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An Initial Assessment of Voluntary Disclosures on Digitalisation by Malaysian Public Listed Companies

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Abstract

Nowadays, technology has affected all sectors. Many companies have taken serious initiatives to transform their businesses into digital business models. For good communication with investors, a well-governed company will voluntarily disclose how it integrates digitalisation into the business. This study explored how Malaysian public listed companies from the consumer sector, had voluntarily disclosed information related to digitalisation in their annual reports. A qualitative research is employed, and a content analysis was utilised to examine the annual reports. Malaysian listed companies from the consumer products and services sector were selected based on a purposive sampling. A content analysis was also employed to analyse the data manually. This study finds the most common sections used for the disclosure of digitalisation-related information are management reports, corporate information, and sustainability reports. The other sections are corporate governance report, digital governance, and risk management. Disclosures of digitalisation-related information mostly involved several business themes such as marketing, business strategy, business process, product offered and corporate sustainability and governance. The research findings provide insights into voluntary disclosures related to digitalisation among Malaysian listed companies.

Keywords: Disclosures, Digitalisation, Governance, Reporting, Sustainability

Introduction

Nowadays, technology has affected all sectors. Many companies have taken serious initiatives to transform their businesses into digital business models. Like companies in other Asian countries, Malaysian companies must stay up to date with the aggressive digital transformation of business models to remain competitive. According to the World Economic Forum, Asia has been growing tremendously, and is expected to contribute 60% of the global economic growth by 2030 (Yendamuri & Ingilizian, 2020). The region remains the world's most dynamic sector by a substantial margin (Haanaes & Fjeldstad, 2016). Such rapid growth

in Asia has been facilitated by the rapid changes in the technology that transform many business models into digital business models. Digital transformation leads to both a competitive advantage and increased profitability across industries (Eitrem & Öberg, 2018). Integrating digitalisation into the business requires huge funding. Thus, it is very important for the management to keep their investors well informed about the digital initiatives as this information is valuable and vital in assessing the future performance and position of the company. Many companies may provide such information on their websites and the yearly corporate reporting such as the mandatory annual report.

The purpose of corporate reporting, which the literature subsumes into three perspectives: valuation, stewardship, and accountability (Beyer et al., 2010; Jonas & Blanchet, 2000). Annual reports are mandated for public companies and their uses and importance have been the subject of debate for several years. For annual reports to be important and useful to users, they must satisfy the information requirements of users, besides being timely and up to date. The usefulness of corporate annual reports partly depends on what and how information is disclosed in the annual reports. Digitalisation is one of the main sources of intangible assets. The disclosure of digitalisation-related information is a form of intellectual capital disclosure, which provides potentially value-relevant information to investors (Michelion et al., 2021). However, this information is still not mandated and the level of voluntary disclosures to a certain extent is influenced by the cultural and business environments of a specific country. According to Capulong et al., (2001) many nominees are owned by families. Additionally, Claessens et al., (2000) report that at the 20 percent cut-off level, 67.2 per-cent of Malaysian publicly listed companies are in the hands of families, and 85 percent have owner managers. The prevalence of family businesses and owner-managed companies appear to suggest that information disclosure may be at the minimum level since owners and managers are closely involved and informed about the business activities (Ghazali, 2010).

Despite the increasing importance of digitalisation and value-relevance of digitalisation-related information, existing studies provide limited evidence of its reporting. Therefore, this study aimed to fill up this literature gap by analysing the annual reports of Malaysian public listed companies and provide some evidence on how they disclose information related to digitalisation. The study findings would indirectly reflect Malaysian companies' readiness to more transparent and comprehensive reporting such as integrated reporting (IR).

Literature Review

Malaysia's business environment has been categorised as highly concentrated with the largest shareholder group being nominee companies (Capulong et al., 2001; Claessens et al., 2000). Thus, there is not much pressure to disclose more than the minimum information required by the accounting regulators (Ghazali, 2010). These trends will disadvantage non-family shareholders such as the minority shareholders who rely on the mandatory reports for ascertaining company financial performance and position. Annual reports are designed to help investors make informed investment decisions and to evaluate a company's performance over time as well as to help investors make a comparison between a company's performance with that of others (Naser & Nuseibeh, 2003). In addition, adequate disclosures in annual reports would improve corporate transparency and market efficiency (Ghazali, 2010).

