

**RELATIONSHIPS BETWEEN CORPORATE
GOVERNANCE MECHANISMS, HUMAN CAPITAL
MANAGEMENT DISCLOSURE, FINANCIAL
REPORTING TIMELINESS AND FIRM VALUE AMONG
PUBLIC LISTED COMPANIES IN BANGLADESH**

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UNIVERSITI SAINS MALAYSIA

2025

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by

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**Thesis submitted in fulfilment of the requirements
for the degree of
Doctor of Philosophy**

July 2025

ACKNOWLEDGEMENT

First and foremost, I give thanks to Almighty Allah who has enabled me to complete this PhD thesis. At the very beginning, from the bottom of my heart, I would like to express my profound appreciation to my honorable PhD supervisor, Assoc. Prof. Dr. Fathyah Binti Hashim, GSB, USM, for her kind guidance and continuous support throughout the entire period of my PhD study. Her excellent ideas and philosophical thoughts have greatly aided me in developing the conceptual foundation of my research and reaching this stage. I will forever be indebted to her.

Special thanks go to Assoc. Prof. Dr. Fathyah Binti Hashim, honorable Dean of GSB, and all the academic and administrative staff of GSB, USM, for their kind support and warm-hearted help. I am eternally thankful for the cordial support that I have received from the Central Library and the Institute of Postgraduate Studies of Universiti Sains Malaysia.

I would like to express my deepest gratitude to my parents, my lovely daughters, Sairish Naira and Sherin Naisha, my sisters, and my spouse for their sacrifices, cooperation, and encouragement throughout my studies, which enabled me to achieve this goal. I am also grateful to them for their understanding, patience, and support. Besides, I offer my regards and blessings, along with expressing my apology to those who have supported me in the successful completion of this thesis, but have left their name and contributions unmentioned in this section.

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LIST OF ABBREVIATIONS

BOD	Board of Directors
BSEC	Bangladesh Securities and Exchange Commission
CEO	Chief Executive Officer
CGC	Corporate Governance Code
CGG	Corporate Governance Guidelines
CGI	Corporate Governance Index
CSE	Chittagong Stock Exchange Limited
DSE	Dhaka Stock Exchange Limited
ESG	Environmental, Social, and Governance
EU	European Union
FEM	Fixed Effect Model
HCI	Human Capital Index
HCM	Human Capital Management
HCMC	Human Capital Management Coalition
HCMDI	Human Capital Management Disclosure Index
HCMDM	Human Capital Management Disclosure Metrics
HRA	Human Resource Accounting
IASB	International Accounting Standards Board
IC	Intellectual Capital
ICD	Intellectual Capital Disclosure
ICGN	International Corporate Governance Network
IPO	Initial Public Offering
OLS	Ordinary Least Squares
REM	Random Effect Model
ROA	Return on Assets
ROE	Return on Equity
ROIC	Return on Invested Capital
SEC	Securities and Exchange Commission
SFAC	Statement of Financial Accounting Concepts
VIF	Variance Inflation Factor

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**HUBUNGAN ANTARA MEKANISME TADBIR URUS KORPORAT,
PENDEDAHAN PENGURUSAN MODAL INSAN, KETEPATAN MASA
LAPORAN KEWANGAN DAN NILAI FIRMA DALAM KALANGAN
SYARIKAT TERSENARAI AWAM DI BANGLADESH**

ABSTRAK

Tujuan kajian ini adalah untuk mengkaji hubungan antara mekanisme tadbir urus korporat (CGM) dan pendedahan pengurusan modal insan (HCMD), hubungan antara HCMD dan nilai firma, dan impak penyederhanaan ketepatan masa pelaporan kewangan terhadap hubungan antara HCMD dan nilai firma dalam kalangan syarikat tersenarai awam di Bangladesh. Kajian ini menggunakan kaedah regresi data panel pada set data 625 pemerhatian tahun firma, yang dikumpul daripada 125 syarikat bukan kewangan yang disenaraikan di Bursa Saham Dhaka PLC., meliputi tempoh masa dari 2016 hingga 2020. Penyelidikan mendapati bahawa pemilikan pengurusan meningkatkan HCMD, manakala saiz lembaga, kepelbagaian jantina lembaga, kebebasan jawatankuasa audit, dan kebebasan lembaga pengarah tidak mempunyai pengaruh yang signifikan terhadap HCMD. Ia juga mendapati bahawa HCMD meningkatkan nilai firma. Paling penting, ia adalah antara kajian empirikal pertama yang mendokumenkan bagaimana ketepatan masa pelaporan kewangan mengukuhkan perkaitan positif antara HCMD dan nilai firma. HCMD ialah konsep baru, dan masih terdapat kekurangan kajian empirikal mengenai anteseden dan akibat HCMD dalam kesusasteraan semasa. Selain itu, amalan pendedahan modal insan dalam syarikat Bangladesh adalah agak rendah berbanding dengan amalan di negara maju. Namun begitu, firma tersenarai di Bangladesh telah beransur-ansur kehilangan nilainya sejak beberapa tahun kebelakangan ini; oleh itu, penemuan boleh memainkan peranan penting dalam meningkatkan nilai firma melalui peningkatan HCMD. Tambahan pula, penemuan kajian boleh membantu penggubal dasar dan pengawal selia dalam mewujudkan CGM berkesan yang menyumbang kepada meningkatkan amalan HCMD dalam konteks ekonomi sedang pesat membangun seperti Bangladesh.

