THE INFLUENCE OF BOARD CHARACTERISTICS ON INTEGRATED REPORTING DISCLOSURE AMONG PUBLIC LISTED COMPANIES IN MALAYSIA

WONG KEE HOOK

UNIVERSITI PENDIDIKAN SULTAN IDRIS

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ABSTRACT

This study aims to measure the extent of integrated reporting among the top 100 Public Listed Companies (PLCs) by market capitalization in Malaysia. It also seeks to examine the influence of the board characteristics (board size, board independence, board gender diversity, the average age of board members, and board activity level) on the extent of integrated reporting of the PLCs with the control for the effect of corporate characteristics (corporate size, financial performance, and leverage). The sample of this study consists of 99 corporate-year observations from 33 companies of the top 100 PLCs. Data was collected from integrated reports of the sample companies, which adopted integrated reporting from 2019 to 2021. The findings reveal that the average disclosure rate of integrated reports was 71%, with governance having the highest average disclosure rate of 97%, and risks and opportunities having the lowest average disclosure rate of 43%. Although board size ($\beta = 0.645$, $p > 0.1$), board independence ($\beta = -0.760$, $p > 0.1$), board gender diversity ($\beta = 1.083$, $p > 0.1$), average age of board members ($\beta = 0.185$, $p > 0.1$), board activity level ($\beta = -0.046$, $p > 0.1$), and corporate size ($\beta = -0.004$, $p > 0.1$) do not exhibit a statistically significant influence on the extent of integrated reporting, the study emphasized the significance of control variables, as financial performance ($\beta = -0.427$, $p < 0.01$), and leverage ($\beta = -8.812$, $p < 0.1$) showed significant negative relationships with the extent of integrated reporting. The observed effects of board characteristics and corporate size on integrated reporting, though limited, can be attributed to the specific context of Malaysian PLCs in this study. Notably, the sample size includes the entirety of eligible PLCs within the population. The findings offer valuable insights for PLCs and stakeholders seeking to enhance their understanding of the determinants of integrated reporting. This understanding enables them to make well-considered decisions and improve corporate transparency. The study contributes to agency theory by investigating the relationship between board characteristics. In addition, it highlights the potential for the PLCs to improve their integrated reporting practices and provides actionable information for the PLCs to identify areas of enhancement.

KESAN CIRI-CIRI LEMBAGA PENGARAH TERHADAP PELAPORAN BERSEPADU DALAM KALANGAN SYARIKAT-SYARIKAT TERSENARAI AWAM DI MALAYSIA

ABSTRAK

Kajian ini bertujuan mengukur tahap pelaporan bersepadu dalam kalangan 100 Syarikat Tersenarai Awam di Malaysia berdasarkan permodalan pasaran. Kajian ini juga bertujuan memeriksa pengaruh ciri-ciri lembaga pengarah (saiz lembaga pengarah, kemandirian lembaga pengarah, kepelbagaian jantina dalam lembaga pengarah, purata umur ahli lembaga pengarah, dan tahap aktiviti lembaga pengarah) terhadap tahap pelaporan bersepadu dengan mengawal kesan ciri korporat (saiz korporat, prestasi kewanan, dan leveraj). Sampel kajian terdiri daripada 99 pemerhatian tahun-korporat daripada 33 syarikat dalam kalangan 100 Syarikat Tersenarai Awam terbaik. Data dikumpul daripada laporan tahunan bersepadu pada tahun 2019 hingga 2021 bagi kesemua sampel terpilih. Dapatan menunjukkan bahawa purata tahap pelaporan bersepadu adalah 71%, dengan tadbir urus memiliki purata tahap pelaporan tertinggi, 97% dan risiko serta peluang memiliki purata tahap pelaporan terendah, 43%. Walaupun saiz lembaga pengarah ($\beta = 0.645$, $p > 0.1$), kemandirian lembaga pengarah ($\beta = -0.760$, $p > 0.1$), kepelbagaian jantina dalam lembaga pengarah ($\beta = 1.083$, $p > 0.1$), purata umur ahli lembaga pengarah ($\beta = 0.185$, $p > 0.1$), tahap aktiviti lembaga pengarah ($\beta = -0.046$, $p > 0.1$), dan saiz korporat ($\beta = -0.004$, $p > 0.1$) tidak menunjukkan pengaruh yang signifikan secara statistik terhadap tahap pelaporan bersepadu, kajian ini menekankan kepentingan pemboleh ubah kawalan, kerana prestasi kewangan ($\beta = -0.427$, $p < 0.01$) dan leveraj ($\beta = -8.812$, $p < 0.1$) menunjukkan hubungan negatif yang signifikan dengan tahap pelaporan bersepadu. Kesan yang diperhatikan daripada ciri-ciri Lembaga Pengarah dan saiz korporat ke atas pelaporan terintegrasi, walaupun terhad, boleh diterangkan oleh konteks khusus syarikat-syarikat awam Malaysia dalam kajian ini. Khasnya, saiz sampel merangkumi keseluruhan PLC yang layak di dalam populasi. Dapatan kajian ini memberikan kefahaman yang lebih mendalam kepada syarikat dan pihak berkepentingan berkaitan penentu-penentu pelaporan bersepadu. Pemahaman ini membolehkan mereka membuat keputusan yang menyeluruh dan meningkatkan ketelusan korporat. Kajian ini menyumbang kepada teori agensi dengan menyiasat hubungan antara ciri-ciri lembaga pengarah. Selain itu, ia menekankan potensi syarikat dalam usaha meningkatkan amalan pelaporan bersepadu dan menyediakan maklumat yang mampu dilaksanakan untuk mengenal pasti aspek yang memerlukan penambahbaikan.

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LIST OF ABBREVIATIONS

AABM	Average Age of Board Members
ACCA	Association of Chartered Certified Accountants
AICPA	Association of International Certified Professional Accountants
BACT	Board Activity Level
BGEN	Board Gender Diversity
BIND	Board Independence
BSIZ	Board Size
CEO	Chief Executive Officer
CFPF	Corporate Financial Performance
CIMA	Chartered Institute of Management Accountants
CIRI	Corporate Integrated Reporting Index
CLEV	Corporate Leverage
CSIZ	Corporate Size
CSR	Corporate Social Responsibility
EBIT	Earnings Before Interest and Taxes
ESG	Environmental, Social, and Governance
FASB	Financial Accounting Standards Board
FTSE	Financial Times Stock Exchange
GRI	Global Reporting Initiative
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council

IIRF	International Integrated Reporting Framework
ISCA	Institute of Singapore Chartered Accountants
KPMG	Klynveld Peat Marwick Goerdeler
MCCG	Malaysian Code of Corporate Governance
MFRS	Malaysian Financial Reporting Standards
MIA	Malaysian Institute of Accountants
MICPA	Malaysian Institute of Certified Public Accountants
MICPA	Malaysian Institute of Certified Public Accountants
MPERS	Malaysian Private Entities Reporting Standards
NACRA	National Annual Corporate Report Award
NUS	National University of Singapore
PLCs	Public Listed Companies
ROA	Return on Assets
ROE	Return on Equity
SASB	Sustainability Accounting Standards Board
SCM	Securities Commission Malaysia
SPSS	Statistical Package for Social Science
U.K	United Kingdom
VRF	Value Reporting Foundation