Four years before the COVID 19 pandemic, Malaysia's digital economy grew by 9% annually in value-added terms between 2010 to 2016 and it was estimated to make up 20% of the economy by 2020. Despite the negative effect of the pandemic, it escalates digital economy such as e-commerce. E-commerce alone is expected to exceed RM110 billion, approximately 40% of the digital economy by 2020 (Westerman et al., 2020). "Digitalisation" is defined as the application of digital technologies to transform a business model and provide new revenue and value-producing opportunities (Gartner, 2020). Digital transformation implies the 'utilisation of new technologies to cause remarkable business improvements such as enhancing customer experience, streamlining operations, and reinventing or creating new business models' (Singh & Hess, 2017). It differs from digitisation. Digitisation refers to the process of changing from analogue to digital form Gartner, (2020) where business processes previously done by humans are standardised and automated to cut costs, increase operational efficiency and predictability (Ross, 2017). The digital transformation usually requires companies to upgrade existing IT-infrastructure to create technological, business, and organisational flexibility (Westerman et al., 2020).

For large firms, the rationale behind digitalisation is clear: digitalisation improves efficiency, competitiveness, and economies of scale (Rossato & Castellani, 2020). Companies can use complex technologies such as the automation of production processes and data-driven quality control processes to reduce costs and increase profit margins. A survey of 28 top publicly listed companies also found that large firms in Malaysia do not digitalise as rapidly as those of other countries. Among these 28 companies, only 5 companies digitally track their inventories in real-time, while 16 companies assess internal performance with data analytics. When taken as a whole, top firms in Malaysia recorded a Digital Performance Index (DPI) of 1.7 as opposed to the United States' 2.5 (YinSern et al., 2017). Based on recent research by the Boston Consulting Group as cited by Haanaes & Fjeldstad, (2016), media and entertainment, energy and retailing are facing major disruption to their business models due to rapid changes in the technology faster than other industries. According to Haanaes & Fjeldstad, (2016), there are four important archetypical business models that are most affected by digital: resource sharing platforms, networking services, problem solving companies and manufacturing companies.

Despite the increasing importance of digitalisation, Malaysian companies are still struggling to keep up with digitalisation. Huge funding requirements could be a major barrier to integrate digitalisation where approximately 50% of business establishments in Malaysia claimed cost as a big challenge to digitalisation (Westerman et al., 2020). Major investments require majority shareholders' support to proceed. Thus, it is crucial for the company to disclose sufficient information to the investors, particularly the shareholders so that the required votes are rendered to the management. However, providing information relating to how the company has embraced digitalisation is not mandated by regulators. Thus, how, and what to disclose depends on the management. Difficulties in complying with the definition and recognition requirements of relevant accounting standards may be one of the underlying factors in capturing digitalisation into the financial reports.

From a financial accounting and reporting perspective, investment in digitalisation may be recognised as intangible assets such as computer software and intellectual property. However, it must meet all the definition and recognition criteria as an asset in accordance with MFRS 138 or IAS 38. The main issue is identifiability for internally developed intangible assets. Therefore, except for acquired or purchased intangible assets, all internally developed intangible assets are expense off in the statement of profit or loss. Thus, it will not be reflected

in the financial statements. Alternatively, management may opt for non-financial disclosures such as the disclosure of digitalisation-related information.

Existing studies related to digitalisation focus on few areas such as exploring if and how digitalisation influences a company's business model and leads to business model initiatives (Rachinger et al., 2019); assessing whether a relation exists between stock market valuation and the extent to which Italian listed companies disclose information on their digitalisation initiatives (Michelion et al., 2021); how the quality of narrative reporting has been defined, what narrative information is required and used by various stakeholders, and what are the real effects of narrative reporting (Michelion et al., 2021). Michelion et al (2021) suggest that stock market participants incorporate digitalisation-related information into their business valuation process, and that firms with better reputation for corporate sustainability achieve higher valuations from disclosing their digitalisation efforts. For certain industries such as media and automotive, Rachinger et al., (2019) recommend that the value creation aspect is strongly influenced by digitalisation. However, the degree of digitalisation applied by each firm was determined by the customer demand (Rachinger et al., 2019).

