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Beyond Compliance: The Quality Of Departure Explanations in Malaysian Corporate Governance Reports

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Abstract

The recommendation to adopt integrated reporting, incorporated into Malaysia's corporate governance code in 2017, is a crucial practice for fostering sustainable business development. It provides a holistic approach by combining financial and non-financial information, thus guiding companies towards successful sustainable development. Despite its recognised importance, some large companies in Malaysia have opted to depart from this recommendation of integrated reporting, providing explanations for their departure as required. However, the quality of these departure explanations remains underexamined, particularly under the "Comprehend, Apply and Report" (CARE) approach outlined in the Malaysian Code on Corporate Governance (MCCG). This study aims to assess the quality of these departure explanations, which is vital for ensuring transparency and accountability in corporate governance. The research uses a content analysis method to examine Corporate Governance Reports (CG Reports) from a sample of large Malaysian companies from 2018 to 2020. A checklist constructed based on the Bursa Malaysia Listing Requirements was employed to evaluate the adequacy and meaningfulness of the explanations provided by companies. The findings reveal that a majority of companies did not provide substantial or meaningful explanations for their departure from integrated reporting. Instead, boilerplate and generic statements were frequently used, offering little insight to stakeholders regarding the companies' decisions. Out of 169 companies analysed over the three years, only 17 provided explanations that met the adequate standards of the listing requirements. These findings have significant implications for policymakers and regulators, highlighting the need for stricter enforcement to improve the quality of disclosures in CG Reports. Enhancing the quality of departure explanations is essential for transparency, informed decision-making, and, ultimately, for advancing sustainable corporate practices in Malaysia. In addition, future research could investigate why large companies did not adopt integrated reporting. Gaining

insight into these reasons could pave the way for improved adoption once these challenges have been effectively addressed.

Keywords: Corporate Reporting, Integrated Reporting, Corporate Governance, Quality of Explanations, Sustainable Development.

Introduction

Integrated reporting is the current framework that recommends incorporating financial and non-financial information into a single report (de Villiers et al., 2017). Pistoni *et al* (2018), also observed that integrated reporting is the most current development of corporate reporting. It is promoted by the International Integrated Reporting Council (IIRC), a global association of regulators, investors, companies, standard setters, the accounting profession, academia, and NGOs. IIRC (2021), emphasises an organisation's value creation, preservation, and erosion communication. IIRC (2021), envisioned integrated thinking embedded in organisations' operations, aided by integrated reporting as the standard. The integrated thinking and reporting cycle encourages effective and productive capital (financial, manufactured, intellectual, human, social and relationship, and natural capital) utilisation, leading to financial stability and sustainable development (IIRC, 2021).

Integrated reporting can support sustainable development since it emphasises value creation by addressing sustainability and a more comprehensive range of stakeholders (Arora et al., 2022). In addition, the use of an integrated report has become more significant in the current landscape as stakeholders have become more interested in the value-creation aspect of a company (Baboukardos et al., 2021; Crous & van Wyk, 2021; Dragu, 2018), particularly in the social and environmental activities (Maama et al., 2021). Hence, it can support sustainable development by providing stakeholders with a complete picture of an organisation's impact on society and the environment. The six forms of capital (financial, relational, human, social, manufactured and natural) in an integrated report are expected to be utilised to create value for the benefit of the stakeholders (Dragu, 2018). Therefore, it can also help organisations better understand and manage their impact on natural and social capital, which are essential components of sustainable development. Integrated reporting can help organisations identify areas to improve their sustainability practices and contribute to sustainable development goals. Overall, integrated reporting can be essential in promoting sustainable development by encouraging organisations to adopt a more holistic and long-term view of value creation that considers both financial and non-financial aspects of their operations.

