INTEGRATED REPORTING AND FIRM PERFORMANCE IN MALAYSIA: THE MODERATING EFFECT OF BOARD DIVERSITY AND FAMILY OWNERSHIP

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INTEGRATED REPORTING AND FIRM PERFORMANCE IN MALAYSIA: THE MODERATING EFFECT OF BOARD DIVERSITY AND FAMILY OWNERSHIP

by

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LIST OF ABBREVIATIONS

IIRC	International Integrated Reporting Council
IRSCORE	Integrated Reporting Disclosure Scores
MCCG	Malaysian Code on Corporate Governance
MIA	Malaysian Institute of Accountants
ROA	Return on Assets
TOBINQ	Tobin’s Q
VIF	Variance Inflation Factor

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PELAPORAN BERSEPADU DAN PRESTASI SYARIKAT DI MALAYSIA: KESAN PENYEDERHANA KEPELBAGAIAN DALAM LEMBAGA PENGARAH DAN PEMILIKAN KELUARGA

ABSTRAK

Kajian ini mengkaji hubungan antara pendedahan pelaporan bersepadu dan prestasi firma dalam konteks syarikat tersenarai dalam pasaran utama Bursa Malaysia. Kajian ini juga merangkumi pembolehubah penyederhana seperti kepelbagaian jantina lembaga, kepelbagaian umur lembaga, dan pemilikan keluarga untuk mengkaji lebih lanjut hubungan antara pendedahan pelaporan bersepadu dan prestasi firma. Analisis keratan rentas dijalankan untuk menentukan tahap pendedahan pelaporan bersepadu. Sampel kajian ini terdiri daripada 200 syarikat yang dipilih secara rawak daripada syarikat bukan kewangan tersenarai merentasi semua sektor industri bagi tahun 2019. Analisis regresi berganda dijalankan untuk menganalisis data. Analisis kandungan dengan merujuk kepada laporan tahunan telah digunakan dalam kajian ini. Senarai semak mengenai lapan elemen kandungan pendedahan pelaporan bersepadu termasuk gambaran keseluruhan organisasi dan persekitaran luaran, tadbir urus, model perniagaan, risiko dan peluang, strategi dan peruntukan sumber, prestasi, pandangan, dan asas penyediaan dan pembentangan digunakan untuk meneliti pendedahan pelaporan bersepadu. Keputusan menunjukkan bahawa pendedahan pelaporan bersepadu mempunyai hubungan positif dengan prestasi firma. Penemuan juga menunjukkan bahawa kepelbagaian jantina lembaga dan kepelbagaian umur lembaga meningkatkan hubungan positif antara pendedahan pelaporan bersepadu dan prestasi firma. Walau bagaimanapun, peranan penyederhanaan pemilikan keluarga tidak disokong. Untuk mendapatkan maklumat lanjut daripada hasil dan dapatan kajian, sesi temu bual telah dijalankan sebagai susulan daripada analisis pasca keputusan statistik.

Penemuan kajian ini menyumbang kepada literatur pelaporan bersepadu dengan menilai peranan kepelbagaian lembaga dalam mempengaruhi hubungan antara pelaporan bersepadu dan prestasi firma di Malaysia. Badan kawal selia juga boleh menggunakan penemuan kajian ini untuk merancang dasar yang berkesan untuk menggalakkan pelaporan bersepadu.

INTEGRATED REPORTING AND FIRM PERFORMANCE IN MALAYSIA: THE MODERATING EFFECT OF BOARD DIVERSITY AND FAMILY OWNERSHIP

ABSTRACT

This study examines the relationship between integrated reporting disclosures and firm performance in the context of listed companies in the main market of Bursa Malaysia. This study also includes moderating variables namely, board gender diversity, board age diversity, and family ownership to further examine the relationship between integrated reporting disclosures and firm performance. A cross-sectional analysis is conducted to determine the integrated reporting disclosure levels. The sample of this research consists of 200 companies that are selected randomly from non-financial listed companies across all industry sectors for the year 2019. Multiple regression analysis is conducted to analyse the data. Content analysis using published annual reports is employed in this study. A checklist on eight content elements of integrated reporting disclosures including organisational overview and external environment, governance, business model, risks and opportunities, strategy and resource allocation, performance, outlook, and basis of preparation and presentation is developed to examine the integrated reporting disclosures. The results indicate that integrated reporting disclosures have a significant positive relationship with firm performance. The findings also show that board gender diversity and board age diversity enhance the positive relationship between integrated reporting disclosures and firm performance. However, the moderating role of family ownership is not supported. To further obtain insights from the results and findings, interview sessions have been conducted as a follow-up on the post-analysis of the statistical results. The findings of the study contribute to the integrated reporting literature by evaluating the

roles of board diversity in influencing the relationship between integrated reporting and firm performance in Malaysia. Regulatory bodies can also use the findings of this study to plan effective policies to promote integrated reporting.