Narrative reporting matters for and is used by stakeholders, existing and potential investors as well as creditors, and its relevance is reflected in several ways (Michelion et al., 2021). Common business dimensions related to digitalisation-related disclosures were plan, make, sell and manage (YinSern et al., 2017). Voluntary information disclosure provided by organizations has an effect towards the market (Frenkel et al., 2020). Voluntary disclosure has become an essential part for a company to be seen as having crucial plans to sustain in future and part of an important way to increase transparency in the reporting process (Suharsono et al., 2020). In addition, management could use corporate reporting strategically with the aim of lowering their firms' cost of capital (Hoberg & Lewis, 2017). In contrast to mandatory narrative disclosures where management must adhere to the format prescribed by the regulators, management can choose what and how to present non-mandatory disclosures.

Research Methodology and Method

This study adopted a qualitative research method. It followed methods used in existing studies related voluntary disclosures such as disclosure of digitalisation-related information and market valuation relations (Michelion et al., 2021), corporate social responsibility (Bakar et al., 2019), risk reporting (Ali & Taylor, 2014) and corporate governance reporting to choose the research approach and design. Based on these studies, a content analysis is the most common method to analyse and extract data from annual reports. The information of interest is then codified into several predefined categories.

To ensure a consistent data collection, this study utilised a standardised instrument or template to extract the required data. It guided researchers to follow standardised procedures with some rooms for flexibility as the researchers might discover different presentational styles and themes of digitalisation-related information in the annual reports. In addition, this instrument was meant to enhance the quality and validity of the extracted data.

The study population was all Malaysian public listed companies on the main board of Bursa Malaysia. However, for qualitative research, the common sampling technique is purposive sampling where companies with pre-determined features and characteristics are selected as the study sample. Only companies from the selected sector which disclosed digitalisation-related information were selected. To control for industry-effects on corporate reporting, companies were selected from a single sector, i.e., the consumer products and

services sector. Since this study was a pilot study, only eight companies were selected. The most recently available annual reports were chosen. To be consistent, the financial year ended 31 December 2020 was selected. Similar approach has been adopted by (Cappa et al., 2019; Cappa et al., 2020).

The annual reports were analysed manually using a standardised template. Content analysis is a research tool used to determine the presence of certain words, themes, or concepts within some given qualitative data (i.e., text). Using content analysis, the presence, meanings and relationships of such certain words, themes, or concepts of the disclosures can be analysed. Key words such as digital and digitalisation were used to determine the frequency, presentational style, and the themes of the disclosure. This study followed methods used by current studies in analysing narrative or non-financial disclosures such as Caglio et al., (2020) who use the number of words and the number of characters of the document. From the analysis of the results, this study drew and interpreted the results carefully to identify general themes, trends, and patterns.

Discussion on Results and Findings

To begin the analysis, results that indicated how companies disclosed digitalisation-related information were presented first. Table 1 shows the word count of 'digital' and 'digitalisation' and number of annual report sections from the sampled companies.

Table 1: The Word Count and Sections Related to Disclosures on Digitalisation and Length of Annual Reports of the Sample Companies

| Co. Ref. | Word Count | No. of Sections | Total Page Numbers |
|----------------|------------|-----------------|--------------------|
| C1. | 15 | 5 | 264 |
| C2. | 19 | 4 | 250 |
| C3. | 7 | 4 | 143 |
| C4. | 8 | 2 | 246 |
| C5. | 10 | 2 | 216 |
| C6. | 9 | 2 | 199 |
| C7. | 4 | 1 | 180 |
| C8. | 83 | 5 | 391 |
| Average | 19 | 3 | 236 |

As disclosure of digitalisation-related information is part of voluntary disclosures, the level of disclosures among listed companies in the consumer products and services sector is expected to be very low. However, this study found that companies did make some effort to provide information relating to how they embraced and used digitalisation in their businesses. The highest number of word counts for digital and digitalisation was 83 times (C8)

and the lowest was 4 times (C7). The average count for digital and digitalisation, number of sections involved, and total annual report's page number were 19 times, 3 sections and 236 pages for the annual report, respectively. Further details of these disclosures are discussed in the following tables.

