessively using perks. Alternatively, if managers have a relatively short time horizon before retirement/transfer or are highly risk-averse, then HR investment information disclosure is also likely to be limited. This is because managers would be more inclined to adopt strategies to ensure short-term profits. Such strategies would include a de-emphasis on HR investment which, as previously mentioned, has been found primarily to be a strategy for successful long-term financial performance.

These arguments lead to a general hypothesis about the relationships between the employee-manager agency conflict problems and HR investment-related disclosure. This general hypothesis is:

- H₂** Elements of manager-employee agency conflict applying to top finance managers and HR managers, respectively, are significantly related to the organization's disclosure of HR investment-related information.

The Resource Dependency Perspective

In relation to resource dependency theory, pressures on managers involved in HR investment disclosure decisions can arise from conflicting demands and uncertainties associated with two key constituent resource-providers - shareholders and employees. The resource dependence perspective is that organizations are comprised of internal and external coalitions that emerge from social exchanges to influence and control managerial behavior (Pfeffer and Salancik 1978). This perspective also assumes that the environment contains scarce and valued resources essential to organisational survival. As such, the environment poses

the problem for organizations of uncertainty in resource acquisition (Ulrich and Barney 1984). As explained by Pfeffer and Salancik (1978), the resource dependency perspective requires firms to attract reliable supplies of critical resources. To maintain consistent relationships with these critical resource providers, the organization must adopt behaviors that resource providers deem acceptable. However, according to Banaszak-Holl (1996), dependency on constituencies (especially shareholders and employees) is not in itself problematic if resources are stable and sufficient. The problem arises because environments vary with respect to munificence (the abundance of resources) and uncertainty (the variability and complexity involved in acquiring resources). The decision to comply with the needs or demands of key resource-provider groups will depend on how abundant and stable resources are in a given market environment. Under favourable market conditions, the organization may not feel constrained to comply with the demands of these constituencies. Under less favourable conditions, the organization may have no choice (Banaszak-Holl, 1996).

Aspects of resource dependency theory are embodied in Ullmann's (1985) model of stakeholder theory. Ullmann reasoned that the greater the power of particular stakeholders to impose penalties on, or withdraw resources from, the organization, the more ready management will be to voluntarily disclose corporate information thought to be of concern to such stakeholders. In terms of the relationships between shareholder and employee power on the one hand, and HR investment performance and disclosure, on the other hand, he argued that these relationships will depend on the relative power of shareholders versus employees to impose penalties on, or withdraw resources from, the organization and its management.

This leads to the generation of the following hypothesis:

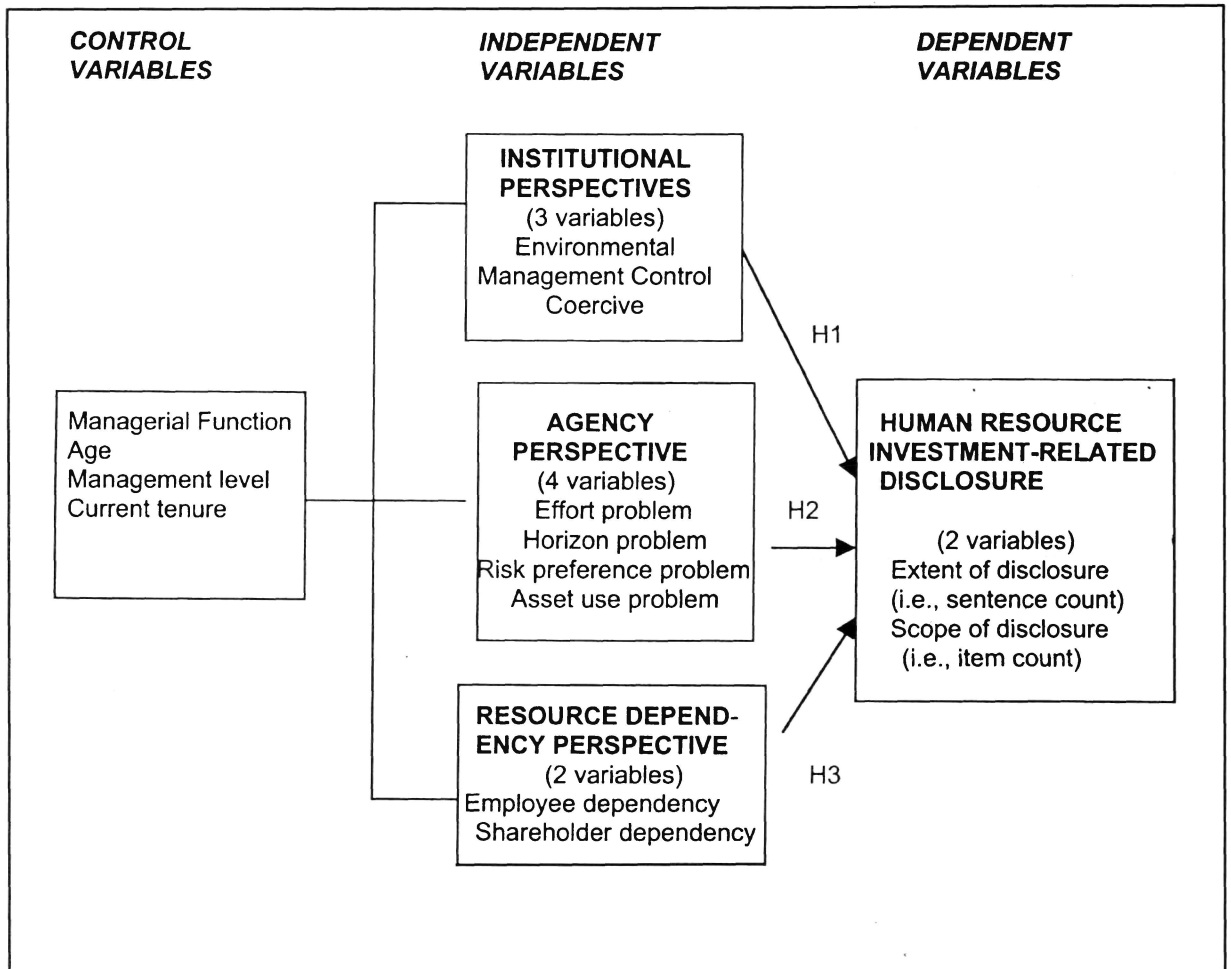
- H₃** The perceptions of top finance managers and HR managers, respectively, about their organization's relative resource dependency on shareholders versus employees is significantly related to the organization's disclosure of HR investment-related information.

METHODOLOGY

Empirical Schema

The empirical schema for this study, embodying the above hypotheses, is shown in **Figure 1**. It depicts the relationships between independent and dependent variables to be used in this study, together with relevant demographic control variables. Among the demographic variables depicted in Figure 1 is the variable "managerial function". This demographic variable is treated as a "test" variable rather than a "control" variable because it is central to the way all the hypotheses have been generated.

**FIGURE 1
EMPIRICAL SCHEMA**



Sampling

A survey was conducted amongst top finance managers and HR managers of listed companies from the Main Board of the Kuala Lumpur Stock Exchange (KLSE). Duplications of companies that shared the same board of directors or top management team were eliminated, leaving 349 listed companies on the list. The minimum paid up capital of public companies to be listed on the Main Board is RM60 million. The questionnaire was sent separately to the chief finance managers and chief HR managers (or equivalent) of these companies, representing a mail out of 698 questionnaires. A total of 188 useable responses were obtained, giving a response rate of 27%. Of these responses, 88 (47%) were from finance managers and 100 (53%) were from HR managers. Because only 32 companies provided responses from both types of managers, it was not viable to base the analysis on paired sample data. The average age of respondents was 41.2 years and their average tenure in their present organisation was 8 years. The age, tenure and level of appointment of finance and HR managers were not significantly different.

Variable Measurement

In developing the independent variables, suitable instruments tested in selected prior studies were sought. Those drawn upon were as follows: Byrd *et al.* (1998) for the SMAC measures; Kossek *et al.* (1994) for the use of institutional theory measures about the concept of MDL; and Banaszak-Holl *et al.* (1996) for the use of resource dependency measures. Theoretical arguments by Tsui *et al.* (1992) on the effects of demographic factors are referred to for the choice of items relating to demographic information.

Table 1 provides details of the independent and dependent variables' names, their acronyms, the items making up each variable and the scales by which the items are measured.