Research on integrated reporting practice from 2018 to date was mainly conducted in Italy, the United Kingdom, Australia, South Africa, and the United States.[1] Since the integrated reporting practice was incorporated into the Malaysian Code of Corporate Governance (MCCG) in 2017, few studies have been conducted in the Malaysian context, except for several studies. The studies in Malaysia on integrated reporting practice explored the impact of corporate governance elements on integrated reporting practice (Halid et al., 2021; Hamad et al., 2022), the factors affecting the quality of IR (Pratama et al., 2021), the relationship between IR and firms' performance and value relevance of corporate information (Nahariah Jaffar et al., 2019; Lok & Phua, 2021), and the presence of integrated reporting elements in disclosure (Darus, Farhana, Safihie and Yusoff, 2019; Jaffar, Selamat, *et al.*, 2019). Several

[1]The data is based on input derived from WoS Core Collection and SCOPUS database.

studies assessed the adoption level of integrated reporting; for example, Ghani et al (2018), examined the adoption level of integrated reporting by publicly listed Malaysian real property companies from 2013 to 2015. Balasingam *et al* (2019), also observed the current state of adoption by public companies in Malaysia.

However, there is an absence of studies that examine the quality of departure explanations by companies that chose not to adopt integrated reporting. It is crucial to assess the quality of departure explanations since this is the route given to companies to provide justifications for why they did not adopt integrated reporting. In addition, assessing the quality of disclosures is essential as it assists in informed decision-making and enhanced transparency (Fung, 2014).

This study intends to fill the gap by assessing the quality of explanations, specifically on the integrated reporting practice by departed large companies. The assessment is conducted using a checklist constructed following the Bursa Malaysia Listing Requirements. Although many studies are already examining compliance with a set of best practices, the quality of explanations of those who have departed remains underexplored (Roberts et al., 2020), especially under the CARE approach. Furthermore, index-based studies mainly focused on compliance in a "comply or explain" governance approach (Shrives & Brennan, 2017). The focus was only on the compliance aspect, which should not be the case since the approach has two essential elements, namely "comply" and "explain". Emphasising one part of compliance alone will not be sufficient since the "explain" element is equally important as the other (Shrives & Brennan, 2017). This argument thus calls for further investigations on the "explain" element. Focusing only on compliance would undermine the second aspect of the "explain" in the corporate governance system (Shrives & Brennan, 2017).

Henceforth, this paper contributed to the integrated reporting literature by providing insight into the quality of explanations given by those large companies that did not adopt integrated reporting.

Integrated Reporting and Sustainable Development

Integrated reporting can emphasise value creation by addressing sustainability and a more comprehensive range of stakeholders (Arora et al., 2022). A study conducted on six organisations found that the preparers of integrated reporting perceive it as a practical means to convey organisations' value creation, including financial and non-financial information and comprehensive performance information (Arora et al., 2022). Furthermore, integrated reporting allows companies to disclose financial, non-financial, qualitative, and quantitative data that provide a comprehensive view of how a company creates value to assist investors in making better-informed decisions (Dragu, 2018; Halid et al., 2021). In addition, the use of an integrated report has become more significant in the current landscape as stakeholders have become more interested in the value-creation aspect of a company (Baboukardos et al., 2021; Crous & van Wyk, 2021; Dragu, 2018), particularly in the social and environmental activities (Maama et al., 2021). The six forms of capital (financial, relational, human, social, manufactured and natural) in an integrated report should be utilised to create value for the benefit of the stakeholders (Dragu, 2018). A study in Sri Lanka found that an integrated report that complies with the International <IR> Framework improves the value relevance of accounting information (Cooray et al., 2020), indicating better quality of information conveyed to the stakeholders. Another study found that among the main motivations of managers to publish an integrated report is to enhance transparency and satisfy the stakeholders' changing demands (Sciulli & Adhariani, 2021), again emphasising the significant link between the use of an integrated report with the stakeholders. Therefore, it is no surprise that the Malaysian Securities Commission encourages listed companies to adopt integrated reporting to ensure better transparency and efficacy in communicating information to their stakeholders. The confidence is evidenced by the incorporation of this practice under Principle C of "Integrity in Corporate Reporting and Meaningful Relationship with the Stakeholders" in the MCCG.