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ABSTRACT

The purpose of this study is to examine the relationship between corporate governance mechanisms (CGMs) and human capital management disclosure (HCMD), the relationship between HCMD and firm value, and the moderating impact of financial reporting timeliness on the relationship between HCMD and firm value among public listed companies in Bangladesh. The study adopts panel data regression methods on a data set of 625 firm-year observations, collected from 125 non-financial companies listed on the Dhaka Stock Exchange PLC., covering the time period from 2016 to 2020. The research finds that managerial ownership enhances HCMD, while board size, board gender diversity, audit committee independence, and board independence have no significant influence on HCMD. It also finds that HCMD enhances firm value. Most importantly, it is among the first empirical studies that document how financial reporting timeliness strengthens the positive association between HCMD and firm value. HCMD is a novel concept, and there remains a dearth of empirical studies on the antecedents and consequences of HCMD in the current literature. Moreover, human capital disclosure practices in Bangladeshi companies are relatively low compared to those in developed economies. Nonetheless, the listed firms in Bangladesh have been gradually losing their value over the last few years; therefore, the findings could play a significant role in enhancing firm value through enhancing HCMD. Furthermore, the study's findings may assist policymakers and regulators in establishing effective CGMs that contribute to enhancing HCMD practices in the context of an emerging economy like Bangladesh.

CHAPTER 1

INTRODUCTION

1.1 Introduction

Over the past few years, attention to human capital management has increased under the broader environmental, social, and governance (ESG) umbrella (Arthur et al., 2020). Human capital management (HCM) can significantly impact a firm's reputation and the system it is perceived as by existing and prospective workers, investors, and other stakeholders, including regulators, governments, communities, and NGOs (International Corporate Governance Network, 2018).

In particular, the dependency of firms on their workforce presents an opportunity for them to demonstrate how investing in HCM drives value through enhanced engagement, innovation, and productivity (Arthur et al., 2020). Furthermore, poorly implemented human capital management can lead to legal liabilities and erode a firm's relationship with its stakeholders (International Corporate Governance Network, 2018).

However, to show the value and usefulness of investments in human capital (HC), companies must archive and focus on measures of human capital management (Arthur et al., 2020). Additionally, effective people management can instill confidence in a business's long-term outlook and influence investors' long-term investment decisions (International Corporate Governance Network, 2018). Therefore, companies should disclose material HCM information to guide investors' analysis and decision-making (International Corporate Governance Network, 2018).

Human capital-linked disclosures comprise information ranging from the number of employees to details, such as full-time or part-time status, ethnic and

racial diversity, employee retention programs, and employee safety and training programs (Arthur et al., 2020). However, in Bangladesh, human capital disclosure (HCD) in the annual reports (ARPs) of the listed firms is voluntary (Mamun & Aktar, 2020; Bhuyan, 2018).

Furthermore, how firms manage their workforces, often referred to as HCM, is a crucial aspect of unified business reporting that unites financial as well as non-financial risk disclosures (International Corporate Governance Network, 2018). Investors observe this as substantial to long-term performance and risk alleviation. Furthermore, in recent decades, financial difficulties and business failures have been observed in both developed and emerging countries (Bhuyan, 2018). The causes of these difficulties are commonly attributed to weak corporate governance (CG), transparency, and disclosure practices (Gul & Leung, 2004; Ntim et al., 2012; Haniffa & Hudaib, 2006).

Given the significance of corporate improvement in light of financial difficulties and business downturns, CG and voluntary disclosure (VD) have garnered more attention from policymakers and academics alike (Brown et al., 2006, 2011; Aguilera & Cuervo-Cazurra, 2009; Samaha et al., 2015). Thus, HCM disclosure could enhance corporate performance by promoting transparent behavior and effective VD practices within a company.

However, in the literature, the terms human capital (HC) disclosure and HCM disclosure are used interchangeably (e.g., Lilienfeld & Bradley, 2019; Arthur et al., 2020). HCD accelerates communication with stakeholders (Lin et al., 2012; Abeysekera & Guthrie, 2004). Besides, companies which reveal additional human capital information might outline mutual tolerant amid the employer and workforces,

and focus workforces' devotion and actions (Meyer et al., 2004) to upsurge manufacture efficacy or to improved serve customers that the institution may attain improved operating competence and monetary results (Lin et al., 2012).

Therefore, finding an effective tactic to record and report HC issues helps companies recognize the value of acute resources, which in turn allows them to manage their HC effectively and achieve competitive benefits (Ployhart et al., 2014; Abhayawansa & Abeysekera, 2008; Russ, 2014).

Investors are attracted to HCD as it is regarded as a crucial element in the value-creation procedures of firms (Bozbura, 2004; Massingham et al., 2011; Claver-Cortés et al., 2015). Moreover, HCD is considered an important basis for sustainable advantages and might afford benefits, for instance, reducing information asymmetry (Fontana & Macagnan, 2013).

Generally, VD is well-defined as whichever information that is supplementary to obligatory disclosure (Bhuyan, 2018), and HC consist of the stock of qualities that workforces make available, for example abilities, knowledge, experience, commitment and guidance, as the return of wages and salaries (Roslender et al., 2012). Furthermore, HC may be defined as a significant and indispensable asset that contributes to expansion, similar to physical capital, such as machinery and other working capital (Stockley, 2003).