TABLE 1
Variables: Items and Scales

Variable	Acronym	Item	Scale
Independent: Manager- employee agency conflict	SMAC		
Effort problem	EFFORT	Employee share option scheme Outside Board membership Participation in political, social or recreational organizations/clubs	4-point "benefit your company/ yourself" scale
Horizon problem	HORIZON	Internal mobility External mobility	4-point "likely/ unlikely" scale
Differential risk preference problem	RISKPREF	Investment in new T&D programs A changeover to latest advanced technologies Launching a new potentially "path- breaking" product or service	6-point "no risk/ high risk" scale

Asset use problem	ASSET	Attractive salary Company car Club membership Plush working environment Free annual holiday National/international events Use of credit card	5-point "importance" scale
Management dominant logic	MDL		
Management control	MDLMC	Increasing employees' productivity Increasing employees' job satisfaction Fostering employees' loyalty Reducing the demands on supervisors for close supervision	6-point "agree/disagree" scale
Environmental	MDLENV	Social responsibility Caring policies Adoption of HR practices in line with competitors Enhancement of corporate image	6-point "agree/disagree" scale
Coercive	MDLCOER	Ability to remain "state-of-the-art" Reimbursement from the Ministry's HRDF Insufficient suitable employees to justify costs for T&D Easy to externally recruit suitably qualified and experienced employees	6-point "agree/disagree" scale
Resource dependency	RESDEP		
Dependency on employees	EMPDEP	Employees unique experiences Employees specific expertise and/or qualification Strong corporate culture	4-point "dependency" scale
Dependency on shareholders	SHDEP	Continuing investment of single largest shareholder Continuing investment of top 10 largest shareholders Non-violation of KLSE's regulations	4-point "dependency" scale

Dependent: HR investment/ welfare disclosure Extent of disclosure of HR investment information	Disclosure sentence count	Employment profile statistics Statistics on training & develop inputs and outputs Description on types of training & development programs available Comments on HR investment policy generally Rewards/awards to employees Welfare/recreation/s afetyactivities Other relevant miscellaneous employee-related information	Count of the aggregate number of sentences relating to the 7 items
Scope of disclosure of HR investment information	Disclosure item count	Counting the total number of different types of HR investment/ welfare-related disclosure items.	Count the number of items (up to 7) with at least one sentence of disclosure.

Validity and Reliability Checks on the Independent Variables

To test the construct validity of the nine multi-item independent variables, principal components factor analysis was conducted. Results of this analysis confirmed the validity of the nine variables after some items were removed due to incorrect factor loading or low item-factor correlation. The variable measurements adopted, after adjustments were made to the items listed in Table 1, were as follows:

- MDLENV loaded onto 2 factors. The factor associated with “mimetic behaviour” was retained, while the factor associated with “social responsibility” (comprising the two items of “social responsibility to give T&D opportunity to all” and “policies to care for all employees’ needs”) was dropped.
- EFFORT was reduced to 2 items after dropping “Employee share options scheme participation”.
- ASSET was reduced to 5 items after dropping “attractive salary” and “plush working conditions”.

Each of these validated multi-item independent variables was checked for reliability using the Cronbach alpha statistic. The results were adequate: all variables had a Cronbach alpha of above 0.60.

Potential confounding effects of demographic variables on the dependent variables were checked through bi-variate correlations. It was found that there were no significant correlations between either age of respondent, management level or length of tenure, and any of the dependent variables.

The Profile of HR Investment and Welfare Disclosures

Table 2 shows the frequency distribution from a content analysis of the 1999 annual reports of the 156 companies of respondents. Seven items of information were deemed relevant to the content analysis, namely, company employment profile data, quantification of training and develop inputs and outputs, descriptions of available training and development programs, descriptions of HR investment policies and objectives, rewards and awards to employees, employee welfare/recreation/safety activities, and other relevant miscellaneous employee-related information

The sentence count reveals that sampled Malaysian companies listed on the main board provide a moderate to substantial amount of space in their annual report to matters of HR investment and welfare. More than a quarter of a page of text (i.e., over 6 sentences will usually extend above a quarter of a page) is devoted to this information by 76.3% of the companies. In terms of the scope of disclosure, 75.7% of companies provide 3 or more relevant information items.

TABLE 2
Profile of HR Investment/Welfare Disclosure Sentence and Item Count

	Number	Percentage
Sentence Count:		
6 sentences or less	37	23.7
7 – 12 sentences	68	43.6
13 –24 sentences	37	23.7
25 sentences or more	<u>14</u>	<u>9.0</u>
Total	156	100.0
Item Count:		
1 item	8	5.1
2 items	30	19.2
3 items	39	25.0
4 items	30	19.2
5 items	23	14.8
6 items	19	12.2
7 items	<u>7</u>	<u>4.5</u>
Total	156	100.0

RESULTS AND DISCUSSION OF HYPOTHESES TESTS

It has been hypothesized that orientations and motives of top finance and HR managers arising from influences of management dominant logic, manager-employee agency conflict and shareholder versus employee resource dependency, are related to their company's disclosure of HR investment-related information. These three theoretical perspectives on the factors influencing HR investment-related disclosures are analyzed in turn, and the explanatory power of each theoretical perspective is compared from the viewpoint of finance and HR managers, respectively. Then the three models are combined to show the results in a single multi-theory model.