The CARE Approach in Malaysia

The Malaysian corporate governance approach is implemented through the voluntary application of a set of best practices recommended by the Securities Commission through the MCCG. However, this voluntary application is subjected to mandatory disclosure of whether the best practices were applied. How they are applied, or disclosure of how the alternative practice opted achieves the intended outcomes if the company did not apply a particular practice must be disclosed.

The key feature of the MCCG 2021 is that it adopted the "Comprehend, Apply and Report" (CARE) approach in the amended 2017 MCCG. This approach shifts from the previous "comply or explain" to "apply or explain an alternative" from the previous 2012 MCCG. The authors contended that the CARE approach is stricter than the "comply or explain" approach, albeit the core is still on voluntary adoption. The CARE approach is more stringent than the "comply or explain" approach because the departed companies must provide the alternative practice they will adopt to achieve the intended outcomes under the said practice. In the MCCG 2012, departed companies only need to disclose their alternative practices, if they have any. It is vital for the stakeholders, especially the shareholders, to be able to assess whether the alternatives adopted are sufficient to achieve the aims of a particular practice. When looking at the perspective of the users of the CG Reports, it is pertinent for companies that did not apply a recommended practice to explain why they opted not to apply certain practices adequately. It is understood when a company cannot apply a specific practice considering each company's different structures and complexities. However, this did not exempt them from providing a meaningful explanation of why they departed. Aside from that, according to the Bursa Malaysia Listing Requirements, departed companies must disclose alternative practices to achieve the intended outcomes.

Table 1
The CARE Approach

MCCG 2021	<IR> Framework 2021
Comprehend	Understand and internalise the spirit and intention behind the Principles and Practices, including its intended outcomes.
Apply	Implement the practices in substance to achieve the intended outcomes of building and supporting a strong corporate governance culture throughout the company.
Report	Provide fair and meaningful disclosure on the company's corporate governance practices.

As the CARE approach is a shift from the "comply or explain" approach, it is relevant to discuss the workings of the "comply or explain" approach adopted by MCCG. The basis of the "comply or explain" approach is that it enables the market participants to assess companies' governance systems and evaluate whether non-compliance with a particular best practice is justified (Luo & Salterio, 2014). It is also based on the assumption that the market will observe compliance with a governance code and reprimand non-compliance by lowering share prices (Easterbrook & Fischel, 1996) or accepting the justifications given by companies for departure. Essentially, governance codes that embrace the "comply or explain" approach aim to empower the stakeholders to consciously assess whether non-compliance is reasonable based on the company's situation (Keay, 2014). It is incumbent upon the stakeholders to determine the adequacy of the explanation provided when companies fail to comply with best practices under governance codes. The stakeholders should examine the explanation and respond appropriately (Keay, 2014). Governance codes do not intend to compel companies to comply when they have acceptable explanations for not doing so. Thus, the explanations given by the companies are of great significance (Keay, 2014).

Under the CARE approach, listed companies are required to publish CG Reports. Paragraph 15.25 of Bursa Malaysia Listing Requirements states that listed companies must ensure that their board of directors provide an overview statement of the principles set out in the MCCG in its annual report. In addition, listed companies must disclose the application of each practice set out in the MCCG in a separate CG Report. The publication of this CG Report is at the same time as the annual report. This approach, where the application of practice is voluntary, but the disclosure of the application is mandatory, is known as "partially enabling" (Anand, 2006). The United Kingdom also adopted this approach, where compliance with best practices is voluntary. Still, companies listed on the London Stock Exchange must include a statement of how the company applies the Governance Code's principles in their annual report.[2] The Australian Stock Exchange also requires listed companies to provide a corporate governance statement in their annual report.[3]

The requirement to publish a CG Report annually implies the seriousness of the regulators in ensuring the application of recommended best practices. From CG Report, stakeholders can quickly assess whether a company adopts or departs a particular practice. In addition, the template provided by the Securities Commission for the publication of CG Reports ensures that the information is standardised. If they apply, stakeholders will know how the companies applied the said practice in detail. The same goes for a company that departed from a particular practice. A company must explain the departure if it does not apply a particular practice. Besides, departed listed companies must disclose an alternative practice to achieve the intended outcomes, and again, these features signify the CARE approach's strictness than the previous "comply or explain".

