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Integrated Report Content Elements Effecting Value Relevance of Publicly Listed Companies in Malaysia

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The aim of this study is twofold. Firstly, to examine the effect of voluntary disclosure of eight integrated report content elements on the value relevance of Malaysian companies' corporate information. Secondly, to investigate differences in the value relevance of corporate information in pre and post-issuance periods of the Integrated Reporting (IR) Framework. Annual reports of 603 companies listed on the Main Market of Bursa Malaysia for the years 2012 and 2015 were examined. The results show a significant difference in the value relevance between the pre and post-issuance periods of the IR Framework. Nevertheless, the level of voluntary disclosure of the information related to the eight IR content elements does not significantly influence the value relevance of the corporate information of the companies. This study contributes to the investigation of value relevance concerning the IR content elements in developing countries.

Key words: *Integrated Reporting, IR Framework, Content Elements, Voluntary Disclosure, Value Relevance.*

Introduction

While some elements of Integrated Reporting (IR) involve voluntarily disclosure in the Top 30 companies of Malaysia, corporate reporting is not yet integrated nationally. This raises a concern involving possible lack of appreciation that IR could enhance the value of companies. It is believed that companies may be more subtle to the IR mindset if the value of companies could be enhanced. Lang, Lins and Miller (2003) indicate that enhanced information disclosure could create increased value for such firms. The higher the information disclosure, the better investors are able to assess the prospects of a company. This will increase the demand for its securities, thus enhancing firm value. As such, this study is vital to provide empirical evidence on the issue.

As the basic information of IR is present in Malaysian corporate reporting, the move towards full integrated reporting appears encouraging. Based on the level of disclosure of the IR content elements, this study aimed to investigate the ability of IR information disclose to capture and summarize the value of companies. Specifically, the aim of this study is twofold. Firstly, to examine the effect of voluntary disclosure of the eight IR content elements on the value relevance of corporate information for Malaysian companies. Secondly, to investigate the difference in the value relevance of corporate information in pre and post-issuance periods of the IR Framework.

Literature Review

Integrated Reporting in Malaysia

The IR framework aims to improve the quality of information, promote a more cohesive and efficient approach to corporate reporting, enhance accountability and stewardship, and support integrated thinking, decision-making and actions that focus on the creation of value over the short, medium and long term. In this respect the Eleventh Malaysia Plan emphasises the need to promote investment to drive the Malaysian economic growth.

Comprehensive information is therefore needed for investors to make sound investment decisions. Traditional corporate reporting, nevertheless, no longer provides sufficient information for investors. The IR framework, however, may fulfil these informational needs. With companies in Malaysia chasing regionalisation, growth and innovation, IR is a way to improve their reporting.

The IR Framework released by the IIRC in 2013 establishes guiding principles and content elements that govern the overall content of an IR. There are eight IR content elements in the Framework: organizational overview and external environment; governance; business model; risks and opportunities; strategy and resource allocation; performance; outlook; and basis of presentation. These elements are fundamentally linked to each other and are not mutually exclusive. The Chief Executive Officer of IIRC, however, in 2014 had raised his concern when he discovered how few Malaysian local companies were embracing the IR framework. An analysis on the Bursa Malaysia Top 30 companies reporting reveals that although the basic IR content elements have been covered, there remains a lack of linkage between these elements (PwC, 2014). This signals a lack of preparedness on the part of these companies to adopt the IR framework at that time. Nevertheless, as the PwC survey was done in 2014, the fact that the IR Framework was only introduced in December 2013 may suggest that companies would not have had time to adapt their reporting accordingly. Furtherance, in 2015 a survey jointly conducted by MIA and ACCA Malaysia find that knowledge of IR and its potential benefits is still relatively low in Malaysia.

It is believed that companies may be more disposed towards the IR if the companies' value could be enhanced. The objective of the IR is to ultimately create value that is relevant to the companies. Value relevance is the ability of financial statements to capture information that affects stock prices. This is based on the notion that accounting numbers need to reflect the economic reality of enterprises, manifested in the price of equity. Thus, this study is imperative for providing evidence concerning the possible influence of IR in enhancing the value of Malaysian companies. As the IR is not yet made mandatory in Malaysia, focus will be given to the voluntary disclosure of the IR content elements. It is expected that the higher the information disclosure, the better the investors are able to assess the prospects of the company. This will increase the demand for its securities, thus enhancing firm value.

