Managerial Perception of Intellectual Capital Disclosure Practices of Listed Companies in Sri Lanka

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Abstract

There is no any common method available in the financial reporting practices to disclose the intellectual capital in the financial statements. In this study it was aimed to examine the managerial perception of intellectual capital disclosure practices in the listed companies in Sri Lanka. The main problem was to find out the issues of existing intellectual capital disclosure practices and how managerial perceptions affecting to the disclosure practices of intellectual capital in listed companies of Colombo Stock Exchange. The sample was taken as 20% from the total companies covering all the sectors. It was found that the neediness of disclosing the intellectual capital to get the clear picture of the organizations wealth and success. According to the managerial perception, at the initial stage, it is fair to produce a common method to disclose intellectual capital rather going to value them. Further, it is a must to investigate the total scope of intellectual capital to identify the common variables.

Keywords: Intellectual Capital; Disclosure Practices; Sri Lanka

1. Introduction

In the balance sheet there is a book value of the companies covering the share value. At the same time it can be seen a separate market value with regard to same company. The market value and the book value of the companies are totally deferent and the researchers say the reason for the difference is the intellectual capital in the companies. Therefore the market value is changed due to the leverage of the intellectual capital. The point is the real tool 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 resources. That's why the modern

business organizations are depended on intellectual capital very much.

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 in the financial statements. In this study it is aimed to examine the managerial perception of intellectual capital disclosure practices in the listed companies in Sri Lanka.

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.

Basically there are three capital components that can be identified in the intellectual capital as human capital, organizational capital and social capital. 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. The major problem here is that the given space for disclosing the intellectual capital in public quoted companies in Sri Lanka is lacked.

In the annual reports and the financial statements it is observed that the space given for reporting the intellectual capital is not enough even though it contributes to enhance the market share of the company. Therefore, the problem statement has been developed as mentioned below.

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

In Sri Lankan companies there are no any proper practices of intellectual capital. There are nearly 250 listed companies in Sri Lanka and some of the best companies have mentioned about some of their disclosure practices of intellectual capital under the intangible assets and in various sections in the annual reports. But in Sri Lankan context there is no any proper attraction on the intellectual capital as an asset. Therefore, the financial statements of the companies do not show the real picture on asset base and wealth of the companies and the stake holders are misled due to lack of relevant information. Therefore, the findings of this study are mostly be benefited to all the stakeholders who are interested with the financial and non-financial information of the companies.

This study carried out on the disclosure practices of intellectual capital that are being carried out by listed public quoted companies in Sri Lanka. It focused on the managerial perceptions and the company

characteristics of the companies and how they affected on disclosure practices of intellectual capital. Therefore, the scope was basically deviating within the top management and middle management of the companies and also every industry which is listed in Colombo Stock Exchange were considered when selecting the sample.

2. Literature Review

The writer has so far failed to note any organized research related to this topic which carried out in Sri Lanka. But there are considerable level of studies can be seen about the intellectual capital reporting practices specially in the last decade.

Brennan and Conell (2000) said that some of the research projects still in progress, proposals for developing guidelines and accounting standards for intellectual capital at an early stage. They said that the primary goal of much of the research is to establish a set of guidelines for managing, measuring and reporting on intellectual capital. They further argued that the intellectual capital must be measured in a way that is useful for decision making. That means the disclosure of intellectual capital in the financial statement is needed.

According to Ian Caddy (2000) intellectual liabilities have to be taken in to considerations when disclosing and valuing of intellectual capital. As a further area of research, if categories of intellectual liabilities can be elucidated, then attention should be devoted in the first instance towards assessing if these categories can be ranked in terms of size of impact, possible duration, level of organization response required, even if direct measurement and valuation cannot be performed. This also shows that the neediness of a common procedure of reporting the intellectual capital by considering the available various variables.

Leon (2008) said that the managerial perceptions of organizational knowledge resources. According to the findings and recommendations, he has given some guidelines for future direction on intellectual capital researches. He says that the phenomenon of intellectual capital belongs to the broad area of "knowledge management" and the conclusions reached above suggest the presence of several issues that underlay the emerging practice of knowledge management.

Kannan and Alubur (2004) have done a broad literature survey on intellectual capital. The literature surveyed included financial and accounting measurement techniques, perceptual measures, process and systems measures, social networks analysis techniques, and econometric techniques for intangibles measurement. It is discussed in detail about the seminal studies and popular frameworks for intellectual capital measurement.