CHAPTER 1

INTRODUCTION

1.1 Introduction

This chapter will give an overview of the entire thesis. The purpose of this thesis is to measure the extent of corporate integrated reporting disclosure adhering to the content elements of the integrated report provided in the International Integrated Reporting Framework (IIRF) of the International Integrated Reporting Council (IIRC) and to examine and understand the characteristics of the board of directors influence on the extent of voluntary corporate integrated reporting disclosure among public listed companies (PLCs) in Malaysia. The first part of the study will start with a research background, problem statement, and objectives to provide a fundamental understanding of the overall thesis. Next, the research questions provide arguments and inquiries which required to be examined and will be investigated further followed by hypotheses of the study, theoretical and proposed conceptual framework with graphical illustrations. The proposed conceptual framework graphically summarizes the hypotheses and the relationship between independent variables, dependent variable, and control variables as well. The proposed conceptual framework will be used to construct hypotheses. The operational definitions of variables of interest in this study will be provided to facilitate a better understanding of this thesis. The significance of the study will describe the study's importance and contribution. Thereafter, the scope of a study will describe the extent to which the area of study is to be explored and the parameters that it will focus on. Finally, the chapters' layouts of the thesis will be outlined, followed by a summary of the chapter.

1.2 Research Background

1.2.1 Corporate Reporting

Corporate reporting is a tool used by corporations to communicate information to stakeholders for them to make decisions. Corporate reporting must always keep up with economic developments in a timely manner (Huei & Kee, 2021). The primary aim of corporate reporting is to publish information regarding the financial outcomes of corporate operations. It is an equally important aim also of corporate reporting to communicate the wide scope of non-financial information on corporate activities in the area of sustainable development. All of this is done to meet the increasingly complex and selective demands of an increasing group of corporate reporting stakeholders.

According to the stakeholder theory, a corporation must consider the needs of a broader group of users, which includes not just investors but also society as a whole. The scope of information needs among stakeholders interested in the non-financial information on sustainable development of corporate activities is rising (Szewieczek et al., 2021). Decision-makers both inside and outside the corporation require corporate business reports since they give information about a corporation's business operations. The corporate reporting system comprises financial and non-financial reports that are interconnected and attempt to offer an integrated and complete perspective of a corporation's business operations, outcomes, and consequences for people and as well as the environment (Bedenik & Barišić, 2019).

Corporate financial reporting on a corporate's business performance was introduced several decades ago, and since then it has developed through various stages such as voluntary reporting, mandatory reporting, and highly standardised reporting. Financial reporting focuses on the financial aspects of corporate operations. It consists of a few primary financial statements which include a statement of financial position, a statement of profit and loss, a cash flow statement, a statement of changes in equity, and notes to the financial statements. The financial statements also complement one another, reveal monetary values, and are related to a specific period of time, most commonly a twelve-month period (Bedenik & Barišić, 2019).

The external business environment has changed substantially and becomes more complex, while traditional corporate financial reporting is unable to meet these changes owing to a number of limitations and drawbacks, such as the absence of non-financial information including information on the environment, social and governance, short-termism, lack of coherence, and complexity (Haji & Ghazali, 2013; Hamad, et al., 2020; Silvestri et al., 2017).

In the current business economy, corporates face more extensive demands from their stakeholders for non-financial reporting, which includes reporting on social and environmental aspects of business, i.e., sustainable business practices or business sustainability. Business sustainability is commonly known as triple bottom line management, which is the process by which corporates manage first their financial, second their social, and environmental risks, and third their threats, and opportunities. These three effects are frequently referred to as "Profit, People, and the Planet," or 3P, a syntagma established by Elkington in 1994 (Bedenik & Barišić, 2019). Thus, traditional corporate financial reporting is no longer sufficient to cater for the growing needs of non-financial information among the stakeholders of the corporates.

In the 1960s, corporate reports only referred to financial information. They have become more contentful over time. Sustainability reports were included in corporate reports in the early 2000s. In today's corporate environment, integrated reports that include financial information, governance and remuneration, management commentary, and sustainability information are becoming increasingly important worldwide (Gökten & Marşap, 2017).

1.2.2 Integrated Reporting

Integrated reporting is a tool used by corporations to express a company's ability to produce value over time and convey information to stakeholders for decision-making. In recent years, interest in this new reporting tool has developed in both professional and academic circles. In reality, as a new approach to corporate communication, integrated reporting has attracted a lot of attention in recent years (Camodeca et al., 2019). Integrated reporting is a contemporary and evolving concept of corporate reporting. Integrated reporting could match stakeholders' demands by enhancing the quality of information delivered to them, as well as increasing accountability and stewardship (Chouaibi et al., 2022a; Haji & Hossain, 2016). Furthermore, integrated reporting enhances resource allocation in the decision-making process (Frias-Aceituno et al., 2013; Hamad et al., 2020) and provides a more cohesive, concise, and efficient corporate reporting approach, demonstrating how corporates may create value over time (Hamad et al., 2020).

The move toward integrated reporting has already become a reality in many countries. A majority of large corporations all around the world have integrated financial and non-financial information disclosures in their annual reports. For example, in Mexico, New Zealand, and Taiwan, these integrated disclosures have increased by 32%, 17%, and 11%, respectively, since 2015 (Hamad et al., 2020; KPMG, 2017). Generally, integrated reporting connects data relating to sustainability available in sustainability reporting and financial data together to give users a cohesive and comprehensive look at the corporation's short, medium, and long-term issues of risks and opportunities (KPMG, 2021). Thus, an integrated report provides a single more cohesive, and comprehensive look at the corporation's short, medium, and long-term issues of risks and opportunities than the conventional annual reports of the corporation.

The decision to implement integrated reporting is a major leap toward greater efficiency and transparency. Integrated reporting is not merely the evolution of a report, it is the result of a journey toward greater business integration (Vitolla et al., 2017). In 2017 the National Annual Corporate Report Award (NACRA) under the Malaysian Institute of Certified Public Accountants (MICPA) introduced a new award called the Integrated Reporting Award to encourage Malaysian corporations to implement integrated reporting in their annual reports (Hamad et al., 2020) with the following objectives:

i. To encourage effective communication among corporates by publishing timely, informative, transparent, and reader-friendly annual reports.
ii. To enhance the standard of corporate reporting in Malaysia
iii. To acknowledge and encourage excellence in financial and corporate information presentation.
iv. To raise public awareness of a corporation's objective measures and their value creation over time, as well as to gain a better understanding of its financial performance and results concerning its strategic objectives (MICPA, MIA, and Bursa Malaysia, 2021).

