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An Empirical Investigation of Intellectual Capital Disclosure Practices among Listed Companies in Sri Lanka

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The work describe in this thesis/research was carried out by me under the supervision of Professor Kennedy Gunawardana and a report on this has not been submitted in whole or in part to any university or any other institution for another Degree/ Diploma.

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30th November 2011

"I certify that the above statement made by the candidate is true and that this thesis/research is suitable for submission to the University for the purpose of evaluation".

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Table of Content

Page

CHAPTER1 - INTRODUCTION

CHAPTER 2 - LITERATURE REVIEW

CHAPTER 3 - RESEARCH METHODOLOGY

CHAPTER 4 - ANALYSIS AND DISCUSSION

CHAPTER 5 - RECOMMENDATIONS AND CONCLUSION

APPENDICES

List of Figures

List of Tables

List of Graphs

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My mind was manacled with the clear cut theories I learnt in the lectures. But, this research exposed me to the fluid form theory. Amongst the many things I learnt, Research Methodology, Research Report Writing, etc. were of great importance. Forming, storming and norming stages were properly managed and therefore I successfully stepped into the performing stage.

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ABSTRACT

Basically there are three capital components that can be identified in the Intellectual Capital as Human Capital, Organizational Capital and Social Capital (Petrash, 1996). Those capitals give a considerable contribution on the wealth of the organization and the main problem is the subjectivity and complexity of the disclosing part. Clear identification of the intellectual capital is a real issue in the business organizations. Due to the subjectivity of the disclosure of intellectual capital it is hard to compare and get a clear idea about the intellectual capital of the organizations.

The objectives of this study are to examine the existing intellectual capital disclosure from 2008 – 2010, practiced by listed companies in Colombo Stock Exchange and to find out the relationships between managerial perceptions and intellectual capital discourses practices.

The researcher has done this study specially based on the annual reports in Sri Lanka and also tested the hypotheses. As the sampling technique the researcher selected the Stratified Random Sampling Method. As data collection methods, both primary data and secondary data were collected. All the hypotheses were tested and relationships are

there between the managerial perception on intellectual capital and intellectual capital disclosure practices. Also based on the analysis of annual reports, the researcher made the recommendations to achieve the objectives.

A few salient short run recommendations were introducing a common policy to publish the intellectual capital in the annual report and establishing a standard committee to make the common policy for this with the direct guidance of Chartered Institute of Sri Lanka.

A few salient long run recommendations were establishing an evaluation committee to make a model for value practices for the intellectual capital of the companies and introducing an accounting stranded for the intellectual capital.

The recommendations spelt out above encompass a common procedure to improve the disclosure of intellectual capital. With proper design, development and implementation of these practices it should be possible to enhance the disclosure level of intellectual capital to the required levels.

CHAPTER 1

INTRODUCTION

Introduction:

In this chapter the researcher has discussed about the background of the problem with a brief introduction of literature review, problem statement, research question, objectives of the study, significance of the study, scope and limitations of the study.

1.1 Introduction to the Study

In modern day, due to the sacristy of resources, global economic behavior is too dynamic. Therefore the economic scientists try to find out the optimum methods to get best use of resources. Generally all the physical resources are always deprecating while the human abilities and capacities are always appreciating. The monitory amounts of the physical resources are not changed from one company to another company. But the human capacity and the outcomes of the human works are different from man to man even they have same qualifications.

The above mentioned point is the real issue of the modern economic concepts to get the competitive advantage to be survived and sustained in the market. For that, it is needed to improve the innovativeness of the Intellectual Capital of the company. It is not a usage of extra resources of the company, just only an appreciation of the intellectual capacity of the company using existing human force. That's why the modern business organizations are depended on intellectual capital very much.

The main point here is that the companies are really facing the barriers of enjoying the benefits of intellectual capital due the high complexity of that. The main reasons for the complexity are the changing behavior and too sensitiveness of intellectual capital. Therefore there is no any common method to disclose the intellectual capital. The researcher is aimed to examine the disclosure practices of intellectual capital in Sri Lankan context. Also there is no any proper method to disclose the intellectual capital even in the intentional businesses.

Dzinkowski (2000) says that there is presently no any universally acceptable definition for intellectual capital, although it would appear that practitioners, business journalists and academicians have the same board set of practices in mind. At the present time there is still room for experimentation in quantifying and reporting on the intellectual capital of an organization. More recent descriptions of intellectual capital are consistent with the following model definition:

"*That part of total organizational wealth represented by its intellectual assets: codified organizational recourses of knowledge that can enhance organizational performance and increment organizational wealth, though their skilful and continuous transformation.*"

Therefore this study is aimed to examine the excising practices of intellectual capital among listed companies in Sri Lankan. There is no any international or Sri Lankan standard to disclose the intellectual capital of the organizations.

Basically there are three capital components that can be identified in the Intellectual Capital as Human Capital, Organizational Capital and Social Capital. Those capitals give a considerable contribution on the wealth of the organization and the main problem is the subjectivity and complexity of the disclosure. According to the argument of Dzinkowski (2000) clear identification of the Intellectual Capital is a real issue in the business organizations. Due to the subjectivity of the disclosure of intellectual capital, it is hard to compare and get a clear idea about the intellectual capital of the organizations.

Therefore in this research study it is aimed to find a best practice of disclosing the intellectual capital in a perfect and standard manner, specially to the Sri Lankan context.

1.2 The Problem

The problem here is that the lack of the disclosure practices of intellectual capital in public quoted companies in Sri Lanka. The problem statement, problem justifications and the created research question can be mentioned as follows.

1.2.1 Problem Statement

- What the issues of existing intellectual capital disclosure practices and value practices are and how managerial perceptions affecting to the disclosure practices and value practices of intellectual capital in listed companies of Colombo Stock Exchange.