CG Report acts as a communication channel between a company and its stakeholders. The explanation companies gave when they applied the best practices or even explanations when they departed is pertinent for stakeholders to assess whether the departure is justified. This approach does not mean a company must strictly apply a particular practice since every

[2] According to The UK Listing Rule 9.8.6(5).
[3] According to the ASX Listing Rule 4.10.3.

company is different in size and complexity. However, the stakeholders have the right to know if the company applied another alternative practice to achieve the intended outcomes. The meaningful explanation provides comprehension to the stakeholders of the decisions made by companies. If the explanation quality is poor, the stakeholders will be on the lower hand since they cannot assess the company's justifications. Therefore, the explanation of departure must be fair and meaningful.

In addition, for large companies, the explanation must be followed by the actions taken or will be taken to adopt the said practice. In addition, a timeframe must be disclosed for when this practice will eventually be adopted. Failure to do so would be in breach of the listing requirements. These requirements indicate the gravity of the disclosure issue in communicating meaningful information to the stakeholders. Nevertheless, at this point, the closest form of enforcement by the Securities Commission is in the form of monitoring through the Corporate Governance Monitors, which have been published yearly since 2017. Whether this kind of implementation is sufficient is another story or another research to be done.

Research Methodology

The sample data for 2018 to 2020 consists of the FTSE Bursa Malaysia Top 100 Index (FBM 100) companies. The top 100 companies were chosen based on the definition of "Large Companies" in the MCCG. "Large Companies" are companies on the FTSE Bursa Malaysia Top 100 Index or with a market capitalisation of RM2 billion and above. Therefore, the first definition was selected for this study in choosing the sample data. However, three companies in 2019 were excluded from further analysis since they failed to publish CG Reports.[4] In addition, for sample companies in 2020, five companies were excluded for the same reason.[5] Failure to publish a CG Report breaches Paragraph 15.25 of Bursa Malaysia Listing Requirements. Therefore, the total sample in this study is 292 listed companies.

A qualitative research approach is adopted via the content analysis method to assess the quality of explanation given by sample companies when departed from Practice 11.2.[6] This research accepts the call made by Hamad *et al.* (2020) who suggested future research using the content analysis method of annual reports to collect and analyse data. The analysis begins with identifying the specific section that explains the application or departure of Practice 11.2 in the CG Reports. The CG Report is a template Bursa Malaysia provides for companies to declare and explain applications or departures from practices under the MCCG. The authors referred to the MCCG 2021 and Bursa Malaysia Listing Requirements concerning explanations on departure and guidelines provided under Bursa Malaysia Corporate Governance Guide and Corporate Governance Monitor by the Securities Commission regarding disclosure on corporate governance practices before assessing the sample CG Reports.

These companies are YTL Hospitality REIT, IGB Real Estate Investment Trust and Pavilion [4] Real Estate Investment Trust.

[5] The companies are Air Asia Group Berhad, Serba Dinamik Group Berhad, YTL Hospitality REIT, IGB Real Estate Investment Trust and AXIS Real Estate Investment Trust.

[6] It is now Practice 12.2 under the updated MCCG 2021.