Besides, from the viewpoint of agency theory (AGENCY), HCMD could decrease the information unevenness among managers, investors, workforces, as well as other stakeholders, and thus might reduce the agency conflicts. Furthermore, in light of signalling theory, HCM disclosure could serve as a signal of corporate transparency and the actions through which each company manages its human

capital, thereby boosting stakeholders' dedication and confidence in the business. Moreover, from the context of stakeholder theory, HCM disclosure induces workforce dedication and stakeholders' confidence in the business, which in turn might contribute to enhancing firm performance.

In practice, the core of HC is the absolute intellect of the organizational participant (Bontis & Fitz-enz, 2002). Without human capital, companies may be unable to perform effectively (Edvinsson, 2013). Furthermore, there is a growing concern about socially responsible conduct as well (Cinquini et al., 2012). This alarm is consistent with admiration for labour rights as well as other moral values, which look for to advance employees' quality of life as well as societal circumstances in significant areas, for instance employment, healthiness and safety, non-discrimination, disciplinary practices along with liberty of association (Yu et al., 2017; Pisano et al., 2017).

Moreover, the revelation of societal information, including information on HC, may enhance involvement and foster trust among corporations and stakeholders (EU Commission, 2011). From this perspective, the aspiration of firms to meet the needs of workforces and other stakeholders, in addition to the common concern to ensure socially responsible conduct (Tejedo-Romero & Araujo, 2016), motivated this study to investigate the position of businesses regarding the need to disclose information about HC.

Further, information dissimilarity might be alleviated by the escalation of VD, while this disclosure could incur several proprietary expenses (Cui et al., 2018). Nonetheless, VD advances firms' potential to generate value as well as market efficacy (Caputo et al., 2016; Cabrilo et al., 2014), which builds faith with

stakeholders as well as boosts company image, status and respect (Wang, 2017), hence legitimizing firms' activities (Hackston & Milne, 1996; Gray et al., 1996).

Furthermore, transparency (in terms of timeliness) and disclosure have a positive association with firm performance (Bijalwan & Madan, 2013). Hence, financial statements (FSs) must be made accessible to the public in a reasonable period as of the close of a firm's financial year-end (FY-end), or else the effectiveness of the statements might be lessened (SFAS, 2010, Indonesia).

In a financial market where company financial data serves as the primary basis for stockholder statistics, the timely release of information is essential (Ika & Ghazali, 2012). For investors, well-timed reporting reduces the uncertainty associated with investment choices (Ashton et al., 1989), as well as the uneven diffusion of financial data among market participants (Jaggi & Tsui, 1999). Therefore, well-timed information can help reduce the incidence of leakage, rumors, and insider dealing in the financial market (Owusu-Ansah, 2000).

Extending the notion, corporate governance mechanisms gained impetus on the ground that reporting decisions are deliberated by the board (Bedi & Singh, 2024). However, the CG of a company plays a crucial role in the policymaking process of a corporation; in addition, CG aspects play a substantial role in VD, particularly where there is no valid reason to reveal additional data (Bhuyan, 2018).

Furthermore, the magnitude of VD differs from nation to nation, as well as from corporation to corporation (Boesso & Kumar, 2007; Abeysekera, 2007). Thus, current literature on VD could be extended by investigating HCMD from a diverse research setting. Accordingly, the present study highlights the antecedents and impact of HCMD, focusing on CG attributes and FV, in the context of an emerging

economy like Bangladesh. However, this study may contribute to the existing literature by examining the moderating effect of financial reporting (FR) timeliness on the relationship between HCMD and FV.

1.2 Background of the Study

Corporate policies and practices regarding issues such as health and safety, training, employee compensation, incentives, and well-being are key facets of a company's competitive strategy (International Corporate Governance Network, 2018). Moreover, they play key roles in employee satisfaction and motivation, leading to a more engaged workforce that yields superior products and services for customers. In 2019, Black Rock recognized HCM as one of its five engagement priorities (along with governance, corporate strategy, capital allocation, compensation that stimulates long-termism, and ecological risks and opportunities).

However, HCM is an acute investment issue, and it is hence essential to investors that corporations clearly outline, as part of their business policy, how they establish themselves as the employer of choice for the workforce on whom they rely (Black Rock, 2019). Given that, effective HCM is a central driver of long-standing value creation and is acknowledged as such by the attention it receives from management (International Corporate Governance Network, 2018).

Additionally, Bangladesh has experienced stable financial growth of over six percent since the millennium (Zheng et al., 2017). To sustain growth, it requires continuity in the priority enhancement of financial, HC, infrastructure, fiscal, and business regulatory regions (Hossen, 2019). However, Bangladesh, being a comparatively young nation and a recognized frontline market, possesses significant

prospects for leveraging HC to achieve better financial and organizational outcomes (Chowdhury et al., 2019).

Furthermore, poor disclosure regarding HC possesses implications for corporate practices, as it plays a fundamental role in company achievement, particularly in an emerging economy that is rapidly transitioning from physical resources to knowledge-based resources to maintain its presence in a globalized environment (Saha & Kabra, 2022).

