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CORPORATE GOVERNANCE AND VOLUNTARY HUMAN CAPITAL DISCLOSURE IN THE LISTED COMPANIES OF BANGLADESH: A CONCEPTUAL OVERVIEW

Shamem Ara Mili[1, 2, *], Fathyah Hashim[1]

[1]Graduate School of Business, Universiti Sains Malaysia, 11800 USM, Penang, Malaysia .
*Corresponding Author: miliais@yahoo.com
[2]Department of Accounting and Information Systems, Comilla University, Cumilla, Bangladesh

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Abstract: *Human capital disclosure provides information on companies' human capital development initiatives, employees' current benefits, and their future safety. Higher level of human capital (HC) disclosure might be able to make the employees more pleased and motivated. However, good corporate governance (CG) makes sure professional ethics in business, and functions in favour of the interest of diverse stakeholders of the business. HC disclosure is voluntary in Bangladesh, and hence, corporate governance mechanisms (CGMs) could play an important role to disclose more HC information. Similarly, from the agency theory standpoint, HC disclosures reduce information asymmetry, and thus, HC disclosures could minimize the agency conflicts associated with the business. The aim of the paper is to integrate pertinent empirical researches and literature to extend the potentials of CG attributes to amplify HC disclosures of the listed firms in Bangladesh. In addition, the paper will present theoretical base for future empirical investigation to expand the agency theory explanation regarding the association of CG with HC disclosures. Moreover, extant literature provides inconsistent and less evidence regarding the rapport of CG with HC disclosures. The present paper recommends and illustrates potential propositions for future empirical study. It is expected that the empirical investigations on these propositions would endow with knowledge to investors, practitioners, and policy makers regarding upgrading voluntary HC disclosure by means of superior corporate governance.*

Keywords: Corporate Governance, Voluntary Human Capital Disclosure, Agency Theory

Introduction

During the past few decades, economic crisis along with business fall downs is observed in developed as well as emergent countries (Bhuyan, 2018). These problems are frequently ascribed toward meagre corporate reporting, clarity, and governance system (Ntim et al., 2012). However, Bangladesh has achieved a stable economic growth above six percent afterward the millennium era (Zheng et al., 2017). To uphold growth, it requires stability in precedence

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upgrading of financial, human capital, infrastructure, fiscal and trade regulation areas (Hossen, 2019). In particular, CG as well as voluntary disclosures has created a centre of attention in case of company restructuring considering economic crisis and business fall downs (Samaha et al., 2015).

Voluntary disclosures are characterized as supplementary information in addition to obligatory disclosures (Bhuyan, 2018). Human capital is one of the important parts of intellectual capital, and it comprises the stock of traits that employees afford, for instance, talents, knowledge, experience, devotion and leadership, in exchange for wages and salaries (Roslender et al., 2012). Despite the fact that voluntary disclosures have a broad variety of types, the greater part of them addresses about societal, environmental as well as intellectual capital (IC) perspectives (Garcia-Meca & Sánchez-Ballesta, 2010). Stockley (2003) termed human capital as an imperative and necessary asset which contributes to development and growth, similar to physical capital, for example, machinery as well as other working capital. Providing attention to a specific category helps to realize and explore a complete depiction on the topic.

Investors are concerned in human capital information for the reason that human capital is believed an important component in the value-making procedures of firms (Gamerschlag, 2013; Claver-Cortés et al., 2015). Finding an effectual approach to record and report human capital issues facilitate firms to recognize worth of critical resources, which in turn allow them to direct their human capital efficiently to achieve competitive advantage (Ployhart et al., 2014; Russ, 2014). Furthermore, human capital is thought as an imperative source for sustainable benefits, and might afford advantages such as falling information asymmetry (Fontana & Macagnan, 2013).

Human capital is an important source of the intangible assets of a firm (Kalkan et al., 2014). Employee disclosure provides most employees superior inspiration to employ all their abilities for accomplishing company goals, and employee disclosures have a consequence on employee devotion with credibility, lucidity, and employee performance (Bayoud et al., 2012). In addition, it is important to release HC information to catch the attention of talented employees (Hansson, 2004). Institutions would lose their competitiveness if not concentrate on human capital in strategic choice making, and provide importance on this significant resource in their reporting activities (Ali et al., 2008).