Effects of Institutional Theory's Management Dominant Logic

Table 3 presents the results of multivariate regression analyses for the two sub-samples of functional managers in respect of H_1 .

TABLE 3
Regression Results for the Effects of Institutional Theory's Management Dominant Logic on HR Investment-related Disclosure

Finance Managers						HR Managers			
Dependent Variable	Independent Variables	Std Beta	T-Score	Sig T	VIF	Std Beta	T-Score	Sig T	VIF
Disclosure: Sentence Count	MDLENV	-.026	-.220	.826	1.371	.441	3.321	.001**	2.079
	MDLMC	.367	3.186	.002**	1.334	-.016	-.118	.906	2.196
	MDLCOE	-.179	-1.769	.081	1.032	-.054	-.564	.574	1.084
	R								
Model		Adj R^2 = .135 F value = 5.516 Sig F = .002				Adj R^2 = .168 F value = 7.608 Sig F = .000			
Disclosure: Item Count	MDLENV	-.010	-.084	.934	1.371	.302	2.222	.029*	2.079
	MDLMC	.410	3.595	.001**	1.334	.122	.871	.386	2.196
	MDLCOE	-.112*	-1.116	.268	1.032	.082	.834	.407	1.084
	R								
Model		Adj R^2 = .153 F value = 6.227 Sig F = .001				Adj R^2 = .127 F value = 5.750 Sig F = .001			

* Significant at .05 level; ** Significant at .01 level

It was hypothesised in H_1 that managers' decisions about the extent of disclosure of HR investment-related information would, first, be influenced by managers' mimetic behaviour of being in line with competitors and keeping up a corporate image and state-of-the-art practices (i.e., MDLENV). It is shown in Table 3 that MDLENV is a significant determinant of disclosure (sentence count) for HR managers only. That is, the volume of disclosure of HR investment information (not the scope of disclosure) is positively related to HR managers' needs to mirror the practices of competitors and maintain a good corporate HR image in the wider business community. In short, the results suggest that management dominant logic regarding mimetic environmental influences manifests itself through HR managers, not finance managers, pushing for a greater volume of external reporting of HR investment information.

The second component of MDL, referred to as "management control" (MDLMC), is shown in Table 3 to be a significant determinant of HR investment disclosures (both sentence and item count) for finance managers only. Management control entails a management emphasis on the use of strategies to increase employee productivity, satisfaction and loyalty. The results suggest that disclosure in external annual reports is significantly positively affected by finance managers' beliefs in the need to foster "management control" over employees. In contrast, a strategy of external annual report disclosure as a means of achieving "management control" of employees is not found to be of significance to top HR managers.

There are also significant effects of the third component of MDL, coercion, on disclosure. It is to be noted that the variable, MDLCOER, includes a scale for the effect on the manager of perceived public awareness of the government's scheme that provides company reimbursement for completions of employee training and development programs. The results in Table 3 indicate that the volume of HR investment-related disclosure in external reporting is significantly positively affected by the extent of coercive pressures felt by top finance managers.

Agency Theory's Stakeholder-Manager Agency Conflict

In relation to H_2 , which refers to stakeholder-manager agency conflicts, Table 4 shows that the model has very poor explanatory power. The F value for the overall model is not significant for either measure of disclosure or for either sub-sample of finance and HR managers, and therefore H_2 is comprehensively rejected.