In addition, HC information enhances stakeholders' understanding of firms, which in turn improves their policymaking process (Tejedo-Romero & Araujo, 2016). Nonetheless, the value of HRs might not be sufficiently reported to interested parties, partially because of the confines of the old-style accounting process (Gamerschlag, 2013; Abeysekera, 2008), in addition to the fact that firms disclose inadequate data as regards these resources (Pisano et al., 2017; Cuozzo et al., 2017). Similarly, the old-style accounting process does not reveal the firm's exact value, hence the decline in utility of accounting-based statistics (Corvino et al., 2019; Bozzolan et al., 2003).

Additionally, disclosures of human capital indicators are voluntary in the corporate reporting practices of Bangladesh. In 2006, the Bangladesh Securities and Exchange Commission (BSEC) initiated a new CG rule, enforcing compulsory CG disclosure by 2012, to expand overall disclosure and defend stockholders' interests. Furthermore, to enhance corporate governance (CG) in the welfare of investors and the capital market, the corporate governance code (CGC) was amended in 2012 and 2018 (BSEC, 2021).

Nonetheless, the CGC of 2018 added one new condition, “The company shall make available the detailed disclosures on its website as required under the listing regulations of the concerned stock exchange(s)” (Bala, 2018). Perhaps, this is a sign of the BSEC’s incessant effort to expand the extent of disclosures by listed corporations in Bangladesh. Thus, VD carries further importance in Bangladesh. However, there exists a lack of studies that highlight the impacts of VD in the background of Bangladesh (Bhuyan, 2018).

Furthermore, there is a significant correlation between the magnitude of HC data in the ARP of a firm and its market value (MV) (Ousama et al., 2020). In practice, the expediency and significance of the ARP in emerging countries have been well recognized (Al-Razeen & Karbahari, 2004). It has also been proposed that ARP is the most significant source of company data for policymaking (Stanton & Stanton, 2002). Moreover, a vital qualitative characteristic that affects the expediency of the ARP is its timeliness (Tauringana et al., 2008).

The timeliness of ARPs is essential for the proper functioning of any capital market (Imam et al., 2001; Citron et al., 2008). Past research has shown that ‘late’ pronouncement of earnings is linked with ‘lower’ unusual returns than is ‘early’ pronouncement (Haw et al., 2000; Ahmed, 2003; Wang & Song, 2006). In addition, postponement in the discharge of information is expected to increase the uncertainties related to decisions for which the FSs deliver information (Lee et al., 2008; Annaert et al., 2002).

However, the present study examines the impact of HCMD on FV and the relationship between CG attributes and HCMD in the context of Bangladeshi listed firms. Moreover, from the agency theory, stakeholder theory, and signalling theory

perspective, corporate FR timeliness might reduce information asymmetry, as well as increase the value and importance of VDs, and thus, could increase firm value. In addition, HCM disclosure could inspire business firms' insiders' commitment and outsiders' confidence in the business; hence, it may induce firm value. This study also examines the moderating effect of FR timeliness on the connection between HCMD and firm value.

1.3 An Overview of Corporate Governance Code in Bangladesh

Corporate governance is an important topic in present-day business research, however lacks a universally agreed-upon definition owing to significant variation across countries as well as even within the same country (Masoud, 2024). Robust corporate governance instruments, such as a well-composed board of directors with a strong importance on independence, play a vital role in ensuring sufficient risk oversight (Alajmi & Al-Shammari, 2024). Also, robust corporate governance practices endorse a culture of transparency in addition to accountability within the organization (Alajmi & Al-Shammari, 2024).

CG is viewed as an effective instrument for managing the agency problem and ensuring that managers act in the best interest of stockholders; furthermore, disclosure of information is regarded as a key indicator of the standard of corporate governance (Rouf & Akhtaruddin, 2020). However, the capital market, which facilitates good governance by facilitating the smooth flow of information, is underdeveloped in Bangladesh (Rouf & Akhtaruddin, 2020). Strong governance is viewed as the primary mechanism for capital market expansion, which generates confidence among stockholders/investors who are willing to pay a higher stock price,

thereby improving a company's ability to raise capital from the securities markets (Mitton, 2002).

The expectancy for transparency in Bangladesh is formed by its unique socio-economic as well as regulatory environment (Sobhan et al., 2025). Previous studies have specified that while there is a rising awareness of the prominence of transparency amongst stakeholders in Bangladesh, the cultural and historical setting might not place as strong an importance on it as understood in other countries. Nevertheless, corporate governance instruments have historically been fragile in Bangladesh (Sobhan et al., 2025).

Through a notification dated 20th February, 2006, the BSEC first issued the Corporate Governance Guidelines (CGG) on a 'comply or explain' basis. This marks the commencement of distinct regulations on corporate governance (CG) for listed companies in Bangladesh. On August 7, 2012, the CGG of 2006 was superseded by a new notification. This replacement was subject to obligatory compliance on a "comply or explain" basis. Furthermore, the CGG of 2012 was revised by another notice dated July 21, 2013.

The existing CGC of Bangladesh was issued on 3rd June, 2018. It has been issued as "Code" instead of "Guidelines" with a title: "Corporate Governance Code". In terms of the number of conditions, CGC of 2018 has been enhanced by around 75%. To enhance the welfare of investors in the capital market, this revision has been made. There are 9 (nine) Heads in the current CGC (CGC 2018) of Bangladesh. Out of these, 7 (seven) Heads are the same as those in CGG 2013, and 2 (two) Heads are new.