1.2.3 International Integrated Reporting Framework (IIRF)

In December 2013, the first edition of the IIRF was developed by IIRC and subsequently revised in January 2021. The 2021 revised framework applies to reporting periods commencing 1 January 2022. The data collected for the period 2019 - 2021 is assessed within the framework's guidelines, and this assessment is relevant to both the pre-implementation landscape and the early adoption stage. Additionally, in the revised framework, the content elements that are the focus of this study, along with capitals, and guiding principles of the framework remain intact. The purpose of the Framework is to define guiding principles and content elements that will regulate the overall content of an integrated report, as well as to explain the essential concepts that will underpin it (Deloitte, 2021). The IIRF is being utilised to facilitate the global adoption of integrated reporting with an aim to:

i. Improve the quality of the information provided to financial capital providers to allow a more efficient and productive allocation of capital.

ii. Encourage a more cohesive and efficient approach to corporate reporting that integrates different reporting elements and conveys the entire range of factors that materially influence the ability of a corporation to create value over time.

iii. Increase accountability and stewardship for a diverse range of capitals (financial, manufactured, intellectual, human, social and relationship, and natural), as well as gain more understanding of their interdependencies.

iv. Promote integrated thinking, decision-making, and action that focus on creating value in the short, medium, and long term (IIRC, 2021).

According to IIRC (2021), integrated reporting is a process based on integrated thinking which leads to a report about value creation. This leads to the question of what is integrated thinking. The IIRC (2021) in its IIRF stated that Integrated thinking can be summarized by the following four points:

i. It involves active consideration so it is not a passive or reactive process but rather a proactive process.

ii. The consideration relates to linkages or relationships between operating units, functional units, and capitals of a corporation.

iii. Integrated thinking results in actions and decisions that would create value.

iv. The period for which this value creation is considered is related to the short-term, medium-term, and long-term.

In 2021, the IIRC merged with the Sustainability Accounting Standards Board (SASB) to form the Value Reporting Foundation (VRF). SASB was founded in 2011 to develop sustainability accounting standards. The VRF brought together integrated thinking principles, IIRF, and SASB standards to provide and synergize the 21st-century corporate reporting infrastructure to a comprehensive suite of resources for corporate reporting on which value is created, preserved, or eroded in a single corporate integrated report.

The evolution of integrated thinking in corporate reporting has been accelerated by the IIRF (Camilleri, 2017; Perego et al., 2016). The IIRC is apparently to be promoting the idea of integrated thinking and reporting. Its IIRF has described content elements to communicate non-financial activities and outputs that have the potential to add value to the capitals of a corporation (Camilleri, 2017).

Integrated Reporting is one of the most recent initiatives to broaden non-financial reporting and accountability to incorporate the social and environmental aspects of the business (Melloni et al., 2017; Songini et al., 2021; Stubbs & Higgins, 2018). The IIRF pulls together material information about a corporation's strategy, governance, performance, and prospects in a manner that demonstrates the value creation process of the corporation (Songini et al., 2021).

While business information has traditionally been given on manufactured and financial capitals, intellectual, human, social and relationship, and natural capitals are the four additional capitals intrinsic to the development of corporate value over the short, medium, and long term and have been identified by IIRC in its IIRF making up a total of 6 capitals for integrated reporting (Bhasin, 2017). The IIRC (2021) recognizes six capitals, namely financial, manufactured, social and relationship, natural, human, and intellectual capitals, and each of these capitals is distinct but interrelated. As a result, the interaction of the corporation with the external environment within which it operates and the six capitals as inputs for the business model has been the focus of integrated reporting in generating, preserving, or eroding corporate value over the short, medium, and long term.

The IIRC does not have a standard or format for integrated reports. Corporates have been reporting environmental, social, and governance information in their annual reports in a disconnected manner (Islam & Islam, 2018). The IIRC has established seven guiding principles in its IIRF, these include:

i. Strategic focus and future orientation

Enlighten the users on the corporate strategy and how the corporate strategy connects to the generation of corporate value over the short, medium, and long terms as well as to the capitals.

ii. Connectivity of information

Relates to the provision of a holistic overview of the inter-relatedness of the factors that influence a corporation's capacity to generate corporate value over time.

iii. Stakeholder relationships

Refers to the description of the main stakeholders and how their interests are taken into consideration.

iv. Materiality

Relates to the disclosure of information regarding a matter that materially impacts a corporation's capacity to generate corporate value over the short, medium, and long terms.

v. Conciseness

Refers to the concise report format.

vi. Reliability and completeness

Refers to the disclosure of all material aspects of the corporation, both good and bad, in a balanced manner, without material mistakes.

vii. Consistency and comparability

Relates to the consistent disclosure of information over time and the comparability of the information with other corporations (IIRC, 2021).

These seven guiding principles are applied individually and collectively to prepare and present an integrated report.

Besides, to achieve the objectives of integrated reporting and the integrated report, IIRF provides eight elements that must be considered by the reporting corporation to be included in the integrated report based on the seven guiding principles. These elements include:

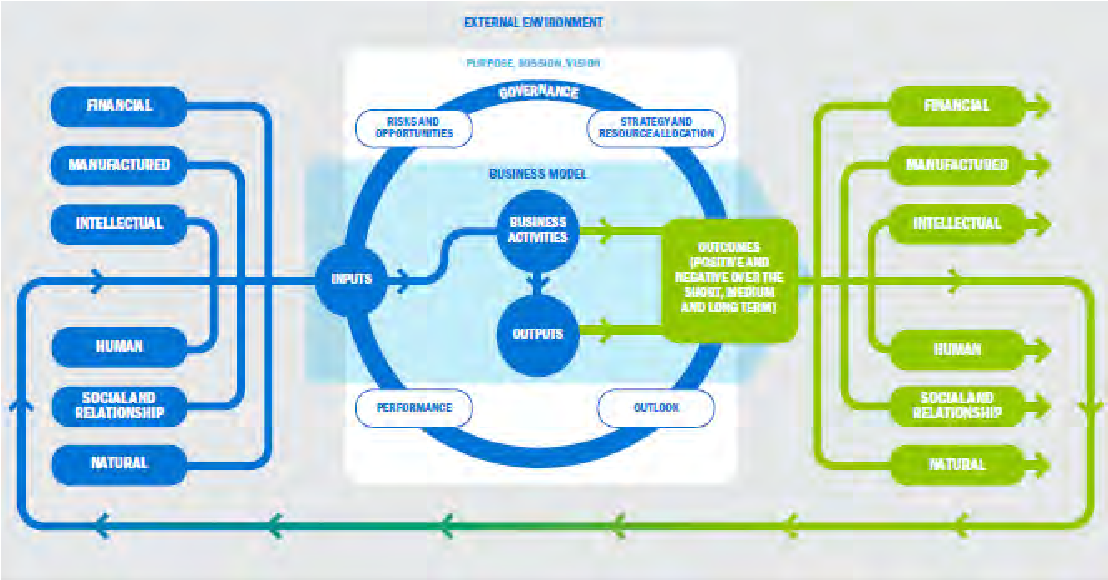
i. the organizational overview and the external environment
ii. governance
iii. business model
iv. risks and opportunities
v. strategy and resource allocation
vi. performance
vii. outlook and
viii. the basis of preparation and presentation (IIRC, 2021).

According to IIRC (2021), the eight content elements of the integrated report, as provided in IIRF, are fundamentally connected and are not mutually exclusive.