Value Relevance of Accounting Information

Accounting valuation has been an important topic in accounting research. Francis and Schipper (1999) describe value relevance as the ability of financial statements to capture information that affects stock prices. In the context of this study, value relevance refers to the ability of corporate information, i.e. the IR content elements, disclosed in an annual report to capture and summarise companies' value. Earlier value relevance studies mostly examined this issue in developed countries, particularly the US (Francis & Schipper, 1999). Over time, several studies have tested this issue within the context of emerging markets (e.g. Hassan, Romilly, Giorgioni & Power, 2009). Value relevance of accounting information has been studied in various issues, such as financial reporting (e.g. Khanagha, 2011), information technology (e.g. Pathirawasam & Wickermasinghe, 2011) and firms' characteristics (e.g. Charumathi and Suraj, 2014). As the focus of this study is on corporate reporting, the literature presented here will focus on those studies that have examined the value relevance of accounting information as an issue within financial reporting.

Kwong (2010) examined the value relevance of accounting information and financial reporting among firms in Malaysia across three reporting periods with different levels of the IFRS adoption. This study provides evidence that IFRS is value relevant for decision making among investors (as reflected in the market value). Additionally, the book value and earnings for these firms were significant in jointly explaining variations in associated market value for the three reporting periods that Kwong analysed.

Khanagha (2011) examined the value relevance of accounting information in the pre and post-periods of IFRS implementation in United Arab Emirates. A comparison of the results for these periods before and after adoption shows a decline in value relevance of accounting information after the reform in accounting standards. Meanwhile, Robu (2015) found an increase in value relevance in the case of IFRS adoption in Romania, and Kim (2013) similarly discovered that firms which report in accordance with IFRS produce more value-relevant reports. Kargin (2013) investigated the value relevance of accounting information in pre-and-post IFRS financial periods for Turkish listed firms from 1998 to 2011. He found that overall book value is value relevant in determining market value or stock prices. Kargin's results show that the value relevance of accounting information has improved in the post-IFRS period (2005-2011), although improvements have not been observed in the value relevance of earnings. Likewise, Chalmers, Clinch and Godfrey (2011) revealed that the adoption of IFRS led earnings to become more value relevant, whereas the book value of equity does not.

Agostino, Drago and Silipo (2011) investigated the market valuation of accounting information in the European banking industry before and after the adoption of IFRS. Their study offers evidence that the introduction of IFRS enhanced the information content of both earnings and book value for more transparent banks. By contrast, less transparent entities did not experience significant increase in the value relevance of their book value. Further, Jianu, Jianu, Ileanu, Nedelco and Herteliu (2014) examined whether investors in the Romanian stock market perceive accounting information based on domestic GAAP to be value relevant. Their results showed that accounting information is value relevant to investors in the emerging stock markets despite the young age of the market; that the improvement of accounting rules leads to increased relevance of the accounting information; and that the value relevance of accounting information is greater for companies that have positive earnings, are larger, enjoy decreased turnover, and/or are more highly indebted.

While several studies examined the association between disclosure and firm value, these studies tended to report mixed results. In this current study, the term corporate information is used rather than accounting information, as the IR Framework covers comprehensive information beyond the accounting numbers.

Voluntary Disclosure

Voluntary disclosure is defined as the disclosures made in excess of requirement (Meek, Roberts & Gary, 1996; Kumar, 2013). Zandi and Shahabi (2012), Qu, Leung and Cooper (2013), Alturki (2014) and Karajeh, Ibrahim and Lode (2017) investigated the impact of voluntary disclosure in various stock market issues. Other researchers such as Bamber, Jiang and Wang (2010) and Karim, Pinsker and Robin (2013) examined the role of managers in deciding for voluntary disclosure. Studies of voluntary disclosure in an institutional setting were conducted by Al-Akra and Ali (2012), Garcia-Sanchez, Cuadrado-Ballesteros and Frias-Aceituno (2015) and Jain, Keneley and Thomson (2015). Some studies also investigated the impact of several firms' characteristics on voluntary disclosure, namely Kumar (2013), Uyar, Kilic and Bayyurt (2013), Alturki (2014) and Gonzalez-Gonzalez and Ramirez (2016). Corporate governance is another factor investigated by some researchers in the context of voluntary disclosure (Braam & Borghans, 2014; Uyar et al, 2013); Abdullah, Percy & Stewart, 2015 and Madi, 2012). In a different perspective, Malak (2014) revealed a significant improvement in the level of voluntary disclosure after the introduction of the reform of the Malaysian regulatory framework. Malak's study is particularly relevant to this study in that it also investigated changes in the level of voluntary disclosure of corporate information between two different reporting periods.