The Heads of the current CGC in Bangladesh are (I) Board of Directors (same Head as CGG of 2013); (II) Governance of Board of Directors of Subsidiary Company (same Head as CGG of 2013); (III) Managing Director (MD) or Chief Executive Officer (CEO), Chief Financial Officer (CFO), Head of Internal Audit and Compliance (HIAC) and Company Secretary (CS) (same Head as CGG of 2013); (IV) Board of Directors' Committee (same Head as CGG of 2013); (V) Audit Committee (same Head as CGG of 2013); (VI) Nomination and Remuneration Committee (NRC) (New Head); (VII) External or Statutory Auditors (same Head as CGG of 2013); (VIII) Maintaining a website by the Company (New Head); and (IX) Reporting and Compliance of Corporate Governance (same Head as CGG of 2013). A brief overview of the current CGC of Bangladesh is given below.

According to CGC 2018, the total number of members of a company's BOD shall not be below five and over twenty. As a minimum, one-fifth of the total number of directors in the company's Board shall be independent directors. The positions of the Chairperson of the Board and the MD and/or CEO of the company shall be occupied by dissimilar individuals.

Further, the Directors' Report to Shareholders should contain a report on the pattern of shareholding revealing the total number of shares held by the Directors, CEO, CS, CFO, HIAC, and their spouses and minor children (name-wise details), and Executives of the company.

The Board shall have, as a minimum, two sub-committees: (I) the Audit Committee (AC) and (II) the Nomination and Remuneration Committee (NRC). The AC shall be composed of no less than three members. The Board shall choose one member of the AC to be Chairperson of the AC, who shall be an independent director.

Besides, the Board shall assign members of the AC who shall be non-executive directors of the company, excluding the Chairperson of the Board, and shall comprise at least one independent director. All members of the AC should be financially literate to read and comprehend the FSs. As a minimum, one member shall have an accounting or associated financial management background, as well as ten years of such experience.

According to the Corporate Governance Code (2018) of Bangladesh, a listed company shall not involve its external or statutory auditors in carrying out any service that creates a conflict of interest, as annual financial statements (FSs) of listed companies must be audited by external or statutory auditors (BSEC, 2021). In addition, the listed company shall have an authorized website linked to the website of the stock exchange(s) and provide thorough disclosures on its website as required under the listing regulations of the relevant stock exchange(s).

Additionally, the listed company shall obtain a certificate from a practicing Professional Accountant or Chartered Secretary, except its statutory auditors or audit firm, annually confirming compliance with the conditions of the CGC of the BSEC. This certificate shall be disclosed in the ARP of the listed company.

Moreover, suppose the sponsor(s) and director(s) of any listed company fail to collectively hold a minimum of 30% (thirty percent) shares of the paid-up capital of a company at any time. In that case, the Board of Directors of the company shall appoint an additional 02 (two) independent directors, subject to the preceding approval of the Commission, and such provision of appointment shall continue till compliance with the 30% (thirty percent) shareholding requirement (BSEC, 2021).

1.4 Development of Capital Market Institutions in Bangladesh

Bangladesh has two bourses, the Dhaka Stock Exchange Limited (DSE) and the Chittagong Stock Exchange Limited (CSE). Both bourses conduct their trading using a Computerized Automated Trading System. The two exchanges are self-regulated, and private sector entities should have their operating rules approved by the Securities Exchange Commission (SEC), the regulatory authority of the capital market in Bangladesh (Wahab & Faruq, 2012).

1.4.1 Bangladesh Securities and Exchange Commission

The Securities and Exchange Commission (SEC) has been founded on 8th June, 1993 through the enactment of the Securities and Exchange Commission Act, 1993 as a capital market regulator with a commitment to ensure proper issuance of securities, protection of the interest of investors in securities, developments of the capital and securities markets, and regulation of the capital and securities market in Bangladesh.

Afterwards, the Securities and Exchange Commission (SEC) was retitled as the Bangladesh Securities and Exchange Commission (BSEC) on 10th December, 2012. The Commission is a statutory body and is linked to the Ministry of Finance, Government of the People's Republic of Bangladesh. The Government appoints the Chairman and Members of the Commission and has the whole responsibility to administer securities legislation.

The Commission formulates laws, rules, and regulations related to the capital market for capital markets and their associated stakeholders, including issuer companies, stock exchanges, intermediaries, and institutions connected to the capital market. The Commission is responsible for monitoring the activities of DSE and

CSE, merchant bankers, portfolio managers, mutual funds, stockbrokers/dealers, Issues, and all other intermediaries, as well as institutions operating within and externally for the securities market (Wahab & Faruq, 2012).

1.4.2 Dhaka Stock Exchange Limited

The Dhaka Stock Exchange Limited started official trading in 1956. It was founded on April 28, 1954, and was initially termed the East Pakistan Stock Exchange Association Limited (EPSEA). A few years later, its appellation was altered to East Pakistan Stock Exchange Limited (EPSE) on June 23, 1962, and it was finally renamed as Dacca Stock Exchange Limited (DSE) on May 13, 1964.

After the independence of Bangladesh, Dacca Stock Exchange Limited resumed trading on August 16, 1976 (Dhaka Stock Exchange Ltd., 2021), and in 1986 was renamed as Dhaka Stock Exchange Limited (The Lawyers & Jurists, 2021). DSE is a self-regulated, not-for-profit institution, and its Council is the ultimate policy-making body of the stock exchange.