Moreover, human capital disclosure makes easy to commune with stakeholders (Abeysekera & Guthrie, 2004; Lin et al., 2012). Likewise, Basir et al. (2001) found that the quantifying and reporting of HC information in firms would be an outstanding means to make decision makers more accountable and translucent to all the stakeholders. Firms which reveal more human capital information be able to form general understanding linking the employer and the employees, and fetch collectively employees' dedication as well as endeavours (Meyer et al., 2004) to raise production efficiency or to better serve customers with the intention that the organization can attain better operational competence and financial results (Lin et al., 2012).

The echelon of voluntary disclosures differs in corporate financial reporting as of nation to nation (Boesso & Kumar, 2007). Thus, it is needed to look at voluntary human capital disclosures as well as widen the current literature from a diverse research environment. However, corporate governance carry out a key function in the decision making procedure of a firm, besides, CG attributes take part in a major function in voluntary disclosures due to the absence of lawful binding to release supplementary information (Bhuyan, 2018). The present paper brings to light CG attributes and voluntary HC disclosure in the perspective of a rising economy akin to Bangladesh.

The Corporate Governance Guidelines (CGG) in Bangladesh lastly revised in 2018 by a new notification dated 3rd June, 2018, as well as the Corporate Governance Code (CGC) of 2018 has been issued as "Code" in place of "Guidelines" with a title: "Corporate Governance Code" (Bala, 2018). In terms of numeral of conditions, CGC of 2018 has been increased by about 75% (Bala, 2018). However, the CGC of 2018 added one new condition; listed firms have to release comprehensive disclosures on company website that mandatory according to the listing rules of the concerned stock exchange(s) (Bala, 2018). This is an indication of continuous effort by the Bangladesh Securities and Exchange Commission (BSEC) to upgrade disclosure practices of the listed companies in Bangladesh.

Problem Statement

In emergent nation's perspectives, corporate disclosure might not as much of important, as poverty, societal discrimination, dishonesty, tiny capital marketplace and frail rules correspond to major barriers (Bhuyan, 2018). Besides, extant studies have found that human capital reporting level in the context of Bangladeshi listed firms is comparatively low as compared to developed countries (Mamun, 2009; Alam & Dev, 2010; Dey & Sarkar, 2015). Listed companies in Bangladesh release only one-fourth (25%) of the selected human resource accounting disclosure items (Mamun, 2009), whereas Alam and Dev (2010) found 12.69% of the selected human resource accounting disclosure items, and Dey and Sarkar (2015) found that sample companies have utilized only 33 sentences (on an average) in their annual reports to report human capital information.

Developed countries are more concerned about voluntary disclosures into corporate reporting, as well as have contributed more within current literature as compared to emergent nations (Bhuyan, 2018). Moreover, according to The Human Capital Index, 2018, Bangladesh has ranked 106th position out of 157 countries under the Human Capital Project of World Bank (World Bank Group, 2018). Thus, Bangladeshi regulators and policy makers should try to develop more efficient human capital to cope with the global race. For this, the concerned authorities may also need adequate HC information.

However, CGMs could play an important role to put into effect more voluntary disclosures (Bhuyan, 2018). The paper has looked into the determinants of HC disclosures through an attention on CG attributes within the perspective of an emerging economy like Bangladesh. Moreover, in Bangladesh, listed firms disclose HC information voluntarily, and thus, corporate governance mechanisms could act as the determinants of HC disclosure.

Literature Review

One of the most significant tenets of CG mechanisms is increasing lucidity via greater disclosure; furthermore, greater transparency lessens the chance for corporate misconduct (Ley et al., 2019). Some selected studies related to our present paper are discussed below.

Board size is a very important issue concerning the monitoring capability of a company, as well as usually believed an imperative attribute of CG (Lee & Chen, 2011). Moreover, board of directors facilitates in effectual monitoring of the governance along with lucidity of the company, as well as supports to fall information inequality together with agency conflicts (Rahman et al., 2019). However, as governing body of the firm, board of directors contribute with the level of disclosures, therefore, care for benefits of the investors (Sandhu & Singh, 2019).