Next, a research instrument is developed to ascertain whether sample companies applied or departed from Practice 11.2. The relevant section to be looked at in confirming application or departure is the "Application" column in the CG Report template. The instrument is as follows,

Table 2
The Instrument to Confirm Application or Departure

No.	List of companies	State of application with Practice 11.2	
		Apply	**Depart**
1.	A Bhd.	/	
2.	B Bhd.		/
3.	C Bhd.		/

Non-weighted disclosure approach is a commonly used form of content analysis in examining the existence or absence of any item (Kılıç & Kuzey, 2018). This approach has been used in many prior studies (Eccles et al., 2019; Kılıç & Kuzey, 2018). This study also adopts the non-weighted approach when identifying whether sample companies applied or departed from integrated reporting practice. When in the "Application" column, a sample company declare "Apply", a slash (/) is marked under the "Apply" column. When a company declares "Departure" in the "Application" column, a slash (/) is marked under the "Depart" column of the instrument. Next, a further step is taken when a company is identified as departed from Practice 11.2. Finally, the explanations provided by companies are analysed as to its quality. Several studies have researched the quality of explanation in the "comply or explain setting" (Achtenhagen et al., 2018; Arcot et al., 2010; Hooghiemstra, 2012; Kotadkiewicz, 2017; Macneil & Li, 2006; Seidl et al., 2013; Shrives & Brennan, 2015). It is the same with this study, which focuses on the quality of explanation given by companies that departed from Practice 11.2. The authors examined the quality of explanation given by large companies that departed from Practice 11.2, apart from investigating the level of adoption among the top 100 companies in 2018, 2019, and 2020. Most existing studies examine the compliance part but not the departure explanation (Roberts et al., 2020). Thus, the gap calls for further research on the quality of explanation when departed from a practice, especially in Malaysia, which adopted the CARE approach.

Explanation of departure needs to provide reliable and meaningful information to the stakeholders (Malaysian Code on Corporate Governance, 2021). Companies need to provide discussion and relevant data for users to comprehend and assess the adequacy of justifications (Securities Commission Malaysia, 2019). Disclosure ensures communication with the stakeholders and provides information on the company's state regarding the take-up of Practice 11.2. Detailed and meaningful explanations demonstrate companies' commitment to embracing the said practice. Without adequate explanation in the event of departure, the stakeholders will not be able to evaluate whether it is justified or vice versa.

Assessing the quality of explanations requires qualitative judgment from the researchers and hence contains the element of subjectivity (Arcot et al., 2010). Thus, a checklist is developed to examine the explanation quality for departure from Practice 12.2 to reduce subjectivity and enhance objectivity and clarity. The methodology for determining the explanation quality using a developed checklist based on the context the researchers aim to investigate is standard. The checklist developed does not necessarily have to follow previous research indicators as each jurisdiction's context and requirements differ. The users of the CG Report would want to see whether the explanation disclosed provides some meaning in understanding why a particular company departed from integrated reporting practice. In this sense, the analysis of the quality of explanation is defined as the ability of an uninformed individual stakeholder to comprehend a company's decision to depart from the said practice (Arcot and Bruno, 2011). Although we cannot assess the sufficiency of explanations from a business viewpoint, our perspective is of an individual uninformed stakeholder who evaluates the explanation contained in the CG Report and judges its degree of informativeness. The checklist in this study is developed based on the CG template issued by Bursa Malaysia and is referred to the MCCG[7] and listing requirements.[8]

Based on the listing requirements and the MCCG, a meaningful explanation must consist of;

a) an explanation for the departure,
b) the alternative practice it has adopted,
c) how such alternative practice achieves the Intended Outcome,
d) actions are taken or will be taken to achieve the application of Practice 11.2; and
e) the timeframe required to achieve the application of Practice 11.2.

A checklist is developed to assess the explanation quality based on the above guidelines.

Table 3
The Checklist to Assess Explanation for Departure Quality

Quality of explanation	Disclosure criteria	Tick (/) where applicable	Indicator
	1.0 No explanation provided. 1.1 An explanation is provided. 1.2 Alternative practice is disclosed.		Invalid
	1.3 How the alternative practice achieves the intended outcome disclosed.		Minimal
	1.4 The actions which it has taken or intends to take disclosed.		Fair
	1.5 The timeframe required to achieve the application of the practice is disclosed.		Satisfactory

[7] To be specific, under Paragraph 6.3 of MCCG.
[8] Paragraph 3.2A, 3.2B, 3.2C Practice Note 9 of Listing Requirements.