In summary, integrated reporting is a process based on integrated thinking, and the outcome is a report about value creation, preservation, or erosion over the short, medium, and long term by the reporting corporation. The process through which value is created, preserved, or eroded by a corporation, is depicted in Figure 1.1.

Figure 1.1

Process of Corporate Value Creation, Preservation, or Erosion



Source: IIRC (2021).

1.3 Problem Statement

In reality, directors have a vital role in corporations communicating choices with their stakeholders (Kostant, 1999, as cited in Vitolla et al., 2020a). The board should pay attention to the satisfaction of stakeholders' interests (Hill & Jones, 1992, as cited in Vitolla et al., 2020a) and be accountable to the stakeholders (Solomon, 1999; Vitolla et al., 2020a). This obligation may be extended to integrated reporting as a tool that combines both non-financial and financial information in the integrated report. However, from this perspective, it is critical that the board not only urges managers to implement integrated reporting, which may just be a formal decision, but also checks to ensure that good quality data is delivered to decrease asymmetric information and, subsequently reduction of agency costs. In this regard, some board qualities, such as size, independence, level of activity, and diversity in terms of gender and age, may offer a means to raise the level of control over the activities of managers, hence enhancing the quality of the information delivered (Vitolla et al., 2020a).

The agency problem arises when the interests of management and shareholders are not aligned (Jensen & Meckling, 1976; Abeywardana et al., 2021), resulting in incomplete or biased reporting of a company's performance and impact. This problem is particularly relevant to integrated reporting, where a wide range of information, including non-financial information, is disclosed. The information asymmetry between management and shareholders could limit the adoption and effectiveness of integrated reporting. The costs associated with monitoring and controlling the extent of integrated reporting disclosure could be a significant barrier to disclosure practices, particularly for companies with limited resources and expertise.

In total, there were only 97 and 105 Malaysian PLCs that implemented integrated reporting in 2018 and 2019 respectively (SCM, 2020). Malaysia is regarded not just as one of the nations with regulatory indications or conformity with integrated reporting principles, but also as one of the countries leading the way for integrated reporting adoption, along with Brazil, China, India, Japan, Luxemburg, New Zealand, and the United Kingdom (Hamad et al., 2020; IIRC, 2019). Even though SCM issued the MCCG 2017, Practice 11.2 to urge large Malaysian PLCs to implement integrated reporting based on the globally accepted reporting framework, in 2019 the total number of 105 PLCs that adopted integrated reporting based on the IIRF was considered relatively low, which was only around 11% if compared to the total number of 939 PLCs in Malaysia in that year.

Malaysian corporates have recently increased different types of voluntary disclosures in their annual corporate reporting, and as a result, numerous terminology related to non-financial information, such as Triple Bottom Line reporting, Corporate Social Responsibility (CSR), and Sustainability reporting, have been mentioned in their annual corporate reporting. Integrated reporting, on the other hand, is a relatively new reporting tool in Malaysia (Hamad et al., 2020). Due to the phenomenon being still relatively new to the corporate environment, many PLCs are still unfamiliar with the practices and requirements of integrated reporting (Mahmood et al., 2019).

The basic difference between voluntary integrated reporting and other mandatory approaches to financial reporting, such as conventional corporate annual reports and non-financial reporting, for example, sustainability reports is that integrated reporting is based on the principle of integration, which states that the internal existing business model of a corporation is adopted through the integrated interaction of the major capitals involved in a business. These are categorized in the IIRF as financial, manufactured, intellectual, human, social and relationship, and natural capitals to create, preserve, or erode economic value over the short, medium, and long term and warrant the long-term sustainability of the business (Akhmetshin et al., 2018; IIRC, 2021).

The unsatisfactory integration between financial information and non-financial information in traditional sustainability reports (Velte & Stawinoga, 2017), accompanied by their alleged failure to engage effectively with investors, has resulted in the rise of the consolidating approach of integrated reporting (Kannenberg & Schreck, 2019; Rowbottom & Locke, 2013). Rather than separating financial and sustainability reporting, integrated reporting intends to integrate financial and Environmental, Social, and Governance (ESG) information into a single business narrative (GRI, 2015; IIRC & SASB, 2013; Kannenberg & Schreck, 2019). Thus, it is intended to address the abovementioned issues with integrated reporting.

Though integrated reporting is a newly emerged reporting tool in Malaysia and is not mandatory, PLCs are expected to voluntarily disclose information to reduce information asymmetry between management and shareholders. However, the problem of information asymmetry between management and shareholders regarding the disclosure of integrated reporting arises due to the misalignment of interests between management and shareholders, leading to a lack of transparency in the reporting process. In addition, the costs associated with monitoring and controlling the extent of integrated reporting disclosure can be significant. In this context, the role of the board of directors becomes crucial in ensuring that the company discloses relevant and material information through integrated reporting.

The Malaysian Institute of Accountants (MIA) is the primary advocate in Malaysia for the implementation of integrated reporting to investors and corporates. The Securities Commission Malaysia (SCM) also plays its role in encouraging large corporates to use integrated reporting in preparing their annual reports, which is underlined in the Malaysian Code of Corporate Governance (MCCG) 2017. Malaysian PLCs are still adopting integrated reporting on a voluntary basis (Huei & Kee, 2021). The MIA formed the Integrated Reporting Steering Committee in December 2014. This committee focuses on enhancing awareness of and adoption of integrated reporting in Malaysia, as well as engaging diverse stakeholders in shaping the continued growth of integrated reporting (Hamad et al., 2020).

The first MCCG was issued by SCM in 2000 to regulate PLCs in Malaysia. In April 2017, the MCCG 2017, Practice 11.2 was released by the SCM to promote integrated reporting, in which large Malaysian PLCs were urged to implement integrated reporting based on the globally accepted reporting framework; IIRF (Hamad et al., 2020; SCM, 2017). The MCCG 2017, Practice 11.2 was subsequently revised by MCCG 2021 and became Practice 12.2 where large Malaysian PLCs must disclose whether they have adopted integrated reporting or not in their corporate annual reports. If they have not adopted integrated reporting, an explanation with reason must be given for the non-adoption of integrated reporting.

Corporate annual reports have traditionally been an important medium for updating stakeholders on the company's financial and strategic performance over the previous financial years. However, the nature and pace of evolvement in businesses today have changed over time, and stakeholders are now placing more emphasis on a company's future performance and non-financial information. Furthermore, stakeholders are becoming more aware of the importance of non-financial information in determining long-term financial stability. Along with the growing demand for changes in corporate reporting, integrated reporting is one of the most recent initiatives that has emerged to address stakeholders' disclosure needs and expectations (SCM, 2017).

Despite the importance of the topic, there were only limited or few studies conducted on the characteristics of the board of directors in connection to integrated reporting disclosure in Malaysia. For example, Masduki and Mohd Zaid (2019) looked at the connection between corporate governance factors (managerial ownership, family ownership, institutional ownership, and government ownership) and the content elements of integrated reporting disclosure. Hamad et al. (2020) offered a conceptual framework (without empirical findings) as a starting point for future studies that will empirically evaluate the moderating impact of sustainability reporting on the relationship between some corporate governance mechanisms (MCCG 2017, board size, board independence, and board diversity) and the extent of integrated reporting disclosure adhering to the content elements of the integrated report provided in IIRF for the PLCs in Malaysia.