Table 2: The Length (pages) of Stand-alone Parts of Annual Reports

| Co. Ref. | Separate Parts of Annual Reports | | | | | Total Pages |
|----------|----------------------------------|-----------|-----------|-----------------------|-----|-------------|
| | AR-part 1 | AR-part 2 | CG Report | Sustainability Report | F/S | |
| C1. | 225 | | 39 | | | 264 |
| C2. | 212 | | 38 | | | 250 |
| C3. | 143 | | | | | 143 |
| C4. | 246 | | | | | 246 |
| C5. | 126 | | 59 | 31 | | 216 |
| C6. | 160 | | 39 | | | 199 |
| C7. | 24 | 68 | | | 88 | 180 |
| C8. | 89 | 63 | 62 | | 177 | 391 |

Based on Table 2 above, different companies organised their annual reports into different loose reports or stand-alone reports such as annual report part 1, annual report part 2, corporate governance report, sustainability report, and financial statements. This is somehow useful for users, particularly current and potential shareholders because they do not need to shift through one lengthy report for the desired information. Users can refer directly to specific reports such as sustainability reports and corporate governance statements. This also indicates an increasing trend towards producing more non-financial disclosures among Malaysian listed companies. The most common stand-alone report is the corporate governance statement. Having to comply with Bursa Malaysia requirements probably encourages Malaysian public listed companies to provide separate reports for the corporate governance. The corporate governance report or statement was also used by Malaysian companies to disclose digitalisation-related information. Table 3 shows which specific sections and stand-alone reports that the sampled companies use for digitalisation-related information.

Table 3: Sections of Digitalisation-related Information

| Co. | Section | | | | | | | |
|-------------|------------|-------------|-----------|-----------------------|--------------|------------|------------|--------------------|
| | Corp. Info | Mgt. Report | CG Report | Sustainability Report | Admin. Guide | F/S | Risk Mgt. | Digital Governance |
| C1 | | | | | | | | |
| C1. | 1 | 5 | 4 | 3 | 2 | | | |
| C2. | 1 | 3 | 1 | 14 | | | | |
| C3. | 3 | 1 | | 2 | | | 1 | |
| C4. | 5 | 3 | | | | | | |
| C5. | 7 | 3 | | | | | | |
| C6. | 6 | 3 | | | | | | |
| C7. | | 4 | | | | | | |
| C8. | | 48 | 9 | 9 | | 1 | | 16 |
| Avg. | 3 | 9 | 2 | 4 | 0.3 | 0.1 | 0.1 | 2 |

Digitalisation is very much integrated into the internal business model Rachinger et al., (2019), and thus, the most likely section of the annual report is the management discussion and report. Table 3 shows that the greatest number of word count for digital and digitalisation appeared in this section. Management disclosed how they embraced digitalisation in managing and stewarding the companies during the financial year. Many digital solutions have been innovated and employed, particularly during the COVID 19 pandemic, which energised the transitional stage of digital transformation throughout the organisations. The next possible section that a company most likely used to disclose information related to digitalisation was the sustainability statement, followed by the corporate information section and the corporate governance report. Such disclosures can be grouped into several categories or themes or dimensions (YinSern et al., 2017). Table 4 summarises these themes. In addition to the four (4) themes or business dimensions indicated by YinSern et al., (2017), this study finds few other themes such as governance for digitalisation and risk management.

Table 4: Business Dimensions of Disclosures on Digitalisation

| Co. Ref. | Business Dimensions | | | | | |
|-------------|---------------------|-----------------|---------------------|-------------------|-------------------|-------------|
| | Marketing | Product offered | Business Operations | Business strategy | Customer relation | Others |
| C1. | | | 7% | 67% | 20% | 7% |
| C2. | 16% | 5% | 16% | 42% | | 21% |
| C3. | | | | 88% | | 13% |
| C4. | 25% | | 75% | | | |
| C5. | 100% | | | | | |
| C6. | 33% | 22% | 11% | 11% | 22% | |
| C7. | 20% | | | 80% | | |
| C8. | 18% | 1% | 12% | 48% | 8% | 12% |
| Avg. | 26.5% | 3.5% | 15.1% | 42% | 6.3% | 6.6% |

Based on Table 4, most of the sampled companies disclosed that digitalisation and digital were related to business strategy. Here, business strategy consisted of digitalisation strategy, governance for digitalisation, risk control of digitalisation and leadership. Marketing was another aspect of business where digitalisation was commonly utilised. In line with the increasing popularity and availability of smartphones, internet of things and media social, companies such as C1, C3 and C7 utilise digital marketing to increase customer engagement and loyalty, to enhance customer experience, to create impactful content and to meet rising demand for online shopping. Other than these reasons, digital marketing also helps companies to optimise costs and operational efficiency.