Bigger corporate boards alleviate individual director's deficiencies in business skills in the course of collective decision-making (Abeysekera, 2010). Firms with larger boards are more willing to disseminate corporate information (Gandia, 2008). Contrarily, it is not easy to manage bigger corporate boards; therefore, smaller corporate boards have a preference in favour of top quality disclosures (Kaymak & Bektas, 2008). Thus, extant studies have shown an inconclusive relationship of board size with voluntary disclosures.

The first regulatory steps looking for gender equilibrium on corporate board were instigated in the year 2003 in Norway, and public firms were obliged to include no less than forty percent of either gender in their boards by the year 2008 (Tejedo-Romero et al., 2017). However, board diversity, for instance, gender, facilitates board to incorporate a broad variety of talents along with proficiencies, uphold a panel of know-how and guidance knowledge, therefore, boost its capability to produce new thought (Quintana-García & Benavides-Velasco, 2016). Thus, corporate board gender diversity has become a center of global attention.

Managerial ownership bring into lines the interests of shareholders and management which is positively linked to higher asset utilization competency that reveals lower agency costs (Singh & Davidson, 2003). In addition, Ariff (2012) found that the consequence of managerial ownership on the excellence of voluntary disclosures of intangibles is not apparent. Managerial ownership is the proportion of executive directors' shareholdings (Kamardin, 2014). Voluntary disclosure has no significant association with managerial ownership (Kelton & Yang, 2008). Contrarily, Arcay and Vázquez (2005) found that voluntary disclosures have positive connection with board ownership. Hence, extant studies have shown an inconclusive relationship of managerial ownership to voluntary disclosures.

An independent audit committee is projected to perform a significant function in financial reporting, auditing, as well as corporate governance (Kantudu & Samaila, 2015). Audit committee independence facilitates in effectual spreading of economic information toward investors (Karamanou & Vafeas, 2005). Audit committee independence affords a superior level of dynamic supervision (Abbott et al., 2000). However, Othman et al. (2014) and Li et al. (2012) have found an insignificant association of audit committee composition with intellectual capital disclosure. Thus, the association of audit committee independence with voluntary disclosures is inconsistent yet.

The percentage of independent directors in board is connected with disclosure practices (Agyei-Mensah, 2016; Hapsoro & Fadhilla, 2017). A board with greater percentage of independent directors is further efficient in satisfying monitoring responsibility due to superior neutrality for the reason that they are not linked with the firm (Dalton et al., 1998). Furthermore, Esa and Ghazali (2012) found a converse association connecting independent directors with societal disclosures; their investigation stated that independent directors provide greater emphasis on corporate financial performance than corporate societal affairs. However, Barako et al. (2006) found an inverse association of independent directors with voluntary disclosures. Thus, the association of board independence to voluntary disclosures is inconclusive yet.

Voluntary disclosure related study into the perspective of Bangladesh started in the year 1990 (Ahmed 1996; Belal, 1999). However, in current literature, there is a lack of studies on voluntary HC disclosures in the perspective of Bangladeshi listed firms. Hossain et al. (2004) performed an investigation on 40 listed companies of Bangladesh; for the most part from manufacturing sector, and observed that only 42.50% of sample companies have reported HC information in their annuals reports. Furthermore, Mamun (2009) found that Bangladeshi companies (a sample of 55 companies) disclose on an average only 25% of the selected human capital items. Mamun (2009) also found that company size is considerably linked with human resource accounting information.

Alam and Deb (2010) found that listed companies (a sample of 58 listed companies) of Bangladesh on an average disclose 12.69% of the selected human resource accounting disclosure index (HRADI) reporting items in their annual reports. Moudud-Ul-Huq and Prince (2012) found that during the year 2010, in Bangladesh, only a small number of banks had mechanism to exercise the practice of human resource accounting, as well as in the year 2011 about the same number of banks had such mechanism and score improved by 9%. Contrasting companies in many developed countries, Bangladeshi companies have failed to release several areas of intellectual capital reporting (Rashid, 2013). Abhayawansa and Azim (2014) found that Bangladeshi pharmaceutical companies have not adopted a consistent framework for IC reporting, moreover, HC is the slightest reported category indicating 29% of entire IC disclosures.