In addition, Halid (2021) investigated how the boards of directors' characteristics (board size, board independence, board gender diversity, and board activity) of eight commercial banks listed on FTSE Bursa Malaysia affect the practice of integrated reporting disclosure. Furthermore, Huei and Kee (2021) looked into how integrated reporting disclosure and corporate performance are related to the moderating effect of board gender diversity and family ownership.

Despite the literature on integrated reporting has increased in the past few years, it is still fragmented (Dumay et al. 2016; Songini et al., 2021). This suggests a potential for more empirical literature to be added to the existing body of knowledge in this area. The factors that can influence the adoption of integrated reporting have received the most attention (Frias-Aceituno et al. 2012, 2013; Perego et al. 2016; Dumay et al. 2017; Velte & Stawinoga, 2017; Rinaldi et al. 2018), even though a growing body of literature has more recently concentrated on the factors that determine the quality of integrated reporting. The most important factors that influence integrated reporting quality, according to studies, are corporate size, industry, national context, corporate performance (profitability and leverage), assurance, corporate ownership structure, and mechanisms of corporate governance.

Since the board is entrusted with representing and defending the interests of various stakeholders, the qualities of the board of directors are important to integrated reporting practices from a governance perspective (Healy, 2002, as cited in Songini et al., 2021; Perrini, 2006). According to Halid et al. (2021), corporations with successful boards are expected to reveal more information in their capacity as representatives of shareholders and other stakeholders. This is because an effective board of directors can reduce managerial opportunism and give a more thorough understanding of stakeholders' interests, which could lead to a better quality of disclosure (Frias-Aceituno et al. 2012; Garcia-Sanchez et al. 2019; Songini et al., 2021), and thus to maintain the long-term sustainability of the corporate (Halid et al., 2021).

Previous studies for example, Chouaibi et al. (2021b), Songini et al., (2021), and Sunarti et al. (2021) have highlighted that the board of directors plays a key role in fostering corporate disclosure, including integrated reporting practice. Some of the studies have examined the board's role in voluntary disclosure processes, including its size and composition such as gender distribution, percentage of independent members, and education. Furthermore, empirical research that looks at the relationship between a corporation's board of directors and corporate disclosure, including integrated reporting disclosure, produces conflicting results (Songini et al., 2021; Vitolla et al., 2020a). According to Halid et al. (2021), there is a rising tendency for Malaysian corporations to issue voluntary integrated reports.

This research distinguishes itself from prior investigations by focusing on different corporate governance variables, sample characteristics, contextual settings and by considering the most recent IIRF. Although each study contributes to the overall understanding of integrated reporting, the approaches to the topic are different. Therefore, this study aims to measure the extent of integrated reporting disclosure adhering to the content elements of the integrated report provided in the IIRF. Additionally, the study will examine the relationships between various board characteristics (board size, board independence, board gender diversity, average age of board members, and board activity level) and the extent of integrated reporting disclosure.

1.4 Research Objectives

The objective of this thesis is to address the problem statement described above and bridge the research gap that exists in the extent of integrated reporting disclosure and board characteristics among PLCs in Malaysia. The research objectives are classified into two classes, they are general objective and specific objectives.

1.4.1 General objective

The general objective of this study is to measure the extent of integrated reporting disclosure adhering to the content elements of the integrated report provided in IIRF among the top 100 PLCs by market capitalisation in Malaysia. The adherence level of integrated reporting disclosure is measured by the self-constructed Corporate Integrated Reporting Index (CIRI). CIRI is a disclosure index that can be regarded as a checklist with various items that should be looked into while conducting research. This study then seeks to examine and understand the characteristics of the board of directors such as board size, board independence, board gender diversity, the average age of board members, and board activity level that influence the extent of integrated reporting disclosure of the PLCs adhering to the content elements of the integrated report provided in the IIRF among the top 100 PLCs by market capitalisation in Malaysia.

1.4.2 Specific Objectives

In order to attain the general objective, the following specific objectives were developed:

RO_1 To measure the extent of integrated reporting disclosure adhering to the content elements of the integrated report provided in the IIRF among the top 100 PLCs in Malaysia.

RO_2 To examine the relationship between board size and the extent of integrated reporting disclosure.

RO_3 To examine the relationship between board independence and the extent of integrated reporting disclosure.

RO_4 To examine the relationship between board gender diversity and the extent of integrated reporting disclosure.

RO_5 To examine the relationship between the average age of board members and the extent of integrated reporting disclosure.

RO_6 To examine the relationship between board activity level and the extent of integrated reporting disclosure.

1.5 Research Questions

There are several research questions required to be answered in this study.

RQ_1 What is the extent of integrated reporting disclosure among the top 100 PLCs in Malaysia?

RQ_2 Is there any relationship between board size and the extent of integrated reporting disclosure?

RQ_3 Is there any relationship between board independence and the extent of integrated reporting disclosure?

RQ_4 Is there any relationship between board gender diversity and the extent of integrated reporting disclosure?

RQ_5 Is there any relationship between the average age of board members and the extent of integrated reporting disclosure?

RQ_6 Is there any relationship between board activity level and the extent of integrated reporting disclosure?

1.6 Hypotheses of the Study

In consideration of the research objectives and questions raised in this study, the following hypotheses have been developed based on the proposed conceptual framework of this study as follows:

H_1 The board size is positively associated with the extent of integrated reporting disclosure.

H_2 The board independence is positively associated with the extent of integrated reporting disclosure.

H_3 The board's gender diversity is positively associated with the extent of integrated reporting disclosure.

H_4 The average age of board members is positively associated with the extent of integrated reporting disclosure.

H_5 The board activity level is positively associated with the extent of integrated reporting disclosure.