Voluntary Disclosure Versus Value Relevance of Accounting Information

Prior studies have examined the effects of voluntary disclosure of accounting information on value relevance. The focus of the studies is on various contexts.

Lajili and Zéghal (2005) revealed that the labour costs of disclosing companies are associated with higher equity market value. Lapointe-Antunes, Cormier, Magnan and Gay-Angers (2006) discovered that investors put a significantly lower valuation weight on discretionary accruals reported by high disclosing firms than low disclosing firms, and a significantly lower valuation weight on discretionary accruals reported by IAS/IFRS or US GAAP firms than Swiss GAAP firms. In a specific industry, Deadman, Lin, Prakash and Chang (2008) investigated the market impact of voluntary disclosure in an industry where the quality of reported earnings is low. Their study found that in this situation managers tend to release more good news than bad news. In contrast, Banghøj and Plenborg (2008) demonstrated that more voluntary disclosure does not improve the association between current returns and future earnings. Shukor, Ibrahim, Kaur and Hamezah (2009) reported that intangible NCA continuously showed a negative association with the share market price of firms throughout three different economic periods in their study of accounting environments.

Hassan and Saleh (2010) revealed that disclosure of information concerning the quality of financial instruments is also value relevant. Alfaraih and Alanezi (2011) indicated that price and returns models provide evidence that earnings and book values are significant factors in the valuation of Kuwait's Stock Exchange listed firms in the 2007 period. However, their results also show that voluntary disclosure levels had insignificant influence on the value relevance of earnings and book values. Further, Uyar and Kilic (2012), Al-Akra and Ali (2012) and Alali and Foote (2012) revealed that voluntary disclosure is value relevant, and that it impacts overall firm value. Alali and Foote (2012) further found that as markets developed, the value relevance of accounting information improved, but in a bearish period the accounting information has lesser value relevance. Notably, Wang, Ali and Al-Akra (2013) discovered that more voluntary disclosure does not create value for Chinese firms. It is also observed that although during a financial crisis voluntary disclosure continues to increase, firm value tends to decrease. In addition, Belgacem and Omri (2014) observed a negative and insignificant relationship between voluntary disclosure and firm value overall.

Concerning environmental information disclosure, Plumlee, Brown, Hayes and Marshall (2015) found evidence that voluntary environmental quality is associated with firm value, through cash flow and cost of capital components. Subsequently, Chung, Judge and Li (2015) revealed that excess executive compensation has a positive effect on firm value when firms disclose comprehensive information voluntarily. From another perspective, Badenhorst, Brümmer and de Wet (2015) suggested that although individual elements of summarised information for equity accounted associates under IAS 28 are sometimes incrementally value-relevant, these elements have the greatest incremental value-relevance when reported as a group.

In summary, in the decision-making process, stakeholders, particularly investors, need relevant and pertinent information. As the traditional financial reporting system was accused of no longer providing enough information, a more complete picture is needed. The ability of business to measure and communicate what really matters is an increasing demand of investors and other users of corporate information. It is expected that the IR framework will enable a business to more clearly communicate its value creation journey, today and in the future. In this respect, no study has investigated the impact of information related to the eight IR content elements on the value relevance of corporate information. Therefore, this study is timely for contributing to the IR literature.

Agency Theory and Hypotheses Development

Agency relationship arises when one individual (the principal) hires another individual (the agent) to perform work. This relationship is defined as "a contract under which one or more persons (the principal[s]) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent" (Jensen & Meckling, 1976). Agency Theory is used in this study to explain the relationships between the voluntary disclosure of the information related to the IR content elements and the value relevance of corporate information. According to this theory, high disclosure of information can add value to firms. Agency theory also recognises the fact that agency cost may exist due to the opportunistic behaviour of the agent (manager).

To reduce agency costs, it is in the interests of the managers who bear these costs to voluntarily disclose information, in order to assure principal (investors) that they are acting in their best interests (Morris, Susilowati & Gary, 2004). This study suggests that managers will voluntarily disclose greater amounts of information related to the IR content elements to satisfy the information needs of their shareholders. Consistent with the aim of integrated reporting to provide an inclusive report to shareholders, after the issuance period of the IR Framework, the level of disclosure of the information related to the IR content elements will be higher and subsequently enhance the value relevance of corporate information. The foregoing discussion leads to development of the following hypotheses:

H_1: The level of voluntary disclosure of information related to the IR content elements has a positive effect on the value relevance of the corporate information of Malaysian companies.
H_2: The value relevance of the corporate information of the Malaysian companies is higher in the post-issuance period of the IR Framework as compared to the pre-issuance period.