Lim and Dallimore (2004), there were best findings on intellectual capital. The managerial implication on intellectual capital has been identified in a considerable way. They have mentioned that the intellectual capital is of substantial and growing importance in innovation, productivity, growth, enterprise

competitiveness, and economic performance. They further said that the unpredictability and volatility of the business environment should require companies to look into their intangible assets, including their management know-how and marketing know-how. They further identified that the purpose of setting standards for indicators of these assets is to ensure that non-financial information is presented in a way that enables decision-makers to make informed judgment based on a comparative standard.

Chaharbaghi and Cripps (2006) have said that the "intellectual capital" only becomes meaningful when it is defined in a way that gives an illusion of inclusion and excludes choice by allowing the dominant discourse of rational management to impose what kind of intellectual labour is legitimate.

Guthrie et al (2012) have mentioned that the intellectual capital researchers are part of a growing academic research community, particularly in the interpretive, qualitative and critical traditions researching various aspects of intellectual capital. Through their research, they are establishing bridgeheads of published research addressing subjects of emerging importance to world communities.

According to Gegal and Draghici (2013), it was presented to a model to evaluate the intellectual capital considering the aspects of intellectual capital. But that has not been covered to get the intellectual capital into account. Only the indicators for disclosing have been identified to make so model structure to disclose them in the accounting reports instead of reporting them in the financial statements.

3. Methodology

Primary data collection method was used to collect data. Basically there are nearly 250 listed companies in Colombo Stock Exchange. And also those listed companies were categorized under 20 sectors such as hotels, plantation, manufacturing, rubber, tobacco, etc. Some sectors have considerable amount of companies and some have few companies. The sample was 51 companies (20.4% from the population) and the stratified random sampling was used here with covering all the sectors in a considerable manner. Therefore the questionnaires were distributed to the managers of the selected 51 companies to collect the primary data.

4. Results and Discussion

According to the managers perception the availability of disclosure practice and value practices of intellectual capital were checked under four categories such as previously had, currently has, intention to have and no even intention. The final results of them are as follows.

Table 4.1: Availability of Intellectual Capital (Disclosure)

	Previously had	Currently has	Intention to have	No even intention
- Academically educated staff	24	38	13	1

-	Professionally qualified staff	29	50	1	0
-	Experienced staff	30	51	0	0
-	Talented staff	8	25	26	1
-	Patents/Copy rights	3	4	28	18
-	Trademarks	3	4	29	18
-	Separate corporate culture	17	37	13	1
-	Separate MIS system	12	32	19	1
-	Loyal customers	25	44	7	0
-	Business collaborations	3	10	36	6
-	Distribution channels	11	27	24	0
-	Favorable contracts	10	16	30	6
Average		**29%**	**55%**	**37%**	**8%**

According to the availability of intellectual capital 29% from the sample stated that they have a practice of disclosing of intellectual capital previously. That means the companies have been trying to establish the intellectual capital disclosure practices in their companies even they did not have a common procedure. 55% of companies are currently practicing intellectual capital disclosure practices. Others are in a positive way to practice it in near future. Only 8% of the companies do not have even an intention to practice it. But that it not a considerable figure.

Table 4.2: Availability of Intellectual Capital (Value)

		Previously had	**Currently has**	**Intention to have**	**No even intention**
-	Academically educated staff	25	40	10	0
-	Professionally qualified staff	23	50	2	0
-	Experienced staff	15	45	8	0
-	Talented staff	7	10	40	0
-	Patents/Copy rights	1	3	21	24
-	Trademarks	2	2	22	24
-	Separate corporate culture	0	1	43	6
-	Separate MIS system	1	9	36	5
-	Loyal customers	0	2	45	3
-	Business collaborations	0	1	30	17
-	Distribution channels	2	5	38	7
-	Favorable contracts	3	5	28	16
Average		**13%**	**28%**	**53%**	**17%**

According to the availability of intellectual capital 13% from the sample stated that they have a practice of valuing the intellectual capital previously. 28% of companies have been trying to establish the

intellectual capital value practices in their companies even they did not have a common procedure. 53% of companies have an intention to practice intellectual capital value practices. 17% of companies do not have even an intention to value of the intellectual capital even some of them have an idea to disclose it.

4.1 Reporting Place of Intellectual Capital in Annual Reports

A question has been given in the questionnaire to check the opinion of the place of disclosing and valuing of intellectual capital in annual reports.