The exchange is administered in accordance with the Dhaka Stock Exchange (Board and Administration) Regulations, 2013. Its membership conforms with the Dhaka Stock Exchange (Listing) Regulations, 2015. Currently, there are 609 companies listed on the Dhaka Stock Exchange Ltd. under 22 industries (Dhaka Stock Exchange Ltd., 2021).

1.4.3 Chittagong Stock Exchange Limited

To expand the scope of the capital market in Bangladesh, the second bourse of the Bangladeshi capital market, the Chittagong Stock Exchange Limited, was

established in 1995. It commenced formal trading on October 9, 1995. Founder members of the proposed Chittagong Stock Exchange approached the Bangladesh Government in January 1995. They attained the consent of the Securities and Exchange Commission on February 12, 1995, to establish the country's second stock exchange. It is also a self-regulated, non-profit institution, similar to the DSE.

The exchange is administered in accordance with the Chittagong Stock Exchange (Board and Administration) Regulations, 2013. Its membership conforms with the Chittagong Stock Exchange (Listing) Regulations, 2015. Currently, there are 348 companies listed on the Chittagong Stock Exchange Ltd. under 19 industries (Chittagong Stock Exchange Ltd., 2021). At present, all the 348 listed companies on the Chittagong Stock Exchange Limited are also listed on the Dhaka Stock Exchange Limited.

1.5 Problem Statement

In the corporate sector of Bangladesh, there is a dearth of effectual human capital management. For instance, two industrial tragedies in Dhaka have underlined the unsafe working environments in many of the 4,500 garment factories in Bangladesh. First, in November 2012, a factory fire at Tazreen Fashions in Dhaka claimed more than 100 lives; second, a building collapse in Savar (a district on the outskirts of Dhaka) at Rana Plaza claimed the lives of over 1,100 workers in April 2013. These events have highlighted other concerns regarding overall working conditions, including pay levels for garment workers (International Labour Organization, 2013).

Additionally, over 80 percent of the workforce in Bangladesh's ready-made garments (RMG) sector is female. However, several important inequalities persist,

especially regarding educational achievement, labour market consequences, and working environments. Furthermore, as waged employees, females are frequently underemployed or face more challenging working conditions, leaving them more susceptible to earning significantly less than males (International Labour Organization, 2013). Therefore, effective human capital management is necessary to mitigate gender discrimination in the business sectors of Bangladesh.

However, legislators in Bangladesh have been proactive in initiating numerous measures to promote and enforce transparency among companies to protect shareholders' well-being (Bhuyan, 2018). For instance, in 2018, the BSEC instigated a new CG code enforcing the company shall make accessible the thorough disclosures on its website as necessary under the listing regulations of the concerned stock exchange(s) to improve overall disclosure, and for improving CG in the well-being of investors, in addition to the capital market. Hence, disclosure holds further importance in Bangladesh.

Additionally, from an agency theory perspective, corporate governance attributes can explain the level of human capital management disclosure practices, especially in emerging economies where there is a lack of a well-established governance system. Given that, the present study has examined corporate governance as the antecedent of HCM disclosure from the perspective of an evolving economy like Bangladesh.

Moreover, according to the Human Capital Index (2018), Bangladesh ranks 106th out of 157 countries in the World Bank's Human Capital Project (The Human Capital Project, World Bank Group, 2018). Table 1.1 shows that the anticipated productivity of the next generation of workers in Bangladesh is lower than that of

developing and neighbouring Asian countries (e.g., Nepal, Thailand, Vietnam, and Sri Lanka).

The Human Capital Index (HCI) measures the human capital that a child born today is expected to achieve by age 18, given the risks to poor health and education that exist in the country where they live (World Bank Group, 2018). It ranges from 0 to 1. The HCI is calculated in terms of the output of the next generation of workers, using the yardsticks of complete education and full health. An economy will score a value of 1 on the index, wherein a child born today can be predicted to achieve complete education as well as full health.

Thus, as shown in Table 1.1, the standard of complete education, as well as full health, is needed to achieve the standard productivity from the next generation of workers, which is not present in Bangladesh. Additionally, the education and health safety of the workforce are also important components of HCM disclosure metrics. Given that, more HCMD in the ARPs of Bangladeshi corporations could contribute to better management and improvement of workforce productivity, and thus, firm performance.

Table 1.1

The Human Capital Index (HCI), 2018 (Partial)

Economy	Value	Rank
Singapore	0.880	1
Vietnam	0.670	48
Malaysia	0.620	55
Thailand	0.600	65
Sri Lanka	0.580	74
Nepal	0.490	102
Bangladesh	0.480	106

Source: The Human Capital Project, World Bank Group (2018)

In the agency theory context, HCM disclosure might reduce information asymmetry and thus lessen agency conflicts. Furthermore, in the context of signalling theory and stakeholder theory, HCM disclosure provides a material signal to all stakeholders, which can enhance workforce contribution and increase confidence among other stakeholders in the business. Hence, in emerging economies, an enhancement in HCM disclosure might contribute to improving firm performance. These beliefs could prompt a company to ensure greater transparency by extending its voluntary HCM disclosure practices.

Emerging countries tend to focus less on voluntary disclosures in annual reports and have received less attention in the literature compared to established countries (Bhuyan, 2018). In emerging country settings, disclosures in annual reports are often inadequately addressed due to poverty, exploitation, societal disparities, malpractice, a limited capital market, and weak regulations (Bhuyan, 2018).