In Bangladesh, board independence has a considerable positive association with IC disclosures (Dey & Faruq, 2019). On the contrary, board gender diversity has marginally significant negative relationship with IC disclosures. Furthermore, the researchers found an insignificant effect of board size, leverage, profitability and firm size on IC disclosures quality.

Rahman et al. (2019) performed an investigation on the listed firms of Bangladesh, and found that IC disclosures has positive association with firm size, leverage along with firm performance, as well as negative relationship with director ownership along with institutional ownership. Moreover, the authors found an insignificant connection of IC disclosures with independent director or female director.

Thus, in the context of Bangladesh, most of the recent voluntary disclosure related studies are linked with IC disclosure (e.g. Rashid, 2013; Dey & Faruq, 2019; Rahman et al., 2019), and most of the studies have not highlighted human capital disclosure separately. In addition, Alam and Deb (2010), Khan and Khan (2010), Moudud-Ul-Huq and Prince (2012), and Abhayawansa and Azim (2014) have commented that human capital, and/or human resource disclosure practices of the Bangladeshi firms should be upgraded.

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Research Gap

Very limited number of researches has examined the association of HC disclosures with corporate governance mechanisms within the perspective of an emerging economy. In addition, most of the voluntary disclosure allied studies have emphasized on the voluntary social disclosure (e.g. Azim et al., 2009; Al Mamun & Kamardin, 2014), and intellectual capital disclosure (e.g. Rashid, 2013; Abhayawansa & Azim, 2014; Dey & Faruq, 2019; Rahman et al., 2019). Moreover, extant studies also have found an inconclusive rapport of voluntary corporate disclosure with corporate governance mechanisms.

Current literature have explored that the relationship of voluntary corporate disclosures with board size (e.g. Cerbioni & Parbonetti, 2007; Kim & Nofsinger, 2007; Tejedo-Romero et al., 2017; Dey & Faruq, 2019; Sandhu & Singh, 2019), board independence (e.g. Eng & Mak, 2003; Kaymak & Bektas, 2008; Dey & Faruq, 2019; Rahman et al., 2019) and managerial ownership (e.g. Hossain et al., 1994; Arcay & Vázquez, 2005) is inconsistent. Furthermore, specifically, the relationship of HC disclosures with board size, board gender diversity, managerial ownership, audit committee independence and board independence in the context of Bangladeshi listed firms could be investigated.

Besides these, the Corporate Governance Code in Bangladesh has been reformed in 2018 after the amendment of 2013. To develop a theoretical base for empirical investigation on voluntary HC disclosure and corporate governance relationship, after the promulgation of new CGC in 2018 in Bangladesh, is one of the stimulations of our present study.

Research Question and Objective

The main attention of our paper is on voluntary HC disclosure. In particular, the objective of the paper is to look at the relationship between CGMs (i.e. board size, board gender diversity, managerial ownership, audit committee independence, and board independence) and voluntary HC disclosure.

The research question of the paper is 'Is there any association between CGMs and voluntary human capital disclosure?'

Significance of The Study

The paper will extend existing literature through concentrating on CG mechanisms and HC disclosure within the context of listed firms in Bangladesh. Moreover, the paper might endow with further knowledge on agency theory to examine the association of CG mechanisms with voluntary HC disclosures. In addition, it will provide as a base for prospective empirical research on voluntary HC disclosure within the perspective of an emergent country.

In existing literature, there is a dearth of studies, which has concurrently examined the relationship of board size, board gender diversity, managerial ownership, audit committee independence and board independence with voluntary HC disclosure. In addition, a better understanding of these relationships could facilitate to improve the corporate reporting practices so as to derive maximum firm value. Moreover, the assessment of human capital disclosure could be utilized not only to provide a gap analysis between current state and ideal practices but can also be used to help out in creating an outline for future improvements.

Furthermore, the proposals of the paper will act as a guideline to BSEC in drawing superior code of CG, as well as to provide as a guideline for the investors in assessing whether the companies are complying with the full disclosure requirement in their annual reports. In summary, the present paper intends to provide human resource practitioners, shareholders, academicians and other stakeholders with guidance and support to proficiently carry out the human capital reporting practices in their organizations.