CHAPTER 1

INTRODUCTION

1.1 Introduction

The development of technological breakthroughs and the increased company regulation had changed the trend of corporate reporting. Information disclosed in the traditional financial reporting no longer fulfils the expectations of stakeholders such as investors, regulators, creditors, and other non-financial stakeholders for them to evaluate the past and future performance of the company (Flower, 2015).

Corporate reporting begins to develop into integrated reporting. The latest reporting approach integrates non-financial and financial disclosures in the annual report (KPMG, 2017; Hamad et al., 2020). The evolution of the report is to meet the demands of information needed by stakeholders related to the performance of the company. It is also to adjust the situations with financial indicators that are still not enough to provide information to investors (Ching & Gerab, 2017; Kilic & Kuzey, 2018) and are less relevant to current situations where governance and environmental criteria social are essential issues (Atkins et al., 2015).

Traditional financial reporting discloses only the fair value of the company. It fails to report on the performance of non-financial issues of the company which can be used to monitor the company’s long-term financial health (Eccles & Saltzman, 2011). Thus, integrated reporting is required as it could provide a clear picture of a company’s future goal and achievement by integrating financial information and non-financial information (Jensen & Berg, 2012).

Traditional financial reporting focuses only on financial information. It contains useful and relevant information needed by shareholders and creditors but it restricts the usefulness of financial reporting for better purposes (Smith, 2017). Other than that, issues of sustainability and transparency of financial reporting of a company had arisen (Couldridge, 2015). Hence, matters regarding the risks that might be faced by future businesses, ways of managing the business, and also impacts of business on society and the environment are emphasised by stakeholders (Hoque, 2017). Therefore, the disclosure of financial and non-financial information in the annual report by the company is important to meet the increasing demand of stakeholders.

In 2006, Bursa Malaysia set a listing requirement which was requesting companies to report sustainability activities. Sustainability reporting is used to increase disclosures of non-financial information. A sustainability statement is required and prepared by all listed companies in Bursa Malaysia. It covers sustainability matters related to economic, environmental, and social matters. However, sustainability reporting fails to show the connections between different forms of capital (Hamad et al., 2020).

Integrated reporting can maintain a good relationship with capital providers. It is because information asymmetry can be reduced with greater information disclosed as well as improving the trust of investors (Nurkumalasari et al., 2019). Furthermore, it is expected that the content of integrated reporting can inform the bad and good of the company to stakeholders. This can attract the trust of stakeholders including investors and creditors to invest in the company. Therefore, when companies conduct more forms of accountability, it is believed that there will be an increased interest of the investor in the firm value as reflected in the increase of shares value.

1.2 Evolution of Corporate Reporting

In the 1960s, companies provided only financial reports to stakeholders. Due to the change in the global business environment, a separate published report was prepared for the stakeholders during the 1980s and 2000s. A separate published report with a conventional approach is considered traditional reporting (Hoque, 2017). In the 1980s, the company produced a separate financial report, management commentary report, governance and remuneration report, and environmental report for the stakeholders. In the 2000s, a separate financial report, governance and remuneration report, management commentary report, and sustainability report were produced by the company to their stakeholders. These reports were disclosed to those stakeholders who had different intended use. Thus, these reports could not provide detailed and transparent information on business performance to the other stakeholders (Weybrecht, 2010).

It is tough for companies to identify which stakeholders should be prioritised for them to disclose different reports to different stakeholders. The confusions become apparent when the companies have to incur a large publication cost and press conference cost for each report they produce (Hoque, 2017). Therefore, an integrated report is needed to integrate all financial and non-financial matters of the company (IMA, 2016). The integrated report covers information on sustainability, management commentary, governance and remuneration, and financial statements. Figure 1.1 depicts the evolution of corporate reporting.