Findings and Discussion

In 2018, most companies fell under 1.1 and 1.2, which equals an "Invalid" disclosure since Bursa Malaysia stated that failure to disclose alternative practice and how the alternative practice achieves the intended outcome renders a breach on the companies' part. Three companies provided "Minimal" quality of explanation as they did explain, disclosed the alternative practice and how the alternative practice achieves the intended outcome, albeit briefly. The three companies that provided a "Fair" quality explanation failed to disclose the timeframe needed to achieve Practice 11.2 application. This outcome happened when they disclose timeframe such as *"In the future"* and *"will be reviewed annually*," whereas they need to disclose to the readers how many years they need and not provide a vague timeline. Such open-ended statements do not offer the stakeholders any time suggestions, nor can they be dependent on monitoring the company's progress. It also echoes the board's poor commitment to implementing best corporate governance practices. A handful of companies offered a satisfactory disclosure regarding their departure from the integrated reporting practice.

Table 4
The Quality of Explanation in 2018

No.	Indicators	No. of companies
1.	Invalid	58
2.	Minimal	3
3.	Fair	3
4.	Satisfactory	6

When analysing the "Application" part of the CG Report for Practice 11.2, an instance of non-compliance to governance standards was found. Serba Dinamik Berhad departed without explaining, in which the columns to be filled in were left blank. The omission to explain is considered a breach of the listing requirements. It wrote "n/a" in the "Explanation for departure" column. This attitude can be said to ignore the importance of explaining to the readers of the CG Report why the company did not apply that particular best practice, which is the practice of integrated reporting. Such companies not only disregard corporate governance standards, but they also do not provide any justification to their stakeholders for the non-application.

Standard and uninformative statements, also known as boilerplate statements, were frequently used when explaining departure from Practice 11.2. Examples from sample companies that provide uninformative statements when explaining departure from Practice 11.2 of integrated practice are, "*The Company would consider adopting integrated reporting in the near future…*"[9], "*The Company has not adopted integrated reporting*"[10], "*The Company has yet to adopt integrated reporting for its Annual Report 2018*"[11] and "*The Annual Report in*

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9 Examples were taken from LPI Capital Berhad, Yinson Holdings Berhad and Syarikat Takaful Malaysia Keluarga Berhad CG Reports.

10 Extracted from the CG Report 2018 of Dialog Group Berhad.

11 As can be seen in the CG Report 2018 of Scientex Berhad.

its current form provides stakeholders with a balanced, comparable and meaningful overview of the Company's financial and non-financial performance". [12] These statements did not provide justifications or reasons why they did not apply the practice of integrated reporting at the moment. These boilerplate explanations fail to identify specific circumstances for departing from recommended practice and are repeatedly used by other non-applying companies.

The explanation needs to be meaningful to provide worthy information to their readers. However, these explanations seem to be hanging and lack further elaboration, thus giving rise to serious doubt over whether its readers could engage in any assessment. Briefly, a stakeholder that encounters this kind of disclosure cannot do their evaluation effectively (Macneil & Li, 2006). This situation leads the same effect as if the company does not provide any explanation at all (Keay, 2014). Hence, the lack of shareholders' intervention, except when the company's performance is poor, could cause difficulties in assessing the company's explanations regarding the departure of a particular practice (Keay, 2014).

In particular, some explanations are more informative and provide more details than others. Consider, on the contrary, the following parts of the description in Inari Amertron Berhad CG Report on the explanation of departure from Practice 11.2: "…*the Board would like to allow an advocacy period for Management to gain a better appreciation and familiarity of the integrated reporting regime before it is adopted*". The explanation, although not in detail, provides comprehension to the readers that Inari Amertron Berhad needs more time before applying Practice 11.2, as well as removes the perception that they did not want to apply the practice. As for the alternative practice it adopted, the company disclosed that its Annual Report "…*draw linkages between the various components contained thus allowing connectivity of information between the financial and non-financial information*."