Research Methodology
Research Design

This study uses annual reports of all companies listed on the Main Market of Bursa Malaysia for the years 2012 and 2015. After eliminating companies with incomplete information, 603 companies are included in the data analysis. Since the IR Framework was released in December 2013, and the fact that the integrated agenda was taken in a few years earlier, there is a possibility that a few companies might have taken initiatives to report some information, as required in the Framework, in 2013. Therefore the 2013 annual reports are excluded from this study. The 2012 annual reports are used as a source of information for a pre-issuance period of the IR Framework, while 2015 annual reports are used as a source of information for the post-issuance period of the IR Framework. Principally, when a new accounting standard is issued, companies are allowed a transitional period for adopting the new standard. The same rule is applied in this study, especially when the IR is not mandatory. Therefore, a grace period of one year is specified for companies to be familiar with the requirements of the IR. Accordingly, the annual reports for 2014 are also excluded from this study. Two panel data, i.e. (i) pre-issuance period of the IR Framework; and (ii) post-issuance period of the IR Framework are thereby established.

Model, Variables and Measurement

In many studies, Ohlson's model (1995) has been adopted to explore relationships among the market value of equity and two main financial reporting variables, namely the book value of equity per share (represents balance sheet) and earnings per share (represents income statement). Market value is related to book value and earnings per share by using the Ohlson model (1995). The model for this study is as follows:

$$VALUEREL_{jt} = \beta0+\beta1EPS_{jt}+ \beta2BV_{jt}+ \beta3LOGTA_{jt} + \beta4ROE_{jt}+ \beta5LEV_{jt}+ VDI_{jt} + e \quad \text{………………………………….(a)}$$

Dependent Variable

The dependent variable, value relevance ($VALUEREL_{jt}$), is measured through the statistical relations between information presented by financial statements and stock market values or returns. Specifically, this study adopts Ohlson's (1995) model where a firm's share price is a function of both earnings and book value of equity.

$VALUEREL_{jt}$ = is the share price of company j at fiscal year-end, t.

Independent Variable

The independent variable, voluntary disclosure (VDI_{jt}), is measured by gathering the level of voluntary disclosure of information related to the eight IR content elements in the companies' annual reports, using a voluntary disclosure index (VDI).

The IR content elements are broken down into more specific items: (i) 65 organisational overview and external environment items; (ii) 33 governance items; (iii) 51 business model items; (iv) 17 risks and opportunities items; (v) 31 strategy and resource allocation items; (vi) 22 performance items; (vii) 34 outlook items; and (viii) 33 basis of presentation items. This study uses a relative scoring approach, similar to Akra and Ali (2012), where the VDI is assessed as the ratio of the total number of actual voluntary items disclosed by the company to the maximum applicable voluntary items that the company can score. Each IR content element is assessed based on the amount, in percentage (%) format, of information presented in the company's annual report. A company receives a score of one if it voluntarily discloses information on the item and zero if the item is not disclosed. Thus, the VDI ranges from 0 to 1, with 0 for the lowest and 1 for the highest VDI.

Voluntary disclosure for each content element, VDI_{jt} = voluntary disclosure index of company j at year t, where;

$$VDI_{jt} = \sum d_j/n$$

$$j=1$$

The VDI_{jt} is then used to estimate the value relevance of the company in equation (a).

Control Variables

Three control variables are included in the model, namely the company's size ($LOGTA_{jt}$), profitability (ROE_{jt}) and leverage (LEV_{jt}).

Size ($LOGTA_{jt}$) =The company's LOG of the total assets will be used as a proxy for the company's size. This study controls for firm size (in terms of total assets) since larger firms are expected to have higher disclosure levels (Chow & Wong-Boren, 1987; Craig & Diga 1998). Larger firms account for a greater proportion of the economy's goods and services and have a large number of employees. They have a large asset base and are more established than smaller firms. All these factors suggest that large firms are associated with higher disclosure levels.

Profitability (ROE_{jt}) = Return on total equity is used as a proxy to the company's profitability. Wallace and Naser (1995) indicate that high-performing firms disclose more information so as to signal to the market their superior performance.

Leverage (LEV_{jt}) = The ratio of total debt to total assets is employed to measure leverage ratio. It is suggested that highly leveraged firms incur higher monitoring costs (Jensen & Meckling, 1976). Creditors act as external monitors that play a beneficial governance role in reducing managerial agency problems, hence a positive correlation between leverage and voluntary disclosure is expected (Ahmed & Nicholls, 1994).