Accordingly, existing research has found that the HC reporting level in the perspective of Bangladeshi listed companies is relatively low relative to developed economies (Alam & Dev, 2010; Mamun, 2009; Dey & Sarkar, 2015). Therefore, the potential determinants of human capital disclosure in the context of an emerging economy like Bangladesh may be investigated.

In particular, in the context of Bangladesh, Mamun and Aktar (2020) conducted a study on intellectual capital (IC) disclosure and found that out of three (3) categories (internal, external, and HC) of ICD, HC is the least disclosed category in the sample companies. They also find that only 18% of the 14 selected HC disclosure items have been disclosed by the sample companies. Further, Mamun (2009) finds that sample companies disclose only one-fourth (25%) of the selected

human resource accounting (HRA) disclosure items, and Alam and Dev (2010) find that sample companies disclose only 12.7% of the 15 selected HRA disclosure items. Dey and Sarkar (2015) find that sample firms have used only 33 sentences (on average) in their annual reports to disclose HC information.

Whereas, in the context of a developed economy, for instance, Tejedo-Romero and Araujo (2022) find that Spanish listed companies disclose 68% of the 24 selected HCD items, and Raimo et al. (2020) find that sample companies (137 worldwide companies) publish 50% of the 30 selected HCD items. Therefore, the HC disclosure practices of corporate sectors in emerging economies, such as Bangladesh, are low compared to those in developed economies. Therefore, an initiative from the policymakers in Bangladesh is needed to improve HCMD practices in the corporate sectors of Bangladesh, which has motivated the present study to examine the antecedents of HCMD.

While appealing in these agendas, the subject of upholding corporate performance is also an essential that is balanced or harmonized with the practices of VD. Furthermore, in response to the 2010-11 share market failure, Bangladesh revised its CG guidelines and reformed the BSEC to enhance investor trust (BSEC, 2021). Given that, CG might play a crucial role in addressing disclosure issues and translucency, and establish best practices regarding VD practices in Bangladesh (Bhuyan, 2018). Further, in Bangladesh, listed companies disclose HCM information voluntarily. However, as good CGMs act to establish best business practices, they may play a significant role as a precursor to HCMD.

Furthermore, in Bangladesh, stock investors have suffered the most horrible year in 2019 since the market crash in 2010-11. The key market index, DSEX,

witnessed a seven-year record negative index return of -17.3% or 932.7 points in 2019, following a negative return of -13.8% in 2018. Meanwhile, bourses in five other frontiers and emerging Asian countries registered growth during the same period (Dhaka Tribune, 2020).

Besides, Chittagong Stock Exchange Ltd. documented a negative index return of -17.9% [CASPI (CSE All Share Price Index)] in the year 2019, and the total market capitalization of listed companies on CSE decreased by 14.8% in 2019 over the year 2018 (EBL Securities Ltd., 2019). However, throughout the same period, the return at the Indian key index, SENSEX, was 14.7%, followed by 10.7% of the Pakistani KSE100, 8.1% of the Vietnamese VNINDEX, 1.0% of the Thai SET, and 2.3% of the Sri Lankan CSEALL (Dhaka Tribune, 2020). Thus, the market performance of listed corporations in Bangladesh has gradually decreased over the year 2019, compared to the market performance of listed firms in neighbouring countries. The movement of DSEX over the year 2019 is given below.

Figure 1.1 shows the movement of DSEX over the year 2019. It is clear from Figure 1.1 that the market performance (DSEX) of the listed firms on the Dhaka Stock Exchange Limited has gradually decreased over the year 2019. The stock market has experienced several mini-crashes since its collapse in 1996 and 2010-11; however, as shown in Figure 1.1, the 2019 crash appears to be a prolonged one (The Financial Express, 2020).

In addition, for a better understanding of capital market behavior in Bangladesh, a comparative analysis of the sectoral performance of listed corporations on the DSE over the years 2018 and 2019 is presented in Table 1.2.

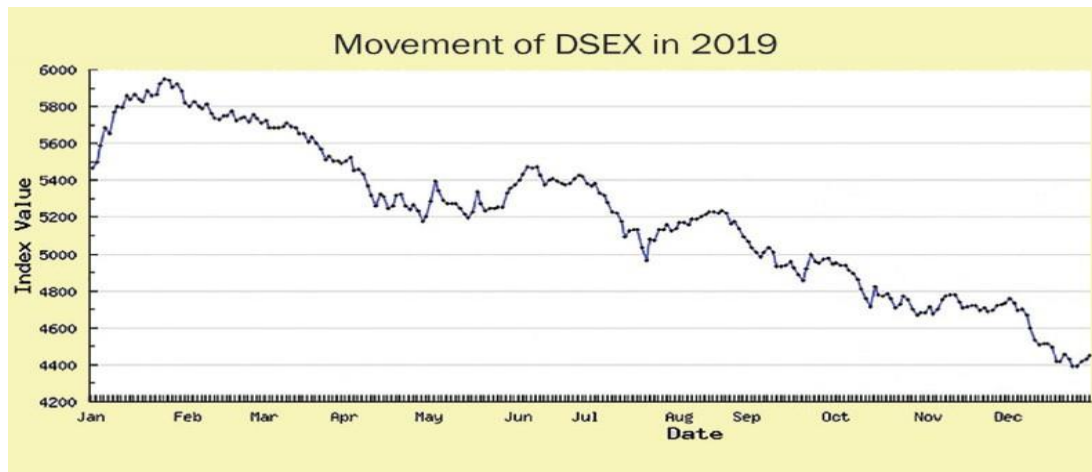


Figure 1.1. Movement of DSEX over the Year 2019

Source: NEW AGE (2019)