TABLE 4
Regression Results for the Effects of Agency Theory's Stakeholder-Manager Agency Conflict on HR Investment Disclosure

Finance Manager						HR Manager			
Dependent Variable	Independent Variables	Std Beta	T-Score	Sig T	VIF	Std Beta	T-Score	Sig T	VIF
Disclosure: Sentence Count	EFFORT	-.092	-.832	.408	1.086	-.119	-1.164	.247	1.064
	HORIZON	.110	.987	.326	1.094	.125	1.253	.213	1.026
	RISKPFR	-.111	-1.027	.307	1.031	-.187	-1.818	.072	1.080
	ASSET	.209	1.945	.055	1.027	.151	1.518	.132	1.011
	Model	Adj R ² = .033 F value = 1.724 Sig F = .153				Adj R ² = .035 F value = 1.908 Sig F = .115			
Disclosure: Item Count	EFFORT	.005	.046	.963	1.086	-.029	-.285	.777	1.064
	HORIZON	.110	.966	.337	1.094	.005	.053	.958	1.026
	RISKPFR	-.085	-.769	.444	1.031	-.136	-1.323	.189	1.080
	ASSET	.148	1.346	.182	1.027	.228	2.291	.024*	1.011
	Model	Adj R ² = -.012 F value = .741 Sig F = .567				Adj R ² = .029 F value = 1.744 Sig F = .147			

* Significant at .05 level; **Significant at .01 level

Table 4 indicates that effects on the disclosure of HR investment information are not significant in terms of whether work effort by the respondent will benefit the company or the individual (EFFORT), whether the respondent expects to remain in the company for a short or long period (HORIZON), and whether the risk preference of the respondent is different in respect of their own current appointment and the company's investment opportunities (RISKPREF). There is evidence in Table 4, nevertheless, that concern by the finance managers for the ASSET variable is significantly positively related to the extent of disclosure, whereas concern by the HR managers for the ASSET variable is significantly positively related to the scope of disclosure. That is when the consumption of perks by top managers is high, finance managers

will be concerned to ensure a greater extent of disclosure of HR investment-related information, and HR managers will be concerned to ensure a greater breadth of disclosure of HR investment-related information. In both cases, this increased disclosure of HR investment information in annual reports to shareholders may be a way of 'managing' any potential shareholder concerns about the extent of consumption of perks by top management. The highlighting of the extent and scope of expenditure on the training and development of employees throughout the company may provide a basis for managements' arguments about the reasonableness of the amount of expenditure on their own perks.

Resource Dependency Theory's Shareholders and Employees Effects

In relation to H_3 concerning the effects of resource dependency (RESDEP) on HR investment disclosure, the results in Table 5 are highly significant in terms of employee dependency, but are not significant in terms of shareholder dependency. The extent to which both finance and HR managers perceive employees to have built up unique experiences, obtained specific expertise and developed a strong corporate culture, will significantly affect disclosure of HR investment information in annual reports. Interestingly, Table 3 shows that perceptions by managers of corporate dependency on large shareholders for their continuing investment does not have an impact on HR investment disclosure. Therefore, H_3 is accepted in relation to the effect on HR-investment-related disclosure of employee dependency, but not shareholder dependency.

TABLE 5
Regression Results for the Effects of Shareholders' and Employees'
under Resource Dependency Theory on HR Investment Disclosure

Dependent Variable	Independent Variables	Finance Manager				HR Manager			
		Std Beta	T-Score	Sig T	VIF	Std Beta	T-Score	Sig T	VIF
Disclosure Sentence Count	EMPDEP	.387	3.901	.000**	1.000	.417	4.305	.000**	1.062
	SHDEP	.111	1.120	.266	1.000	-.036	-.375	.708	1.062
Model		Adj R^2 = .144 F value = 8.314 Sig F = .001				Adj R^2 = .150 F value = 9.500 Sig F = .000			
Disclosure: Item Count	EMPDEP	.285	2.745	.007**	1.000	.364	3.663	.000**	1.062
	SHDEP	.064	.614	.541	1.000	-.027	-.270	.788	1.062
Model		Adj R^2 = .064 F value = 3.985 Sig F = .022				Adj R^2 = .110 F value = 6.910 Sig F = .002			

* Significant at .05 level; **Significant at .01 level

Comparison of the Explanatory Power of the Three Theoretical Perspectives

It is to be noted in Tables 3, 4 and 5 that each of the four regression models has produced a quite moderate level of overall explanatory power. These models have an adjusted R-squared as low as .012, and no higher than .168. The institutional theory models and the resource dependency models have produced significant, but modest explanatory power, while the agency theory models have produced insignificant explanatory power.

When the three theories are combined into a multi-theory regression model with eight independent variables (table not shown), the explanatory power of the regressions for finance managers is, for each of the two disclosure variable, stronger than for HR managers. The adjusted R-squared is .389 and .312, respectively, in the two regressions for the finance managers sample, but .238 and .148, respectively, for the HR managers sample. This comparative result suggests that top finance managers are more sensitive than HR managers to a range of influences when it comes to decision-making concerning the disclosure of corporate information to parties beyond management – even when the corporate information is HR-related.