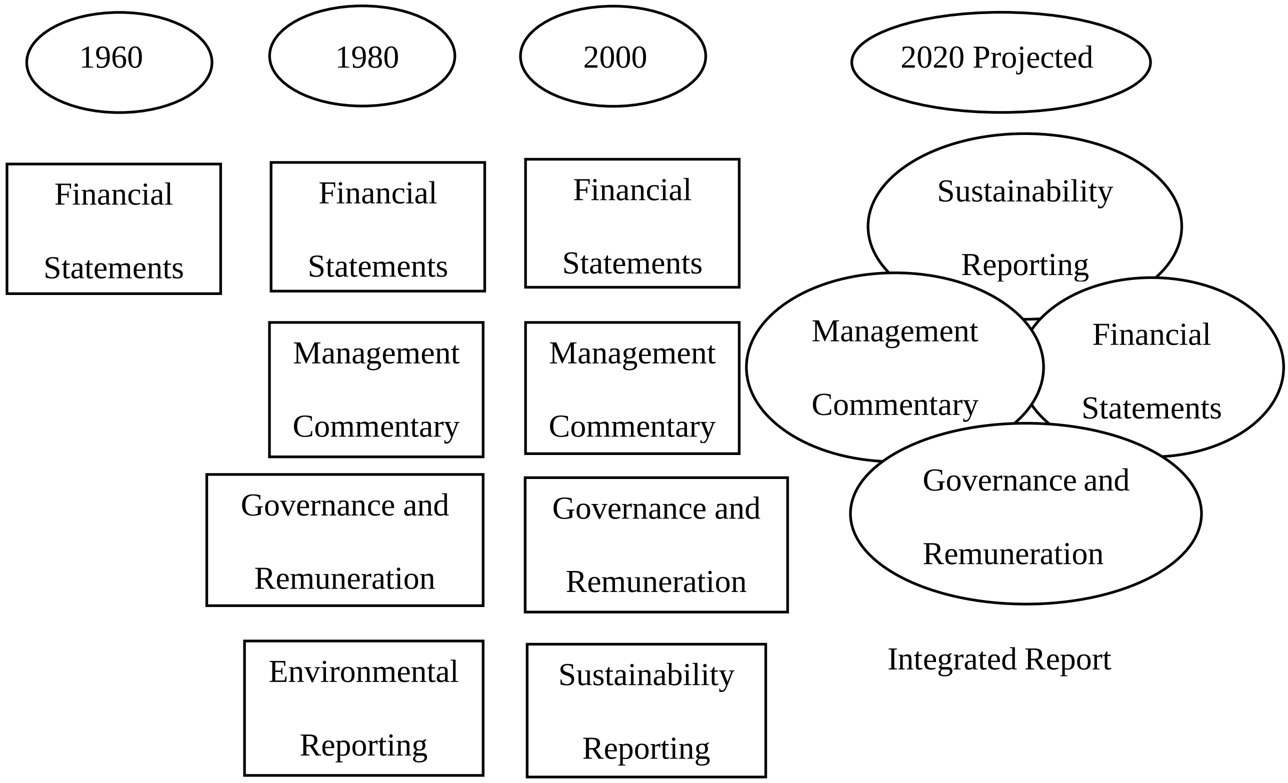

Figure 1. 1 Evolution of Corporate Reporting

(Source: Adopted from IIRC, Towards Integrated Reporting: Communicating Value in the 21st Century, September 2011)

1.3 Definition of Integrated Reporting and its Purpose

An integrated report provides a piece of clear and concise information by matching the organisation's strategy and resource allocation, performance, governance, and prospects in the context of its external environment in creating the value of the company over the short, medium, and long-term (IFAC, 2015; IIRC, 2021).

The main objective of an integrated report is to illustrate to the financial capital providers how an organisation can manage to create value over time (IIRC, 2021). IIRC (2021) mentioned that an integrated report brings benefits to multiple stakeholders such as customers, business partners, employees, suppliers, local communities, policy-makers, legislators, and regulators. IIRC (2021) also indicated that the main users of integrated reports are the providers of financial capital such as shareholders.

1.3.1 The Conceptualisation of Integrated Reporting

The integrated report focuses on the connectivity of information. It is important as this information is used to communicate how value is created, preserved, or eroded over time (IIRC, 2021). Therefore, an integrated report covers more than a summary of information. To properly show the ability of the company to create value, it is essential to include both quantitative and qualitative information in preparing the integrated report (IIRC, 2021). The reason is each provides context for the other. For example, it can be an effective approach to link qualitative and quantitative information by including the key performance indicators as part of a narrative explanation (IIRC, 2021).

According to IIRC (2021), it can be due to the existing compliance requirements where an integrated report may be prepared by the companies. For instance, local law may require the companies to prepare management commentary or other reports which are useful in providing context for the financial statements. This report can be regarded as an integrated report if it is prepared in light of the integrated reporting framework.

IIRC (2021) also stated that when specified information is required to be included in the report and it is beyond that required by the integrated reporting framework, this report is still be regarded as an integrated report if the concise information required by the integrated reporting framework is not obscured by this specified information. Furthermore, IIRC (2021) mentioned that an integrated report could be either a standalone report or be included as a prominent, distinguishable, and accessible part of another report or communication. For instance, it may be included at the front of a report that also includes the financial statements of the company.