However, market capitalization is a market-based metric of firm performance, representing the total value of a firm's common stock (Bhuyan, 2018). Table 1.2 shows that the overall market capitalization of listed companies on Dhaka Stock Exchange Limited has decreased by -14.37% in the year 2019, relative to the year 2018, specifically, in the financial sector companies by -9.13%, manufacturing sector companies by -17.27%, and service and miscellaneous (excluding mutual funds) sector companies by -15.13%. Additionally, the market capitalization per share of listed firms on the Dhaka Stock Exchange Limited decreased by 20.87% during the same period. Thus, the market performance of listed companies on the DSE has fallen remarkably in 2019 compared to 2018.

The Bangladeshi capital market experienced a prolonged period of depression throughout 2019, accompanied by a crisis in investor confidence (The Financial Express, 2019). However, HCM disclosure is an element of overall VD. Thus, from an agency theory perspective, HCM disclosure could minimize information asymmetry along with agency conflicts, in turn, which might boost investors' confidence.

Table 1.2

Sectoral Performance of DSE Listed Companies (2018 and 2019)

Name of the Sector	Market Capitalisation (MCAP) as on December 2018 (Tk. in Millions)	Market Capitalisation (MCAP) as on December 2019 (Tk. in Millions)	Increase or Decrease of MCAP in 2019 over 2018 (In %)
Financial	8,77,745.360	7,97,601.020	-9.130%
Manufacturing	12,97,492.710	10,73,362.710	-17.270%
Service and Miscellaneous (Excluding Mutual Funds)	11,08,017.520	9,40,419.440	-15.130%
Total Market Capitalisation of Listed Companies	32,83,255.590	28,11,383.170	-14.370%
Total Number of Shares of Listed Companies (No. in Millions)	63,537.000	68,752.000	8.210%
Market Capitalisation Per Share	51.670	40.890	-20.870%

Source: DSE Main Board (2018) and (2019)

Furthermore, from the context of signalling theory and stakeholder theory, the signal provided by human capital management disclosure might enhance workforce performance, transparency in the business, as well as investors and other stakeholders' confidence in the business. Accordingly, HCMD may contribute to the firm value (FV) of listed corporations in Bangladesh, thereby improving the stock market index return (i.e., the market performance of listed firms).

Additionally, HCM is a vital factor in a firm's long-term financial performance (FP), contributing to both value creation and risk alleviation (International Corporate Governance Network, 2018). Similarly, as the anticipation

of investors, customers, employees (current and prospective), governments, and other stakeholders increases, human capital disclosures might be regarded as a progressively key indicator of an organization's long-term performance and success (Arthur et al., 2020).

Bernstein and Beeferman (2015) conducted a study of the literature on HC, including 92 experiential studies published since 1990. The mainstream of these studies has found a positive link between a wide variety of HCM elements and standard financial performance metrics. Therefore, they state that there is adequate evidence of HC materiality to financial performance to warrant inclusion in standard investment analysis.

In other contexts, well-timed corporate financial reporting (FR) plays a significant role in the proper functioning of the economy; particularly in capital markets (Lourenço et al., 2018). In contrast, deferrals in reporting raise ambiguity related to investment decisions (Owusu-Ansah & Leventis, 2006) and increase the risk of insider trading, embezzlement, or misuse of corporate assets (Leventis & Weetman, 2004).

Timely reporting enhances the well-being of all stakeholders by reducing their costs associated with obtaining information privately (Lee et al., 2008). Accordingly, if information is either not obtainable when it is required or becomes obtainable so long after the specified events that it has no value for upcoming action, it lacks relevance and is of slight or no use (IASB, 2010).

Additionally, in Bangladesh, corporations primarily communicate their information to stakeholders through their annual reports (Khan et al., 2009; Khan & Ali, 2010). Thus, the timeliness of corporate FR could make the human capital management disclosure more value-relevant to its stakeholders. Moreover, from the

agency theory, stakeholder theory, and signalling theory perspectives, the timeliness of HCMD may accelerate the decline of information asymmetry and agency conflicts, while also increasing the transparency of corporate reporting to stakeholders and signalling the potential performance of the firm. Therefore, corporate FR timeliness might strengthen the connection between HCMD and FV. Given that, the present study also investigates the moderating effect of FR timeliness on the relationship between HCMD and FV.

However, earlier studies have evaluated the extent of voluntary disclosure made by corporations in many countries and provided evidence of antecedents that impact the level of voluntary disclosure and the consequences of such disclosure. Nevertheless, some issues have not been adequately addressed in previous studies, namely the antecedents and consequences of human capital management disclosure, particularly in emerging capital markets like Bangladesh.

1.6 Research Objectives

The primary focus of the present study is on human capital management disclosure. The study examines the relationship between CG attributes and HCMD, as well as the impact of HCMD on firm value. The moderating effect of FR timeliness on the link between HCMD and firm value has also been investigated. Specifically, the objectives of this study are as follows.

1. To examine the relationship between corporate governance attributes (i.e., board size, board gender diversity, managerial ownership, audit committee independence, and board independence) and human capital management disclosure.