

## Chapter 22

# Ownership Structure and Voluntary Disclosure of Intellectual Capital: Evidence from Malaysia

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### **ABSTRACT**

*The objective of this study is to investigate the relationship between ownership structure and voluntary disclosure of intellectual capital (IC). Ownership structure examined is family-owned (FAMC), government-linked companies (GLC) and diffused ownership (OWNDIFF). Using content analysis, a longitudinal study was carried out from years 2006 to 2008 on 162 top companies listed in Bursa Malaysia. Results show that GLCs and OWNDIFFs voluntarily disclose information on IC. In contrast, FAMCs strictly adheres to their secrecy of not disclosing more details than those stipulated by law. This study differs from prior IC disclosure studies in that it discusses voluntary disclosure from agency as well as institutional theory in explaining the relationship between ownership structure and voluntary disclosure of IC. This study may be of interest to various stakeholders such as governmental and regulatory bodies, owners and institutional investors, analysts, as well as policymakers in meeting the growing demand for intangible information to be incorporated in annual reports. It will also facilitate further calls for them to speed up their efforts in producing guidelines for a more consistent IC reporting framework.*

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## **INTRODUCTION**

The explosion of technological change has intensified business competition which in turn has facilitated the globalisation of world capital markets and world trade. As such, in today's networked society, the economic infrastructure is now largely knowledge-based. The ascendancy of this knowledge based economy has placed great importance on intellectual capital (IC) possessed by organizations. IC has now become a significant factor of production, sidestepping the traditional factors of production, namely land, labour and capital. It is the key factor in determining whether or not organizations gain competitive advantage. Despite the importance of IC in the last two decades, unfortunately, financial accounting is not able to capture these new values and report on them due to the stringent requirements of accounting principles. What is IC? Mouritsen, Larsen & Bukh (2001) refer to IC as intangible assets which create company value while Guthrie and Petty (2000) view IC as a company's 'softer' assets such as human resources, know-how, intellectual property rights, manufacturing procedures, organizational structure, internal and external relationships. Of late, IC disclosure (ICD) is gaining greater importance in comparison to the past due to dominant industry sectors shifting from manufacturing to high technological, financial and industrial services (Guthrie & Petty, 2000). Drawing on agency and institutional theories, this study examines the relationship between ownership structure and IC disclosure in the Malaysian context whilst controlling for firm specific characteristics such as firm-size, profitability, leverage and type of auditor.

Malaysia, being an Asian country, has unique ownership structures which offer insights on how each different ownership structure influences the provision of voluntary information on IC. The ownership structure examined is family owned (FAMC), government-linked companies (GLCs) and widely held, also known as diffused ownership

(OWNDIFF). GLCs are examined as they constitute a significant part of the economic structure in Malaysia and are deemed leaders of the corporate sector as well as key partners in the Government's quest in achieving Vision 2020, which is to be a fully developed country by 2020. Listed GLCs make up only 4% of the total number of listed companies but in terms of capitalisation they represent 49% in Bursa Malaysia employing more than 300,000 people (PCG, 2009). As stressed by the then Deputy Prime Minister of Malaysia, Y.A.B Dato' Sri Mohd Najib bin Tun Haji Abdul Razak, GLCs are "called on to develop new growth prospects; role-model good stewardship and governance; and move the corporate sector to a higher level of performance and merit" (PCG, 2009). Thus, their performance as well as their transparency in financial reporting behaviour plays a significant role model in working towards achieving Malaysia's Vision 2020. This study provides insightful findings on the extent of transparency of GLCs and its influence on other corporations. In Malaysia, many listed companies are dominated by family founders and their descendants (Claessens, Djankov & Lang, 2000; Abdul Rahman, 2006). This is further supported by Mohd Sehat & Abdul Rahman (2005) that the ownership and control of corporations are highly concentrated in Malaysia. This unique family ownership structure in Malaysia provides an interesting avenue to explore the reporting behaviour of IC in this vein. The final structure studied is diffused ownership, also known as widely-held firms. From the agency theory viewpoint, with greater ownership diffusion, firms are more likely to "experience pressure" from shareholders to enhance disclosure of voluntary information so as to reduce agency costs and "information asymmetry" (Raffournier, 1995). The findings in this study which investigated 162 top companies listed in Bursa Malaysia covering the period from 2006 to 2008 will provide empirical evidence on the relationship between ownership structure and disclosure of IC. From a practical view point, the disclosure of IC will be of interest

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