Therefore, in this study, to identify the existence of integrated reporting-related elements in the annual reports of companies, an integrated reporting checklist is prepared (Abdullah et al., 2018). It is prepared by referring to the integrated reporting framework. All narrative sections of annual reports of companies as well as their stand-alone reports are also assessed by the researcher (Kılıç & Kuzey, 2018a). For example, the chairman's statement, directors' report, operating review, discussion, and analysis are examined to gather the integrated reporting-related elements (Kılıç & Kuzey, 2018a).

1.3.2 History of Integrated Reporting

Over the past two decades, companies in South Africa had adapted to international trends. They started to be aware of the importance of having social and environmental responsibility in their business activities (Rensburg & Botha, 2013; Sonnenberg & Hamann, 2006). To adapt to the new reporting trend, South Africa had put a lot of effort into changing its reporting direction from traditional reporting to sustainability and integrated reporting.

During the 1990s and 2000s, an international acknowledgement had been awarded to South Africa because of its accomplishments in legislative and regulatory requirements and corporate governance. In the early 1990s, South Africa started to focus on the issues of corporate governance (Clayton et al., 2015). During economic and political upheaval in 1992, the Institute of Directors in Southern Africa (IoDSA) appointed the King Committee. The objective of setting up the King Committee was to develop the highest quality of South Africa's corporate governance. First King Report on corporate governance (King Code I) was published by King Committee in 1994. Since South Africa entered into a new democracy, King Code I underlined the inclusivity and importance of stakeholders as well as regulatory and financial elements to be reported in the corporate report (Clayton et al., 2015).

The importance of having sustainable development was emphasised by the World Summit on sustainable development organised in Johannesburg in 2002. This event was conducted to provide international awareness to all companies. The second King Report on corporate governance (King Code II) for South Africa was released by King Committee in 2002 as well. King Code II stressed the change from a single bottom line to a triple bottom line reporting. The single bottom line only focuses on the economic issue of a company, while the triple bottom line covers a broader range which is the economic, social, and environmental issues of an organisation's activities. Hence, a new principle named sustainability reporting was introduced in King Code II (Clayton et al., 2015).

In 2009, the third King Report on corporate governance for South Africa (King Code III) had been published by the King Committee. King Code III was needed because the incremental changes towards sustainability were insufficient. It stated there must be a change in the way how the companies and directors act and organise themselves. Hence, integrated reporting had been introduced to the companies for them to produce an integrated report. To set up the rules and regulations on good practice in integrated reporting, the Integrated Reporting Committee of South Africa (IRCSA) had been set up (Clayton et al., 2015).

King Code III depicted integrated reporting as “a holistic and integrated representation of the company’s performance in terms of both its finance and its sustainability” (Abeysekera, 2013). The purpose of having integrated reporting had been mentioned in King Code III. Integrated reporting is used to assist the stakeholders in evaluating the performance of a company and whether the company can manage to create and maintain its company’s value over the short, medium, and long term. King Code III also indicated that the companies can employ integrated reporting as a channel to illustrate the companies’ roles and responsibilities to the three major stakeholders which are society, the environment, and shareholders as well as the international economy (Abeysekera, 2013).

The world’s first guidelines on integrated reporting, named “Framework for Integrated Reporting and the Integrated Report: Discussion Paper” was published by IRCSA in January 2011 (Clayton et al., 2015). The discussion paper published by IRCSA had been adopted by International Integrated Reporting Council (IIRC) to form a set of international guidelines on integrated reporting. The guidelines were released in late 2011 (IIRC, 2011).

According to IIRC (2011), it expressed integrated reporting is a way to connect the company’s information on corporate governance, performance, business strategy, outlook, and how they reflect the social, economic, and environmental events. Integrated reporting consolidates all significant information from separate reporting strands such as financial statements, governance, remuneration, sustainability, and management commentary reports into a united report. It has capable of demonstrating the connection between all information. Other than that, integrated reporting can describe how the information can influence the creation and sustainable value of a company over the short, medium, and long-term (IIRC, 2011).

1.4 Integrated Reporting in Worldwide and in Malaysia

Integrated reporting is the latest trend in corporate reporting. KPMG (2017) stated that the majority of large firms throughout the world integrate the disclosures of non-financial and financial information in the companies' annual reports. Therefore, it implies that the shift toward integrated reporting is already a reality in many countries. Based on the IIRC's database, it shows that more than 1,600 organisations in more than 70 countries worldwide rely on the international integrated reporting framework to assist their companies' reporting and strategies processes (IIRC, 2019).

A survey carried out by KPMG (2017) indicated that between the years 2015 to 2017, there was an increasing number of firms in many countries that had applied the integrated reporting framework and the companies also produced the integrated reports. For example, the adoption of integrated reporting has increased by 16 firms in Brazil and Mexico. It is increased by 7 companies in South Korea while the integrated reporting adoption has increased from 21 firms in 2015 to 42 firms in 2017 in Japan.