Table 4.3: Reporting Place of Intellectual Capital in Annual Reports

	Disclosure	Value
- In the balance sheet	31	36
- In the notes	32	30
- Sustainability report	31	12
- Not in financial statements	0	0
- As a separate report	12	10

They could suggest more than one place. Most of them suggested that the financial statements or sustainability report to disclose the intellectual capital. Also some of them suggested that it is needed to disclose intellectual capital in a separate report atleast at the initial stage. Also they suggested that the real places to value of intellectual value are the financial statements. Because the monitory values can be put in financial statements easily. Other parts are not much familiar among them related to value of intellectual capital.

4.2 Relationship between Managerial Perception and Intellectual Capital

The researcher asked about the feeling of the mangers on the relationship between perception and intellectual capital disclosure and value practices. Managers have said that the relationship between intellectual capital disclosure practices and managerial perception is in a considerable level. It takes 3.53 out of 5. As a percentage it takes 70.6%. Then the relationship between the intellectual capital value practices and managerial perception was checked and it takes 3.39 out of 5. As a percentage it takes 67.8%. Therefore, based on direct feelings of managers the relationship between managerial perception and intellectual capital is in a strong level.

4.3 Suggestion of Managers for the Improvement of Intellectual Capital

The researcher asked four questions to get the ideas from the managers for the improvement of intellectual capital. The first question was related to the suggestions for the improvements of intellectual capital disclosure practices and second question was related to the suggestion for the improvements of intellectual capital value practices. The given common answers are as follows.

It is a must to create a common method to disclose and value of intellectual capital. *Intellectual* capital

scope is broad. Therefore, to investigate of intellectual capital disclosure practices, it is needed to establish a separate unit in each company It is suggested to do a feasibility study and a cost benefit analysis before implementing the disclosure and value practices of intellectual capital. It is fair to study the international methods which are being used on intellectual capital. Before implementing the methods it is a must to identify and clarify the real meaning and purpose of intellectual capital clearly.

Apart from that some of them have suggested to do the disclosure and value practices of intellectual capital in annual reports. But they did not have suggested a procedure for that. The most common answer was that the introducing a common method for that.

The researcher asked another question about the importance of disclosing and valuing of intellectual capital in annual reports. The common answers are as follows.

Company can get the real values of all the assets of the company. Then non monitory assets can be valued in monitory terms. Company can get the competitive advantages using the core values of intellectual capital and can be sustained in the market. Companies can make more profits and can enhance the wealth. This is the new trend of the global market. Therefore companies can get the proper attraction of the customers. Talents and other skill based capacities are valued here. Therefore the companies can predict the future without variations. Company can enhance their total asset capacity by enhancing the intangible assets.

Then the researcher asked about the best place for recording intellectual capital practices in annual reports. Most of them have stated that the best places to disclose them are in balance sheet and notes (financial statements) or in the sustainability reports. Also most of them have said that the best place to value them in financial statements. Some of them have mentioned that the best method to record them in a separate report.

5. Conclusion and Further Direction

According to this study it has no doubt that the intellectual capital represents a considerable position in modern day business organizations. Therefore it is needed to disclose and value the intellectual capital to get the clear picture of the organizations wealth and success. It is more close to the reality rather than the existing outputs of the companies which are presented through annual reports.

Here the researcher investigated the disclosure practices and value practices of intellectual capital. Most of the companies have disclosed them without values. The reason that the lacking of valuation model and methods. Therefore it is recommended to do further studies to find a common method or model for valuing the intellectual capital of the business organizations.

Intellectual Capital is a broad concept with an unlimited scope. Therefore the sections, areas are more to

be investigated. According to the global competition and the advancements it is needed to make an accounting standard for intellectual capital. Therefore a common procedure is needed to disclosure and value the intellectual capital. At the initial stage it is fair to produce a common method to disclose them. Then it is possible to introduce a model to value them. Therefore, before introducing an accounting standard immediately, it is a must to investigate the total scope of intellectual capital further to identify the common variables.

The collecting and analyzing the data for this study might not be highly accurate due to the limitations which were uncounted by the researcher. Some of the managers of the companies were reluctant to give data owing to perceived confidentiality and as well as the highly competitiveness of the business environment. Most of the managers of the companies were keener to give their personal views and opinions based on their experiences rather than giving an unbiased view of information raised by the researcher. Due to some different cultural and other factors the international scenarios also could not be generalized to the Sri Lankan context.

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