Underlying Theory

Fama and Jensen (1983) recommended a superior monitoring system to conquer agency problem. Human capital disclosure reduces the agency conflicts by reducing information asymmetry. Besides this, superior corporate governance also minimizes agency conflicts. Therefore, voluntary HC disclosure could be used as a tool to reduce the agency conflicts by reducing information asymmetry through adopting superior corporate governance.

In agency theory approach, both shareholders and managers are supposed to have personal interest on the business (Jensen & Meckling, 1976). These personal interests create conflicts between them (Jensen & Meckling, 1976). Agency theory argues that voluntary disclosures reduce the information asymmetry between managers and other stakeholders of the business (Fama & Jensen, 1983). Besides, the agency conflicts are worsened when managers take the benefits from information asymmetry in their communication with investors and other stakeholders (Jensen & Meckling, 1976). From the above discussion, we can infer that agency theory is competent to make clear the association of CGMs with voluntary HC disclosure.

Conceptual Model

On the basis of agency theory, existing corporate governance code of Bangladesh and extant evidences, we have developed our conceptual model assuming that board size, board gender diversity, managerial ownership, audit committee independence and board independence are the most imperative governance mechanisms which can contribute to voluntary HC disclosure practices in the listed companies of Bangladesh.

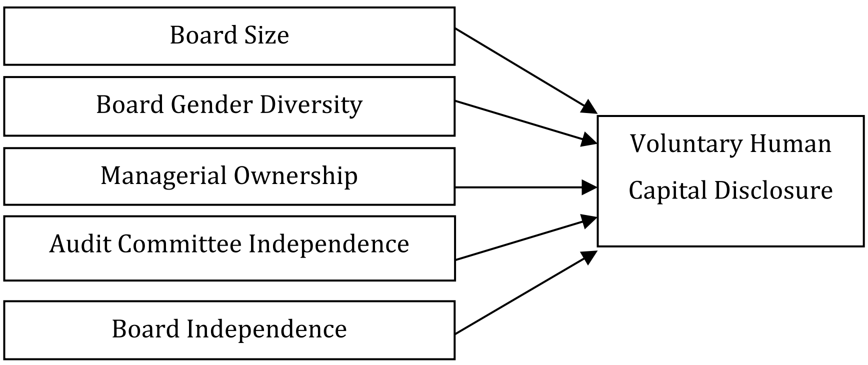

Figure 1: Conceptual Model

Proposition Development

Our above conceptual model demonstrates the association between five selected CGMs and voluntary HC disclosure. Therefore, the total number of propositions to be made from the conceptual model is five, which are discussed below with the support of agency theory, and extant literature.

Board Size and Voluntary Human Capital Disclosure

A larger number of directors lessen indecision and information asymmetries for the reason that there are more people to do the work (Fauzi & Locke, 2012). Firms with bigger board size release more intellectual capital information (Hidalgo et al., 2011; Tejedo-Romero et al., 2017). In addition, adding more members to the board affords potentially helpful information and resources (He et al., 2009). On the basis of agency theory, bigger boards are expected to disclose more voluntary disclosures, and reduction of agency conflicts by means of reducing information asymmetry. Furthermore, from agency theory viewpoint, it can be argued that a bigger board is more to be expected to notice agency problems, as it provides greater expertise, and access to a broader range of resources (Alfraih, 2018). Thus, our proposition is that larger board size leads on the way to better transparency that guides to release more voluntary HC disclosures.

Proposition (a): Board size has positive association with voluntary human capital disclosure.

Board Gender Diversity and Voluntary Human Capital Disclosure

Board gender diversity upgrades the capacity of the board to provide better corporate disclosure (Gul et al., 2011). Abad-Diaz et al. (2017) found that gender-diverse boards and information asymmetry are negatively allied. In addition, board gender diversity ensures superior monitoring which results enhanced supervision of management, better lucidity, as well as more affluent information surroundings (Lucas-Pérez et al., 2015). Moreover, board gender diversity is an important constituent of corporate governance mechanism (Tejedo-Romero et al., 2017), and female directors are more insightful in a social context, show greater concern in favour of sympathetic matters and contain an upbeat consequence on the talented functions of corporate board (Boulouta, 2013).

On the basis of agency theory and above discussion, we can presume that board gender diversity minimizes the agency conflicts by means of superior corporate governance, which in turn positively influence voluntary HC disclosure practices. Thus, this paper expects that corporate board gender diversity is positively interacted with voluntary HC disclosures.