1.7 Theoretical and Proposed Conceptual Framework

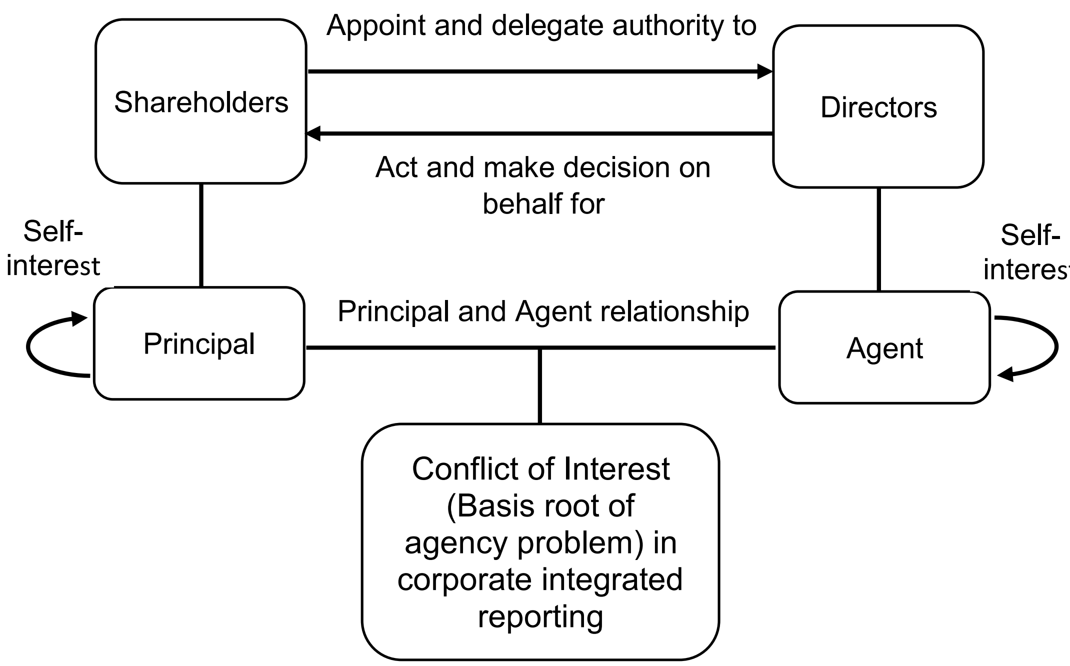
1.7.1 Agency Theory

Corporate governance has emerged as a critical issue in Asia, particularly after the corporate failures and the Asian financial crisis in 1997 (Akhtaruddin et al., 2009; Hamad et al., 2020). Corporate governance strives to improve stewardship and transparency, and it plays an important role in closing the information expectation gap between corporations and stakeholders in markets such as Japan, South Africa, and Malaysia (Hamad et al., 2020; IIRC, 2019). These objectives of corporate governance are realised by placing pressure on corporates to make more voluntary disclosures. Integrated reporting is seen as an indicator of effective corporate governance, which is critical in attracting investors (Hamad et al., 2020; KPMG, 2017). Furthermore, the corporate governance structure of a corporation has a substantial influence on voluntary disclosure and integrated reporting adoption (Hamad et al., 2020; Velte & Stawinoga, 2017).

Agency theory is concerned with the relationship between principals (owners) and agents (management) in which the principals refer to shareholders commissioning the agents; directors of a corporate to run the corporate operations on their behalf and act in their best interest instead of the directors' self-interest to maximise the wealth of the corporate (Jensen & Meckling, 1976; Suttipun & Bomlai, 2019). This principal and agent relationship caused a conflict of interest between the shareholder and the directors that gave rise to an agency problem. The basic root cause of the agency problem is the conflict of interest between the shareholders and the directors. The cost involved in reducing the conflict of interest between the shareholder and the directors is referred to as an agency cost. The corporation should make an effort to minimize the agency problem and the agency cost. The theoretical background arose from the information asymmetry caused by the agency problem from the perspective of shareholders or investors. As shareholders are not involved in the day-to-day operations of the corporation, corporate reporting which provides relevant information is required as a tool to monitor and assess the performance of the agents as managers (Adhariani & Sciulli, 2020). However, with the voluntary disclosure of integrated reporting, corporates may opt to convey only positive news and hide information that is secret and sensitive as far as their concerns in disclosing non-financial information (Suttipun & Bomlai, 2019). Corporate reporting is crucial in reducing information asymmetry (Adhariani & Sciulli, 2020). The principal and agent relationship between shareholders and directors under the agency theory is illustrated in Figure 1.2.

Figure 1.2

Principal and Agent Relationship between Shareholders and Directors under an Agency Theory



Source: Developed for the research.

The board of directors is the primary form of corporate governance since it is appointed by the shareholders of corporations to oversee the corporation's operations (Monks & Minow, 2008, as cited in Alfiero et al., 2018b). As such, it is critical to ensure that the board of directors is acting in the best interests of the shareholders (Brennan, 2006, as cited in Alfiero et al., 2018b). An important aspect of this monitoring duty is to ensure that the board's voluntary disclosures are trustworthy rather than self-serving (Healy & Palepu, 2001; Alfiero et al., 2018b) so that the corporation will create a good corporate disclosure system over time (Alfiero et al., 2018b; Qu & Leung, 2006). However, whether the board of Directors can successfully oversee management and hence evaluate the quality of voluntary disclosure is determined by the board composition (Mizruchi, 2004, as cited in Alfiero et al., 2018b). The Board composition can differ in terms of value system, gender, board size, industrial history, and nationality (Alfiero et al., 2018b; Kang et al., 2007; Van der Walt et al., 2006).