The Corporate Governance Blueprint 2011 issued by Securities Commission Malaysia under the section of 'Disclosures and Transparency' indicated that Malaysia is moving toward the implementation of integrated reporting. The reason is the content discussed in that section inspires the disclosure of non-financial information. It is like integrated reporting's underlying principle. Furthermore, the issues of shareholder protection and governance had been emphasised by Capital Market Masterplan 2

(CMP2) which is the blueprint of the Malaysian capital market development in 2011 (Luk & Angeline, 2017). These two issues are the primary purposes of integrated reporting.

In Malaysia, the adoption of integrated reporting remains voluntary (Hamad et al., 2020). Securities Commission Malaysia (2017) encourages large companies to incorporate integrated reporting when they prepare for their annual report and it is indicated in the Malaysian Code of Corporate Governance. In addition, Bursa Malaysia also plays its role. Malaysian public listed companies are also encouraged by Bursa Malaysia to apply integrated reporting in their annual reports (Hamad et al., 2020). Malaysian Institute of Accountants (MIA) is also participating actively to promote the advantages of having integrated reporting to investors and companies.

In December 2014, MIA set up an integrated reporting steering committee for raising awareness and promoting the adoption of integrated reporting in Malaysia. The committee also engages with many stakeholders in shaping the continued development of integrated reporting (Hamad et al., 2020). In 2017, Integrated Reporting Award had been introduced by the National Annual Corporate Report Award (NACRA) to urge Malaysian companies to apply integrated reporting in their annual reports. Furthermore, training on integrated reporting is held through the cooperation between the MIA and IIRC. MIA and IIRC always get ready to deal with those companies that are interested in adopting integrated reporting.

Based on The Star (2014), Sridharan (Sri) Nair who is the managing partner of PricewaterhouseCoopers (PwC) Malaysia claimed that the awareness of integrated reporting within Malaysian companies had increased. According to Hamad et al. (2020), 100 Malaysian public listed companies had already applied integrated reporting in 2018. They stated that 28 of the listed companies were from large companies, 10 of them were from mid-capital companies while 62 companies were from small-capital companies. Malaysia is also regarded as one of the countries leading the path to the adoption of integrated reporting together with the United Kingdom, New Zealand, China, Luxemburg, India, Brazil, and Japan (Hamad et al., 2020; IIRC, 2019).

1.5 Problem Statement

The external business environment has significantly changed and it has become more complex. It is insufficient for a company to survive in this uncertain and competitive market environment if the company only focuses on conventional financial reporting. Investors will request more comprehensive information regarding the strategies, perspective, and performance of the business. The critics found in financial reporting are the difficulty of looking for the most relevant information, the past-oriented style of the reports, and the lack of risk information (Luk & Angeline, 2017). Furthermore, information on non-financial performance is not included in the financial report which this information can be used to evaluate the long-term financial background of the company.

Luk and Angeline (2017) also claimed that traditional annual report fails to provide a holistic picture and understanding of companies' business activities. Following the critics of traditional financial reporting, it implies that traditional financial reporting suffers from lower information quality due to lacking non-financial information that is of high relevance which in turn may lead to lower firm performance. When there is lower information quality, the information asymmetry problem between management and shareholders will increase. The investors are not able to assess the companies' prospects effectively with lower information quality. Hence, their demand for shares will reduce. Consequently, it will reduce the firm performance.

To deal with these drawbacks, integrated reporting is introduced and it can enhance business communication as well as improve the information quality available to investors. Integrated reporting illustrates the links and connectivity between different forms of capital. It also explains how value is created other than combining non-financial and financial information in the report. This can assist the investors to value a company effectively and they can also make more informed decisions on their capital allocation. Consequently, it can influence the performance and strategy of the company both at present and in the future.

Financial feasibility is the most important factor to ensure the survival of a company (Luk & Angeline, 2017). It is known that greater information quality can reduce the information asymmetry between management and shareholders. Since integrated reporting provides greater information quality compared to traditional financial reporting, this study aims to provide companies with better insight into the contribution of integrated reporting, especially in how integrated reporting gives support to improve financial feasibility.

Currently, there are lacking past studies examining the impact of integrated reporting on firm performance globally including in Malaysia. Previous studies showed mixed findings on the relationship between integrated reporting and firm performance. The past studies focused on developed countries and there is less attention put on emerging and developing countries (Qaderi et al., 2021). Therefore, to fill this research gap, this study aims to contribute to the integrated reporting literature by evaluating the impact of integrated reporting on firm performance in developing countries, especially for Malaysian public listed companies.