Most companies did not even disclose whether they have some kind of alternative practice to achieve the intended outcome. The disclosure on alternative practice provided by Inari Amertron Berhad offered the actions taken by the company to at least attain the objectives intended under Practice 11.2, although not applying integrated reporting at the moment. For measures that have been taken or will be taken, Inari Amertron disclosed that "*The Board will seek to undertake a readiness assessment to identify the structural changes that would be necessitated from the proposed transition to integrated reporting*…". The company eventually disclosed that it needs five years to apply Practice 11.2. This explanation contains specific and unique elements to the company's circumstances, as only the company knows why it did not apply Practice 11.2 in the meantime. Furthermore, from the readers' perspective, this explanation does provide some comprehension of why the company did not yet apply the practice. Hence, the readers have the engagement to assess whether the explanation is justified.

[12] Examples taken from Press Metal Aluminium Holdings Berhad, UOA Development Berhad and Hap Seng Consolidated Berhad CG Reports in 2018.

Table 5
The Quality of Explanation in 2019

No.	Indicators	No. of companies
1.	Invalid	44
2.	Minimal	2
3.	Fair	1
4.	Satisfactory	6

During the assessment of the quality of explanation in CG Reports of 2019, it was found that four companies declared themselves as "not a large company", although they are in the FTSE Bursa Malaysia Top 100 Index (FBM 100).[13] The declaration could be caused by the definition of "Large Companies" in the MCCG. The first definition is adopted for this study, whereas these four companies defined themselves with the second definition. Hence, these four companies were excluded from the second analysis since no explanation exists. These four companies departed from Practice 11.2 by stating they are not large companies by capitalisation. Further findings also show that most sample companies' disclosure quality in 2019 is at 1.1 and 1.2.

Interestingly, Serba Dinamik Berhad consecutively departed without providing any explanation, where the columns for an explanation were left blank.[14] One company's disclosure considered "Fair" failed to provide a measurable timeline. Public Bank Berhad stated, "*The Bank will monitor market development in respect of integrated reporting for future consideration*." Again, this kind of statement cannot assist stakeholders in estimating the timeline needed to apply Practice 11.2.

Table 6
The Quality of Explanation in 2020

No.	Indicators	No. of companies
1.	Invalid	40
2.	Minimal	-
3.	Fair	1
4.	Satisfactory	5

The findings from the analysis of CG Reports in the year 2020 again show that the quality of most sample companies' explanations falls under the "Invalid" disclosure. The failure to provide an alternative practice to achieve the intended outcome indicates that these companies could not offer any other appropriate option for integrated reporting practice in achieving the objectives of Practice 11.2. If the companies have better alternatives,

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13 As declared by Hibiscus Petroleum Berhad, SKP Resources Berhad, Frontken Corporation Berhad and Kerjaya Prospek Group Berhad in their 2019 CG Reports.

14 As observed from the CG Report 2019 of Serba Dinamik Berhad.

they should be included so stakeholders can assess the actions. Some companies provided the readers with their alternative practice but failed to explain how the alternative practice achieved the intended outcome. Again, this kind of disclosure did not satisfy the listing requirements checklist of meaningful explanation, leading them to fall under the "Invalid" indicator. These findings from 2020 are consistent with the previous two years, signifying a need to improve disclosure quality to make the most of the CG Report.

Conclusions and Future Research

In Malaysia, integrated reporting practice was introduced in its corporate governance code in 2017 under Practice 11.2. The Securities Commission Malaysia encouraged large companies to apply this practice. This study examines the departure explanation quality of integrated reporting practice, especially in the context of stakeholders' communication. Assessing the disclosure quality regarding the departure of Practice 11.2 is significant because poor disclosure could lead to difficulty in evaluating departed companies' decisions for CG Reports users. The assessment is done by analysing the explanation provided by the departing companies in their CG Reports relating to Practice 11.2. Listed companies are required to publish CG reports alongside their Annual Reports. CG Report aims to ensure effective communication of corporate governance principles' application to the stakeholders. Hence, the main element of a CG Report is sufficient disclosure to the stakeholders to evaluate companies' practices effectively. In addition, failing to publish a CG Report is considered a breach of the listing requirements, demonstrating its importance.