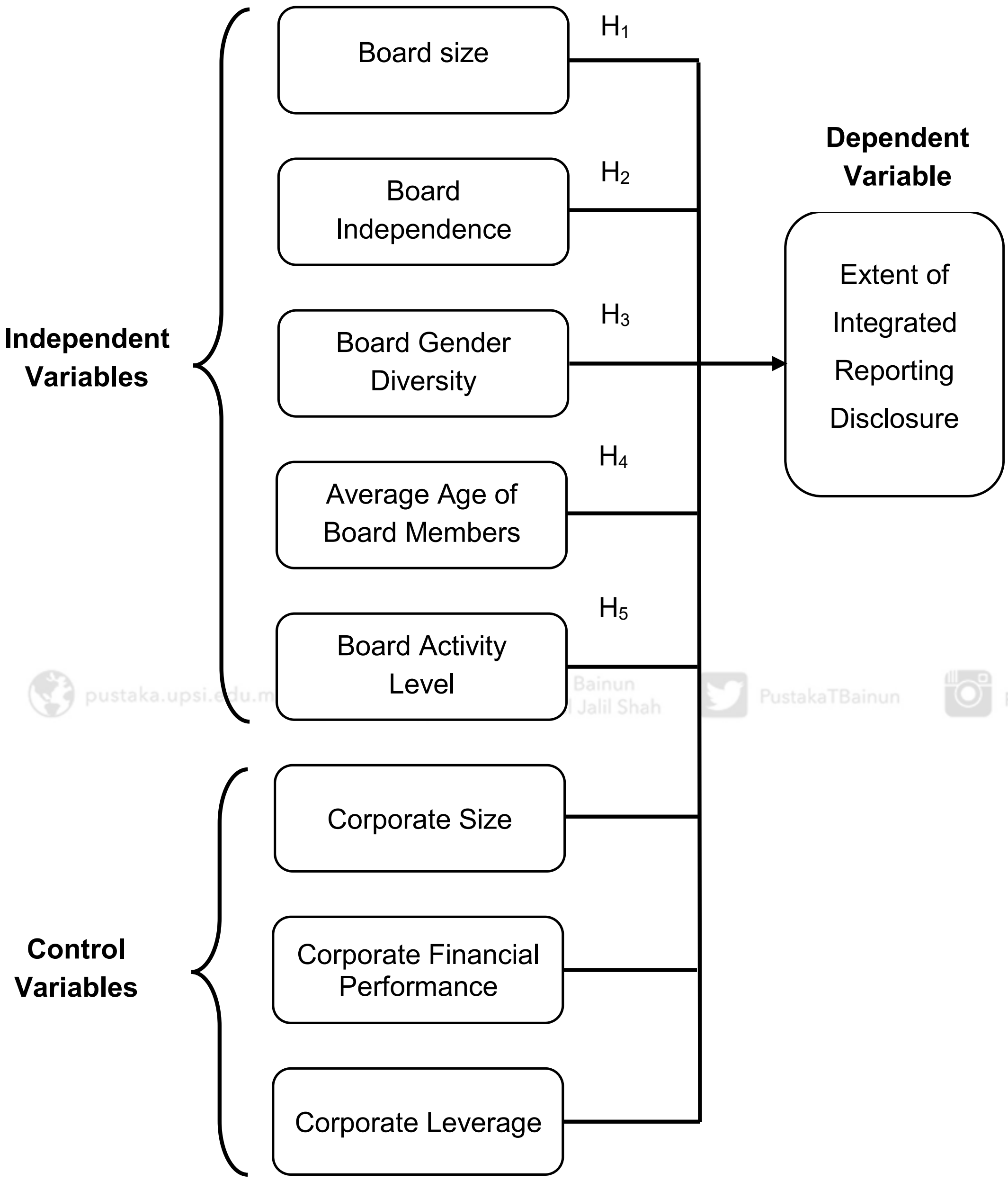
1.7.2 Proposed Conceptual Framework

Based on the agency theory as stated in the problem statement, research objectives, and questions, five independent variables and one dependent variable have been established for the proposed conceptual framework in this study. However, according to Chouaibi et al. (2022a), good corporate governance and board characteristics are not the only variables that affect the quality of integrated reporting disclosure. In other words, corporate governance is not the only factor that influences the extent of integrated Reporting disclosure. The control variables usually used in prior studies on the influence of corporate governance on corporate disclosure are corporate size, leverage, and financial performance. If the true effect of corporate governance in terms of board characteristics on integrated reporting disclosure is to be assessed, then the effect of corporate characteristics has to be controlled.

As a result, control variables in terms of corporate characteristics will be utilized in this study to avoid results being biased because they might affect the variables of interest in this study. The proposed conceptual framework depicts the relationship between independent variables and dependent variable to answer the research questions with the control for the effect of corporate size, financial performance, and leverage on the variables of interest in evaluating the hypotheses under the study. It is illustrated in Figure 1.3.

Figure 1.3

Board Characteristics and Extent of Integrated Reporting Disclosure



Source: Developed for the research.

The factors of the corporate governance dimension that influence the extent of integrated reporting disclosure adhering to the IIRF are formulated based on the relevant theoretical perspective of agency theory and previous research to fit into this study. The proposed conceptual framework depicts the independent variables, which include board size, board independence, board gender diversity, the average age of board members, and board activity level. The dependent variable in this study is the extent of integrated reporting disclosure as measured by CIRI, and it is the primary focus of this study with corporate characteristics in terms of corporate size, financial performance, and leverage as control variables. As for this study, the board size, board independence, board gender diversity, average age of board members, and board activity level are all related to the extent of integrated reporting disclosure with the control for the effect of corporate size, financial performance, and leverage on the variables of interest in evaluating the hypotheses under the study.

1.8 Operational Definition

The operational definitions of variables are provided for a better understanding of the variables investigated in this study. The operational definition will start with the definition used in previous studies and then focus on the definition to be used in the context of this study if applicable.

1.8.1 Dependent Variable

1.8.1.1 Extent of Integrated Reporting Disclosure

Ahmed and Anifowose (2016) define the extent of integrated reporting as the inclusion or exclusion of information related to the items covered in an integrated report. In other words, the extent of integrated reporting disclosure refers to whether or not information is provided on various aspects of a company such as organizational overview and external environment, governance, business model, risks and opportunities, strategy and resource allocation, performance, and outlook is included in an integrated report. In the context of this study, the extent of integrated reporting disclosure refers to the degree to which integrated reports adhere to seven out of the eight content elements of the integrated reporting provided in the IIRF of the IIRC. An unweighted disclosure approach will be used to quantify the presence or absence as a dichotomous variable of the items within each of the content elements of integrated reporting provided in IIRF under investigation in this study. A score of 1 is assigned if the corporation disclosed a certain item at least once and 0 otherwise. The average score of content element analysis results from the integrated report will be reflected in a self-constructed CIRI.

1.8.2 Independent Variables

1.8.2.1 Board Size

With regard to this study, board size refers to the total number of directors on the board of directors. It is measured as the number of directors on a corporate board of directors (Alfiero et al., 2018b; Frias-Aceituno et al., 2012; Iredele, 2019; Vitolla et al., 2020a).

1.8.2.2 Board Independence

Regarding this study, board independence means a director who is independent of the management and free from any business or other relationship (except as an independent director receiving sitting fees of meetings), which could interfere with the exercise of independent judgment or the ability to act in the best interests of the listed company. (Bursa Malaysia, 2022). It is measured by calculating the proportion of independent members on the board of directors (Ofoegbu et al., 2018).

1.8.2.3 Board Gender Diversity

Pertaining to this study, board gender diversity refers to the number of female and male directors on a corporate board of directors. It is measured by the proportion of the total number of female directors on the board (Alfiero et al., 2017; Frias-Aceituno et al., 2012; Liao et al., 2015; Vitolla et al., 2020a).

1.8.2.4 Average Age of Board Members

In relation to this study, the average age of board members refers to the average age of the board of directors which represents the experience of the directors (Alfiero et al., 2018a; Anderson et al., 2004).

1.8.2.5 Board Activity Level

In connection with this study, board activity level refers to the total number of board of directors meetings held annually (Frias-Aceituno et al., 2012; Vitolla et al., 2020a).

1.8.3 Control Variables

1.8.3.1 Corporate Size

Concerning this study, corporate size refers to the natural logarithm of the total assets of the corporation (Chouaibi et al., 2022a; Ciavarella, 2017; Kılıç & Kuzey, 2018b).

1.8.3.2 Corporate Financial Performance

In the context of this study, corporate financial performance refers to the Return on Assets (ROA) of the corporation. It is measured as the net income divided by the total assets (Girella et al., 2019; Kılıç & Kuzey, 2018b; Oshika & Saka, 2017).

1.8.3.3 Corporate Leverage

In relation to this study, corporate leverage is an indicator of a corporation's financial risk (Kılıç & Kuzey, 2018b; Patton & Zelenka, 1997). The leverage ratio is measured as total debt divided by the total assets of the corporation (Chouaibi et al., 2022a; Kılıç & Kuzey, 2018b; Lang & Lundholm, 1996; Sriani & Agustia, 2020).

1.9 Significance of the Study

Integrated reporting is gaining momentum globally, this study can serve as a foundation for PLCs, professional bodies, regulatory bodies, and scholars to understand the inclusion of integrated report content elements in the integrated reports among the top 100 PLCs in Malaysia. It examines the influence of board characteristics on the extent of integrated reporting disclosure, aligning with the content elements specified in the IIRF for Malaysian PLCs.

This study addresses a gap in prior research by examining integrated reporting within the top 100 PLCs in Malaysia, utilizing recent data and the context of agency theory. This contribution distinguishes this research, setting it apart from previous studies. The approach involves measuring the extent of integrated reporting and investigating the influence of specific board characteristics. This dual focus not only enhances the study but also adds depth to the existing literature on corporate governance and reporting practices, and offers a comprehensive understanding of integrated reporting practices in the Malaysian PLCs context.