Corporate governance has become an important matter in Asia, especially after the Asian financial crisis in 1997 as well as the corporate failures (Hamad et al., 2020). It is emphasised in Malaysian Code on Corporate Governance (MCCG) 2017 that an effective board should consist of sufficient diversity including diversity in gender and age which can prevent the ‘groupthink’ or ‘blind spots’ in the companies’ decision-making processes. To improve the information disclosures, it is essential to look into the corporate governance structure. Commonly, the board of directors is responsible for corporate reporting. Since the importance of board diversity is emphasised in the MCCG 2017, it suggests that corporate governance structure is an essential factor that will influence integrated reporting which in turn will affect the firm performance.

The goals of corporate governance are to improve transparency and stewardship. It also aims to reduce the information expectation gap between the shareholders and companies in countries such as Malaysia, South Africa, and Japan (IIRC, 2019). In addition, governance disclosures are one of the content elements of integrated reporting. Velte and Stawinoga (2017) claimed that the corporate governance structure of the company has an impact on integrated reporting. Therefore, it is of interest to examine whether the board structure in terms of board gender diversity and board age diversity influences integrated reporting and consequently impacts the firm performance.

Furthermore, the inconsistency in past findings on the relationship between integrated reporting and firm performance motivates this study to examine the role of board diversity in the relationship between integrated reporting and firm performance in Malaysia. None of the empirical evidence in Malaysia focuses on the moderating effects of board gender diversity and board age diversity for the integrated reporting research area.

The empirical findings on the relationship between integrated reporting and firm performance are however inconclusive. It implies that there may be a variable that moderates this relationship. Ramli (2019) and Mohammad and Wasiuzzaman (2020) stated that the corporate ownership structure in Asia including Malaysia is highly concentrated compared to the western countries. It is also noted that family-owned firms are common in Malaysia. Therefore, it provides a good sample for this study of whether family ownership influences integrated reporting which in turn brings an impact on firm performance. According to the agency theory, the need for information disclosures may be less in family-owned firms as it is often presumed that management and ownership are aligned within the same family. Thus, it is expected that the influence on integrated reporting disclosures is different for family-owned firms. Simply put, this study is different in the sense that it examines the role of family ownership in the relationship between integrated reporting and firm performance.

There is some past literature that investigated the association between information disclosures and ownership structure. However, the moderating role of family ownership in the relationship between integrated reporting and firm performance is yet to be empirically examined in Malaysia. Therefore, this study fills the research gap by contributing to the integrated reporting literature as there is yet an empirical investigation on whether or not family ownership moderates the relationship between integrated reporting and firm performance in Malaysia.

1.6 Research Questions

This study aims to investigate the moderating roles of board diversity and family ownership in the relationship between integrated reporting disclosures and firm performance among Malaysian listed companies. Specifically, the research questions of this study include:

(1) Does integrated reporting disclosure have a positive relationship with firm performance?

(2) Does board gender diversity have a positive moderation effect on the relationship between integrated reporting disclosures and firm performance?

(3) Does board age diversity have a positive moderation effect on the relationship between integrated reporting disclosures and firm performance?

(4) Does family ownership have a negative moderation effect on the relationship between integrated reporting disclosures and firm performance?

1.7 Research Objectives

This study attempts to examine the moderating effects of board diversity and family ownership in the relationship between integrated reporting disclosures and firm performance among Malaysian listed companies. Specifically, the research objectives of this study are:

(1) To examine the positive relationship between integrated reporting disclosures and firm performance;

(2) To investigate whether board gender diversity has a positive moderation effect on the relationship between integrated reporting disclosures and firm performance;

(3) To examine whether board age diversity has a positive moderation effect on the relationship between integrated reporting disclosures and firm performance;

(4) To examine whether family ownership has a negative moderation effect on the relationship between integrated reporting disclosures and firm performance.

1.8 Significance of Study

This study investigated the moderating effects of board gender diversity, board age diversity, and family ownership on the relationship between integrated reporting and firm performance. This study contributes to the integrated reporting literature in several ways.

1.8.1 Theoretical Significance

There are a relatively small number of past research studies that have examined integrated reporting disclosures for Malaysian public listed companies. Previous literature on integrated reporting disclosures in Malaysia focused on the direct relationship between the variables of study.

Research done by Jamal and Ghani (2016) examined the relationship between company size and integrated reporting disclosure level among real property companies. Luk and Angeline (2017) investigated the relationship between each content element of integrated reporting disclosures with financial performance. A prior study by Ghani et al. (2018) focused on the relationship between company size, leverage, liquidity, and audit firm size with integrated reporting disclosure among public listed real property companies. Furthermore, Jaffar et al. (2019) emphasised the relationship between integrated reporting disclosures and the value relevance of corporate information.