Business operation or process is the next popular theme for digitalisation-related disclosures. To cope with the changing business environment, companies started to integrate digitalisation into the business process long before the COVID 19 pandemic. They saw business behaviours being reshaped and customer activities shifting to online activities platforms and socialising across conferencing tools. Digital tools and technologies were implemented in business processes, particularly primary activities of consumer products and services industry such as distribution, deployment of digital forms to improve user experience and deliver immediate data source with enhanced data integrity, and retailing. Using e-voucher, e-warranty, and online membership applications minimise errors, courier charges and manual updating at back office. Moving to digital and finding the right online channel or distribution in the retail industry is a key success factor in digital retailing. The rise in mobile internet usage has spurred the cashless revolution and digital retailing. Digitalisation technologies were also integrated into support activities to more efficient human resource management like a digital networking platform.

Digital tools are also important in research and development for products and services. For example, C1 continuously added new products to its Touch Smart Home Appliances with energy saving and digital convenience features. Other business dimensions

referred to in Table 4 are corporate social responsibility programs, governance for digitalisation, and risk management.

Conclusion

This study explores how Malaysian listed companies from consumer products and services made voluntary disclosure on digitalisation. It revealed that most companies embraced digitalisation into their organisations. The COVID 19 pandemic forces companies to accelerate their digital transformation. Based on a content analysis, this study finds that nowadays companies do not only provide a single report for their annual reports, indicating increasing trends towards providing more voluntary disclosures. Their annual reports are published in several separate or loose reports such as annual report part 1, annual report part 2, sustainability report, corporate governance report and financial statements. Information related to digitalisation was found in many of these sections. However, the most common sections are management discussion and report, sustainability statement and corporate governance report.

The COVID 19 pandemic has hastened transformation of business platforms to new courses, introducing the product features via Facebook live cast and Instagram are some of the important channels that bring companies in consumer products and services sector into another level. This study contributes by discovering insights of these changes. It finds that the most common themes for the digitalisation-related information disclosures were marketing, business strategy, and business process. Nevertheless, digitalisation initiatives were also related to other business dimensions such as product offered, customer relations as well as corporate social responsibility programs, governance for digitalisation, and risk management.

This study offers some evidence on what and how Malaysian public listed companies disclosed information related to digital and digitalisation initiatives in their annual reports. These findings may indirectly indicate how they are in line with integrated reporting spirit that is in providing more narrative disclosures related to their plans, strategies and initiative undertaken during the financial year. Insights into how and what companies disclose information related to digitalisation not only add to the existing body of knowledge but could potentially substantiate the importance of digitalisation disclosures to the stakeholders, particularly to investors.

In addition, this study contributes by several ways. First, it represents early attempts to focus on studying digitalisation-related disclosures. There are few studies being done in the European countries such as in Italy, but the area is still new in Asian countries. Researchers tend to focus more on sustainability and governance related disclosures. Moreover, most of these studies are quantitative in nature, assessing how digitalisation-related information is related to other independent variables such as cost of capital and performance. Given the increasing important of digitalisation tools and technologies, more studies on this area are essential. This study utilises research designs and instruments commonly used in sustainability and governance related disclosures to a new type of information, i.e., digitalisation-related disclosures. Thus, this study applied existing research design to a new perspective of voluntary disclosure. Second, this study provides insights into digitalisation initiatives implemented by companies which are potentially relevant to government agencies and authorities responsible for the digitalisation agenda in Malaysia. Third, this study provides relevant findings to preparers of financial reports, particularly practising accountants, and management where they can use these findings as benchmark or possible ways to improve or enhance their digitalisation-related disclosures. Digitalisation tools and technologies

acquired by companies are sources of intangible assets to companies and they normally meet the recognition criteria under IAS 38 but not if they are internally generated or developed. This study indicates that companies can at least disclose them in the most appropriate section in their annual reports. The study findings show an increasing trend towards reporting more stand-alone reports for the annual report that accommodate higher voluntary disclosures, including digitalisation-related information.

However, the study findings are limited by few reasons such as small sample size and researcher's manual approach in analysing the annual reports. Future studies can cover a bigger sample size and use analytical software for qualitative study such as ATLAS.ti or NVIVO.

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