The research holds timely relevance, aligning with the increasing importance of integrated reporting. By providing insights into the practices of top PLCs in Malaysia, it adds valuable knowledge to the current corporate reporting landscape. Additionally, the study has significant implications for corporate governance, policy formulation, and integrated reporting standards. Equipped with practical insights, the research has the potential to inform decision-makers in both corporate and regulatory environments, effectively bridging the gap between theory and application.

The Malaysian Code on Corporate Governance (MCCG) 2017 and MCCG 2021 encourage large corporates in Malaysia to adopt integrated reporting based on the globally recognized IIRF. This study is essential given the voluntary adoption of integrated reporting in Malaysia, the flexibility in reporting practices, and the potential differences in reporting among PLCs. Understanding the characteristics of the board of directors, such as size, independence, gender diversity, average age, and activity level, is crucial before mandatory integrated reporting in Malaysia.

As integrated reporting is relatively new and characterized by a voluntary disclosure regime in Malaysia, this research provides insights into the influence of board characteristics on integrated reporting disclosure for PLCs. The study is particularly relevant to Malaysia's corporate culture and can pave the way for more locally focused research in this area, ensuring that the Malaysian market stays aligned with global developments. Thus, the research contributes to understanding the extent and characteristics influencing integrated reporting disclosure among the top 100 PLCs in Malaysia.

1.10 Scope of the Study

This research is aimed to measure the extent of integrated reporting disclosure adhering to the content elements of the integrated report provided in IIRF and to examine and understand the characteristics of the board of directors' influence on the extent of integrated reporting disclosure among the top 100 PLCs by market capitalisation in Malaysia from 2019 to 2021. Thus, the population of this study is taken from the companies listed on the Financial Times Stock Exchange (FTSE) Bursa Malaysia. The years 2019 to 2021 were chosen for this study because Practice 11.2 of MCCG was issued in 2017. The PLCs require at least one year to run for the collection of information required if the information is not readily available and for the financial year ended in 2019, the majority of the financial years commencing in 2018 for example, for the financial year ended 31 January 2019, it is commencing in February 2018.

The target research population consists of the top 100 PLCs based on their market capitalisation in the FTSE Bursa Malaysia because these companies contribute more to the economy of Malaysia and Practice 11.2 of MCCG 2017 is encouraged only; not mandatory for large companies listed on the FTSE Bursa Malaysia to adopt integrated reporting. As a result, the aforesaid top 100 corporations are more likely to comply with the MCCG and Bursa Malaysia requirements for integrated reporting adoption. The research sample comprises all the PLCs among the top 100 PLCs that adopted integrated reporting based on IIRF. In 2019, only 33 of the top 100 PLCs in Malaysia adopted integrated reporting. Therefore, it makes up a total of 99 corporate-year observations. Furthermore, this study is limited to the top 100 PLCs in Malaysia, it does not cover PLCs that are implementing integrated reporting outside Malaysia, and small PLCs and private limited companies in Malaysia.

A content analysis was done for this study and a self-constructed CIRI was developed by relying on the content analysis results of an integrated report by keywords, a score of 1 is assigned if the corporation disclosed a certain item at least once and 0 otherwise to measure the extent of integrated reports of PLCs in Malaysia are adhering to the content elements of the integrated report provided in IIRF that reflect the various aspects of a company such as organizational overview and external environment, governance, business model, risks and opportunities, strategy and resource allocation, performance, and outlook to identify the area of content lacking in the disclosures of their integrated reports.

Furthermore, an in-depth examination of the relationship between the characteristics of a board of directors and the extent of integrated reporting disclosure adhering to the content elements of the integrated report provided in IIRF is carried out using the multiple regression approach for a better understanding of the factors influencing the adoption of integrated reporting in Malaysia and improve the extent of integrated reporting disclosure adhering to the content elements of the integrated report provided in the IIRF. Thus, the scope of this study is limited to the internal corporate governance mechanism in terms of board characteristics that can influence integrated reporting. It does not cover other internal corporate governance mechanisms for example ownership structure and audit committees, and external corporate governance mechanisms such as regulators, and external auditors.

1.11 Chapter Layout of the Study

Chapter 1 is the synopsis of this thesis. it starts with an outline of the chapter, followed by research background information, problem statement, general and specific research objectives, research questions, hypotheses of the study, theoretical and proposed conceptual framework, operational definition of the variables of interest in this study, the significance of the study, the scope of the study, chapter layout, and summary of the chapter.

Chapter 2 of this thesis provides a review of related literature that will be used to lay a theoretical foundation for the research and discusses the underlying theories that support integrated reporting. The theoretical framework is intended to explain fundamental theories of integrated reporting, which will underlie the formation of hypotheses and basic research discussion. The theories that are identified and relevant to integrated reporting are stakeholder theory, agency theory, and legitimacy theory which are of great interest to the content of this thesis. The literature review is done by using the latest and relevant journal articles, Internet articles, publications of Malaysian Government agencies, textbooks, and discussion papers to gain a thorough understanding of the subject of integrated reporting. This chapter ends with hypotheses development and a summary of the chapter.

Chapter 3 describes the research methodology and how it is carried out in terms of research design, data collection methods, sampling design, research instrument, the instrument of constructs with their origins, data preparation process, and data analysis. The data analysis includes descriptive analysis, inter-coder reliability of Krippendorff's alpha, Pearson correlation, and multiple linear regression. In addition, sensitivity analyses will also be carried out to ensure the robustness of the primary research findings.

Chapter 4 presents the patterns of the results as well as an analysis of the results which relevant to research questions and hypotheses. The results accumulated from the secondary data are presented and evaluated in the Statistical Package for Social Science (SPSS) software Version 26 is used to analyze the data collected and determine the relationship between the variables. Consequently, the descriptive analysis, inter-coder reliability of Krippendorff's alpha, Pearson correlation, and multiple linear regression results will be presented in this chapter for a precise understanding of the variables. Furthermore, the results of sensitivity analyses will also be presented for evaluating the robustness of the primary research findings.

The final chapter encompasses a comprehensive discussion, conclusions, and recommendations derived from the results of this study. This chapter effectively summarizes the statistical analysis of research findings and discusses the major findings of the study including the findings of the sensitivity analysis. Furthermore, it explores the implications of the study and acknowledges the limitations, as well as presents valuable recommendations for future research studies.

1.12 Summary

Corporate governance mechanisms can be viewed as important elements in understanding the extent of disclosure by different corporations. Research on internal corporate governance mechanisms such as the characteristics of the board of directors is critical in understanding diversity in corporate governance and disclosure activities between corporates (Madhani, 2015). As a result, this paper focuses on the relationship between the board of directors' characteristics namely board size, board independence, board gender diversity, the average age of board members as well as board activity level, and the extent of integrated reporting disclosure adhering to the IIRF of the IIRC. This is because little research has been conducted to examine the relationship between internal corporate governance mechanisms and the extent of integrated reporting disclosure adhering to the IIRF among PLCs in Malaysia.