CONCLUSIONS AND IMPLICATIONS

This study of the HR disclosure aspect of corporate social reporting has provided evidence on the strengths of institutional, agency and resource dependency theory-driven variables. These variables have been used to articulate aspects of the motives and orientations that top finance and HR managers bring to management decisions about the corporate disclosure of HR investment-related information. The results indicate that these variables, taken as separate theory-based models, provide weak overall explanatory power. Taken together as one multi-theory model, however, they provide quite strong explanatory power, although the multiple regression models for the sub-sample of finance managers are stronger than the models for the HR managers. This result can be interpreted as reflecting the greater influence of multiple theoretical arguments on motives of finance managers towards the function of corporate reporting generally, than on motives of HR managers towards the function of HR investment reporting specifically.

In terms of hypothesis tests, institutional theory, as manifest in the concept of management dominant logic, was found to have a complexity of effects on corporate HR investment disclosure. Specifically, this disclosure was significantly associated with influences on finance managers of normative management control matters and coercive forces, and influences on HR managers of mimetic-environmental matters. An implication for the way management determines policies and practices on corporate disclosure of HR-related information is that a balancing of the control-and-regulatory focus of finance managers and the outside-practices focus of HR managers needs to be brokered within the management team.

In contrast, agency theory, from a manager-employee agency conflict perspective, was found to provide limited explanation of corporate HR investment disclosure. The only significant relationship is the attitudes of finance and HR managers towards asset use. This result suggests that those managers making greater use of corporate perks will be willing to have more HR investment information disclosed, presumably as a means of offsetting any perception by employees or shareholders that managers are getting greater fringe benefits than employees.

Findings from the final theory, resource dependency, were found, in respect of dependency on employees, to strongly explain the extent and scope of external annual reporting of HR investment-related information. The influence on disclosure of perceived corporate dependency on employees proved to be equally strong for finance managers and HR managers. Since shareholder-dependency had no significant impact on disclosure, it can be concluded that HR investment information in annual reports is perceived by management to have relevance primarily to employees. This result supports Ullmann's (1985) argument that the greater the power of particular stakeholders to impose penalties on, or withdraw resources from, the organization, the more ready management will be to voluntarily disclose corporate information thought to be of concern to such stakeholders. The implication is that decisions about the extent of disclosure of HR investment-related information will have little consequence for the managing of relations between management and shareholders, but strong consequences for relationships between management and employees.

Our study has implications for multiple-theory modelling of corporate disclosures. According to Ulrich and Barney (1984), the lack of comparison and integration among perspectives often results in an under-examining of many important similarities and differences among organizational perspectives. Similarly, Hirsch et al. (1987) argued that a strength of organizational research is its polygot of theories that yields a more realistic view of organizations. There has been a dearth of survey research into the determinants of corporate social disclosure based on theoretical arguments beyond legitimacy theory and the political cost hypothesis of agency theory. This study provides a step forward in the application of multiple theories to the HR disclosure aspect of corporate social reporting research. It points to the fact that multiple theories can be effectively applied to comparative studies of the behaviour of finance managers relative to HR managers.

The findings are subject to limitations associated with respondent biases inherent in survey research. As an exploratory study based on broad hypotheses and set in Malaysia, the extent to which its findings can be generalized will need to wait for supporting evidence. This requires further empirical studies (both quantitative and qualitative) of the effects on voluntary corporate disclosure of the theoretical perspectives of management dominant logic, manager-employee agency conflict and shareholder-employee resource dependency.

Within the limitations of the findings, some practical implications for the voluntary corporate reporting of HR investment information can be proffered. Findings in the area of MDL suggest a lack of coordinated thinking amongst management in the process of determining the extent and scope of disclosure of HR investment-related information in corporate annual reports. HR managers are found to have a tendency to focus on imitating reporting practices of other companies, whereas finance managers are found to emphasise 'management control' issues. To bring a comprehensive set of MDL thinking to bear on the process of deciding the social information content in annual reports, both MDL focuses need to be explicitly considered and balanced.

A further practical implication of the findings relates to the manager-employee agency conflict perspective. There was found to be a significant increase in HR investment disclosure in response to a situation where management has higher consumption of perks. This has implications for corporate governance, suggesting the need to set and apply policies concerning the sharing of more sensitive agency-conflict-related information with employees.

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