Results

Regression Analysis

Multiple regression was used to predict VALUEREL from VDI, ROE, LEV, LOGTA, EPS, BV for both 2012 and 2015 data. These variables were statistically significant, and predicted VALUEREL for both years: 2012; $F(6,596)=60.558$, $p=.000$, $R^2=.379$, adjusted $R^2=.372$; and for 2015; $F(6,596)= 28.273$, $p=.000$, $R^2=.222$, adjusted $R^2=.214$. The variables explain 37.2% (2012) and 21.4% (2015) of the variability of the VALUEREL respectively, and the models are a good fit for the data. The coefficient results indicate that for 2012, EPS, BV and LOGTA significantly affected VALUEREL at p=.000,.013 and .001 respectively, consistent with the established results in the accounting literature. Meanwhile LEV, ROE and VDI did not significantly affect the VALUEREL. This means that the level of voluntary disclosure of the information related to the eight IR content elements did not influence the value relevance of the corporate information of the companies to a significant degree. The coefficient results for 2015, on the other hand, show that BV, ROE and LOGTA significantly affected the VALUEREL at p=.000, consistent with the established results in the accounting literature. Meanwhile EPS, LEV and VDI did not significantly affect the VALUEREL. Similar to 2012, the level of voluntary disclosure of the information related to the eight IR content elements did not significantly influence the value relevance of the corporate information of the companies for the year 2015.

Paired Sample T Test

Paired sample *t*-test was performed to determine whether the mean difference between the VALUEREL in the pre and post-issuance period of the IR Framework was significantly different. This result revealed a significant difference in the VALUEREL between the pre and post-issuance period of the IR Framework ($t_{602} = -3.354$, $p < 0.001$). Therefore, this study concludes that the value relevance of the corporate information is higher in 2015 (post-issuance period of IR Framework) compared to 2012 (pre-issuance period of the IR Framework). Nonetheless, as presented in table 4.1** the level of voluntary disclosure of the information related to the eight IR content elements was not the main influence in terms of the significant changes in the value relevant of the corporate information of these companies.

Discussion

In summary, hypothesis 1 is not accepted. The level of voluntary disclosure of information related to the IR content elements does not have a positive effect on the value relevance of the corporate information of the Malaysian companies. This finding does not support the prediction of Agency Theory that more information disclosure results in more satisfied shareholders, which will subsequently enhance the value relevance of the corporate information. The finding also does not support prior studies (e.g. Lang et al., 2003; Plumlee et al., 2015) that reveal the positive effect of voluntary disclosure on a firm's value. Nevertheless, the finding is consistent with other studies such as Wang et al. (2013) and Belgacem and Omri (2014), which also concluded that voluntary disclosure does not impact firm value.

Hypothesis 2 is accepted. The value relevance of the corporate information of the Malaysian companies is higher in the post-issuance period of the IR Framework compared to the pre-issuance period. The finding supports the proposition of the Agency Theory that the manager will voluntarily disclose a greater amount of information to satisfy the informational needs of shareholders (Morris et al., 2004). Ultimately this will enhance the value relevance of the corporate information. Additionally, these findings support Malak (2014), who discovered a significant improvement in the level of voluntary disclosure after the introduction of the Malaysian regulatory framework. This finding is also consistent with some studies such as Kwong (2010) and Kargin (2013), who find improved value relevant in the post-period of International Financial Reporting Standards implementation.

Conclusion

This study investigates the effect of voluntary disclosure of the information related to the eight IR content elements on the value relevance of the Malaysian companies' corporate information. Also, this study aims to investigate the difference in the value relevance of the corporate information in pre-and-post-issuance periods of the IR Framework. The findings reveal that the level of voluntary disclosure of information related to the IR content elements does not have a positive effect on the value relevance of the corporate information of the Malaysian companies. However, the value relevance of the corporate information of the Malaysian companies is higher in the post-issuance period of the IR Framework compared to the pre-issuance period. Obviously, that the information related to the eight IR content elements is not a significant contributor towards the enhanced value relevance of the corporate information poses the question of whether the investors use that information when making their investment decision. This study suggests that not only the full adoption of the IR should be promoted to the Malaysian companies, but an awareness campaign should be made available to this society regarding the move towards comprehensive corporate report via IR. As such, this society will be more receptive towards the availability of more strategic information for their decision making. Future research could test the impact of the IR on the corporate reputation. If the result is positive, this may motivate companies to be more supportive in providing an integrated report, and at the other end the investor would be more appreciative with the comprehensive report prepared for them.

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*** Tables for the statistical results are available upon request. They are not provided in this article due to the quantity and size.*

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