There is limited empirical evidence examined on the relationship between integrated reporting and firm performance in the context of Malaysia. In this study, it extends the work on integrated reporting disclosures by including moderating variables in the research framework. Moderator variables are used to examine how they affect the strength or direction of the relationship between integrated reporting disclosures and firm performance in Malaysia.

Furthermore, limited studies were carried out to investigate the influence of integrated reporting disclosures on firm performance in emerging and developing countries. None of the empirical studies has examined the moderating effects of board diversity and family ownership in the relationship between integrated reporting disclosures and firm performance in developing countries. Previous literature put attention on developed countries (Qaderi et al., 2021). Therefore, this study can contribute to the existing limited studies of integrated reporting disclosures on firm performance in developing countries. In addition, this study adds value to the integrated reporting literature through the introduction of moderating roles of board diversity and family ownership in the relationship between integrated reporting disclosures and firm performance in developing countries, especially for Malaysian public listed companies.

1.8.2 Methodological Significance

There are several studies have investigated integrated reporting disclosures in Malaysia. However, previous researchers employed different integrated reporting measurements in their studies. This study can add value to the integrated reporting literature because a comprehensive checklist of integrated reporting is provided and it is extracted from the guidelines on the integrated reporting framework. This checklist is beneficial to future researchers because they can apply it in their integrated reporting studies which can ease the comparison between the research findings.

1.8.3 Practical Significance

This study provides a clear picture of the level of integrated reporting practices on Malaysian public listed companies. It can be a benchmark for Malaysian public listed companies to understand the importance of integrated reporting disclosures to the stakeholders. Therefore, integrated reporting is a precious approach to aid the company management team to enhance the relevance of the company's information disclosures. Regulatory bodies such as Malaysian Institute of Accountants (MIA) and Bursa Malaysia can also use the result of the study to plan effective policy to promote integrated reporting for Malaysian public listed companies. From an international perspective, this study contributes to the literature on integrated reporting disclosure practices by providing evidence from a developing nation.

Integrated reporting disclosure is still voluntary in Malaysia. By conducting this study, it can provide evidence to Bursa Malaysia on whether integrated reporting disclosures should be made a mandatory requirement. It is expected that the transparency of company information will be increased if it is mandatory for integrated reporting disclosure. Hence, all of the stakeholders will receive the advantages of integrated reporting disclosures.

In addition, the results of this study may have implications for the regulatory agency in Malaysia, especially the Securities Commission Malaysia. The Malaysian Code on Corporate Governance (MCCG) is published by Securities Commission Malaysia. MCCG emphasised that sufficient diversity on board is important as it can prevent ‘groupthink’ or ‘blind spots’ in the decision-making process (SCM, 2021). The findings of this study are beneficial as they can provide proof to the Securities Commission Malaysia that board diversity brings benefits to companies. This study found that the relationship between integrated reporting disclosures and firm performance can be improved with greater board age diversity and board gender diversity. Therefore, the Securities Commission Malaysia can urge the Malaysian public listed companies to have diversity on board including diversity in gender and age.

1.9 Definitions of Key Terms

An integrated report is defined as “a concise communication about how a company’s prospects, performance, governance, and strategy, in the context of its external environment lead to the creation of value over the short, medium, and long term” (IIRC, 2021).

Board gender diversity refers to the presence of female directors on the board of directors of companies (Yap et al., 2017).

Board age diversity refers to the existence of a board of directors from different age groups. Age is classified into 5 categories, where 1 is below 40 years old, 2 is from 40 to 49 years old, 3 is from 50 to 59 years old, 4 is from 60 to 69 years old and 5 is 70 years old and above (Abdullah & Ku Ismail, 2013).

Family ownership refers to the presence of family members on the board of directors and the fractional shareholdings in the company (Ali et al., 2007; Kamaruzaman et al., 2019).

The proxy for *firm performance* is Tobin's Q. It is defined as the sum of the market value of stock and the book value of total liabilities divided by the book value of total assets (Lee & Yeo, 2016).

1.10 Organisation of Study

This study is composed of six chapters. Chapter 1 is an introduction to the background of the research and the problem statement of the study. Furthermore, research questions and research objectives are presented, followed by the significance of the study.

Chapter 2 reviews previous literature related to the study, including an overview of integrated reporting, research on integrated reporting in Malaysian public listed companies, the relationship between integrated reporting disclosures and firm performance as well as discussion about the moderating roles of board gender diversity, board age diversity and family ownership on the relationship between integrated reporting disclosures and firm performance.

Chapter 3 reviews agency theory and resource dependence theory, which led to the theoretical framework of the study. Four sets of hypotheses are developed and discussed toward the end of this chapter.