Proposition (b): Board gender diversity has positive association with voluntary human capital disclosure.

Managerial Ownership and Voluntary Human Capital Disclosure

Managerial ownership is an important mechanism of CG (Bolton, 2014). Furthermore, managerial ownership is an effectual mechanism to decrease agency problems (Jensen & Meckling, 1976). However, voluntary disclosure and board ownership is positively associated (Arcay & Vázquez, 2005). In addition, equity-based disburse to executives effectually alleviates the clashes which come up between investors and executives with giving a fraction of company wealth to them (Hall & Murphy, 2002). Moreover, from signaling point of view, by means of voluntary HC disclosure, managers could supply supplementary disclosures to

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indicate that they work for maximum benefits of the shareholders and other stakeholders. On the basis of agency theory and above discussion, our proposition is that ownership involvement by the management lessens the agency conflicts, and thus, could induce managers to disclose more HC information to bring to light their transparent service, and non-conflicting behavior.

Proposition (c): Managerial ownership has positive association with voluntary human capital disclosure.

Audit Committee Independence and Voluntary Human Capital Disclosure

Independent members of an audit committee work more independently and efficiently because they have no undue stress as of management since they have no conflict of interest (Lin et al., 2008). In addition, agency theory argues that audit committee formation acts as a mechanism to reduce information inequality, as well as opportunistic behaviour of managers, and to upgrade disclosure excellence (Chung et al., 2004). However, audit committee independence is positively connected to voluntary disclosures (Akhtaruddin & Haron, 2010). Similarly, Haji (2015) also found a positive connection of audit committee independence to voluntary disclosures. Moreover, audit committee independence is positively associated to intellectual capital disclosures (Buallay, 2018). Therefore, with the support of agency theory and above discussion, our assumption is that existence of more independent directors in the audit committee amplify voluntary HC disclosure, and make easy the reduction of information asymmetry.

Proposition (d): Audit committee independence has positive association with voluntary human capital disclosure.

Board Independence and Voluntary Human Capital Disclosure

An enhanced percentage of independent directors boost the monitoring capacity of a company, as well as inspires to be transparent (Samaha et al., 2015; Bhuyan, 2018). Having more independent directors endorses a company to connect in more boundary straddling activities, and this might direct to upper transparency and disclosure of the firm (Kaymak & Bektas, 2008). Voluntary disclosures rise as the percentage of independent directors goes up (Samaha et al., 2012). Board independence improves the controlling function that guides to better disclosures, as well as take care of the interest of investors ensuring enhanced corporate disclosure (Dey & Faruq, 2019). Moreover, agency theory expects that an independent board is competent to successfully align management action with shareholder interest by means of intensive monitoring and well-organized contracting (Li & Roberts, 2018). Therefore, on the basis of agency theory and above discussion, our presumption is that board independence is positively linked to voluntary HC disclosures.

Proposition (e): Board independence has positive association with voluntary human capital disclosure.

Conclusion

This paper is an attempt to explore the determinants of voluntary HC disclosures focusing on CG mechanisms. It is also expected that the propositions of the paper will increase the importance and interest for future empirical investigation on voluntary HC disclosure. Moreover, the empirical investigation adopting the projected conceptual model would provide

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information concerning the effectiveness of corporate governance mechanisms to upgrade voluntary HC disclosure practices, after the latest (in 2018) reformation of Corporate Governance Code in Bangladesh. Therefore, it is hoped that the theoretical framework and propositions of this paper will be extended to an empirical phase.

In addition, the paper could provide as a directive to policy makers, practitioners, and BSEC in formulating suitable governance mechanisms to improve voluntary HC disclosure practices in Bangladesh. Furthermore, given that the propositions of the paper represent the potential association between CGMs and voluntary HC disclosures, its empirical extension would employ a correlation study.

However, human capital disclosure will be beneficial if the business and its stakeholders are competent to make sense of the HC disclosure in conjunction with communicate them into daily operational activities, as well as decision making process (Giuliani, 2016). In summary, the salient intuition of this study is to motivate HC disclosure in the business sector firms of Bangladesh, as well as generalizing the association of CGMs with voluntary HC disclosures in the context of an emerging economy like Bangladesh.

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