Nevertheless, this study's findings show poor disclosure quality regarding the explanation for departure. For example, most companies' explanation for each year from 2018 until 2020 falls under the "Invalid" indicator. These disclosures are considered "Invalid" because they did not even meet the minimum requirement obliged by the Securities Commission. In addition, disclosure is often boilerplate statements that is overused by companies, not providing explanations specific to one's circumstances. These explanations would not assist the stakeholders in understanding companies' decisions in not applying integrated reporting practice. Therefore, it would defeat the purpose of publishing a CG Report if companies did not utilise it as a communication tool with the stakeholders.

The poor disclosure could communicate to the stakeholders that the integrated reporting practice is not a big issue but rather a mere recommendation by the regulator. This understanding should not be the case. The CARE approach provides flexibility to companies in which they can depart from a particular practice, but with the condition that they offer explanations for departure, alternative practice, and how the alternative practice attains the intended outcome. The approach implies that companies that did not apply integrated reporting practice are not necessarily badly governed as long as non-application is justified and communicated to the stakeholders. That is why the quality of explanations provided by departed companies of Practice 11.2 should be considered essential and relevant information (Shrives & Brennan, 2017). Companies should be mindful of their disclosure reporting, which, in consequence, would enhance the credibility of their corporate image in the eyes of the stakeholders.

The obligation to disclose the explanation for departure in the CG Report triggers a process of developing norms where the companies and their stakeholders interact. This obligation will only attract benefits if companies and the stakeholders use the channel of CG Report as a starting point toward an engagement. Currently, it seems that the disclosure in the CG Report is done for the sake of what the Securities Commission requires,[15] as it creates elusive transparency. Hence, this study advocates for active engagement by the relevant stakeholders through dialogue with companies to ensure the effectiveness of the CG Report as a communication tool. For example, shareholders need to be aware of companies' doings because unless they are aware of companies' activities, they will not know of the non-application of certain recommended practices. Therefore, they need to be mindful of what is being disclosed by the company and not only feel urged to take action after the company has performed poorly. Commonly, shareholders tend to fail to monitor companies' activities, which could be caused by costs and time (Keay, 2014). They usually relied too heavily on annual reports and others to monitor and communicate with companies (Keay, 2014). Other reasons could be that they did not fully understand the disclosure provided in reports and did not attach adequate importance to departure explanations (Keay, 2014).

Another assumption that can be made by poor quality disclosure raises the question of the effectiveness of the monitoring through Corporate Governance Monitors by the Securities Commission. In monitoring explanations for companies' departure, the Securities Commission could put a step forward by imposing sanctions on companies that did not explain adequately. This action shows the regulator's seriousness in disclosure, strengthening companies' discipline in providing meaningful explanations to the stakeholders. After all, is not that the purpose of Corporate Governance Reports?

In addition, future research could investigate why large companies did not adopt integrated reporting. Research to study the reasons could also be done by content analysis of CG Reports. Knowing the reasons could help improve the adoption level once these challenges have been addressed. Another future research could explore regulators' perspectives on this practice in Malaysia, for example, their envision of integrated reporting practice and whether the current application level is already satisfactory. It is also interesting to examine the current Malaysian regulatory framework of corporate reporting to see its compatibility with integrated reporting. Future research on companies' implications of uninformative or boilerplate disclosures and whether these disclosures would affect them negatively should also be done to provide empirical evidence.

[15] This seems to be the case, although some companies did not even publish a CG Report although has been made a requirement by Bursa Malaysia.

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