Chapter 4 focuses on the research design. It includes the discussions of operation definition and measurement of independent, dependent, and moderating variables of the study, sample selection procedure and sources of data as well as statistical methods for data analysis.

Chapter 5 presents the findings and discussions about the analysis conducted to examine the relationship between integrated reporting disclosures and firm performance as well as their relationship with moderating variables of board gender diversity, board age diversity, and family ownership. Results of statistical analysis are analysed.

Chapter 6 presents the discussions of the findings. It is then followed by the contributions and limitations of the study as well as the conclusion of the study. Suggestions for future research are also provided in this chapter.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter starts with the comparisons between integrated reporting and conventional reporting. It is then followed by a discussion on the concepts, guiding principles, and content elements of integrated reporting. The voluntary disclosure concept and motives for voluntary disclosures are then analysed. Previous studies of integrated reporting disclosures for Malaysian companies are also discussed. This is followed by pieces of literature about the relationship between voluntary disclosures and firm performance. It also reviews the past empirical studies on the relationship between integrated reporting disclosures and firm performance. Literature on the relationships between board gender diversity, board age diversity, and family ownership with disclosures and firm performance are reviewed. Finally, a summary of the chapter is provided.

2.2 Comparisons between Integrated Reporting and Conventional Reporting

An integrated report is prepared in a report by combining both financial information and non-financial information and comprehensively explaining them. An integrated report can be either a standalone report or be included as a prominent, accessible, and distinguishable part of another report (IIRC, 2021). The integrated report is an annual report consisting of financial statements and sustainability performance information. According to Navi (2014), integrated reporting is a report that fulfils the requirements of both sustainability reporting and statutory financial reporting. It is not the same as a sustainability report which is issued in a separate stand-alone report from the annual financial report (De Villiers et al., 2014; IMA, 2016). According to KPMG (2011), corporate social responsibility reports and sustainability reports have been prepared by companies to reveal more non-financial information to the shareholders. However, a better understanding of the firm by the shareholders could not be achieved as the company does not produce non-financial and financial information in an integrated manner.

An integrated report is prepared based on the needs of investors and other stakeholders by linking the company's strategy, opportunities and risks, key performance indicators (KPIs), and financial performance (IIRC, 2011; IMA, 2016; Luk & Angeline, 2017). Therefore, taking a holistic view of the interests of stakeholders in preparing an integrated report could ensure the effectiveness of communication between the company and stakeholders.

Traditional corporate reporting is focusing on the financial performance of the company. Financial reports produced by companies fail to communicate all relevant information to all stakeholders (Clayton et al., 2015). Some investors and stakeholders started to request disclosures of non-financial information from companies in addition to the financial information available (Eccles & Krzuz, 2010). Certain stakeholders claimed that non-financial information disclosed by companies should be more accessible. Therefore, stakeholders can have a better understanding of the issues related to how the companies deal with their workers, society, and the environment and how they govern themselves (White, 2009). Integrated reporting comprises not only historical information where financial information is reported within the traditional financial reporting; it also discloses the prospective and future-oriented information which is useful to the stakeholders (Smith, 2017). In a nutshell, integrated reporting concerns the financial performance of the company and also concerns how the company performs and deals with the inclusion of non-financial information.

Corporate social and environmental responsibility (CSER) reporting is prepared mostly in the form of an addition to the traditional corporate reporting (Jensen & Berg, 2012). Traditional financial reporting and CSER reporting are different from integrated reporting. Traditional financial reporting and CSER reporting provide backward-looking information and fail to discuss targets and risks that might occur in the future (Jensen & Berg, 2012). To disclose more relevant information to stakeholders, many companies issue annual reports and sustainability reports in a separate reports to present their initiatives (Abeysekera, 2013; Luk & Angeline, 2017; Novo Nordisk, 2018). However, the initiatives are not linked to the company's long-term objectives (Abeysekera, 2013; Luk & Angeline, 2017). According to IFAC (2015), integrated reports are not mere restatement or summaries of disclosures found elsewhere. They compound the information and connect the information to performance, outlook, governance, and strategy.

Due to the increasing disclosures of information to the stakeholders, standalone social and environmental reports have become complex and lengthy (De Villiers et al., 2014). Hence, there is a shift to combining social and environmental disclosures with financial disclosures in a single report (De Villiers et. al, 2014). In opposition to earlier corporate social and environmental issues disclosed within the company's annual report failed to integrate financial information with social and environmental information (Dey & Burns, 2010; Hopwood et al., 2010). Many sustainability reports possess weaknesses because they do not show interrelation to the company's financial reports and they are not creating a transparent relationship between companies' main strategy and sustainability issues (Milne & Gray, 2013; Turk et al., 2013).