Intellectual Capital Disclosure Scenario in India: An Empirical Study of IT Corporations

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Abstract: At present, disclosure of IC information, across the globe, is done by very few leading corporations purely on a voluntary basis. This study attempts to provide an insight into the “narrative” style of IC disclosures done by the Indian corporations. Accordingly, a longitudinal study was carried out to analyze how three Indian firms--Reliance Industries Limited, Balrampur Chini Mills and Shree Cement Limited--measure and report their IC reports. The result of this study shows that IC disclosure by these corporations was almost negligible and they have stopped disclosing it. Moreover, IC disclosures had not received any preference from the mentors of these corporations.

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Keywords: Intellectual capital, Disclosure scenario, IT corporations, India, IC reports

1. Introduction

Business dynamics of the 21st century are increasingly determined and driven by Intellectual Capital (IC) elements. The future drivers of any economy will no longer be capital, land or equipment, but the “people” and their “knowledge” reservoir. A knowledge-intensive corporation leverages their know-how, innovation and reputation to achieve success in the marketplace (Jose et al., 2010). Market participants, practitioners and regulators alike argue that there is an important need for greater investigation and understanding of IC disclosure (or reporting) as the usefulness of financial information in explaining firm profitability continues to deteriorate. Bukh (2005), for example, asserts that traditional disclosure mechanisms are not able to cope adequately with the disclosure requirements of new economy firms. He observed an increasing dissatisfaction with traditional financial disclosure and its ability to convey to investors the wealth-creation potential of firms. Despite growing interest and demand for IC information, prior research till date suggests a persistent and significant variation, both in the ‘quantity’ and ‘quality’ of information reported by firms on this pivotal resource. As existing economic and business metrics track a declining proportion of the real economy, the deficiency and inconsistency in the disclosure of IC-related information is creating growing information “asymmetry” between ‘informed’ and ‘uninformed’ investors. This provides a fertile ground for informed investors to extract higher abnormal returns (Chiucchi et al., 2008). Thus, IC is increasingly being recognized as having much greater significance in creating and maintaining competitive advantage and shareholder value. This clearly calls for a refreshed understanding of business principles, information disclosure, and decision-making processes.

The concept of IC measurement, management and disclosure is still relatively new. Accountants, business managers and policy makers have still to grapple with its concepts and detailed
application. As expected, definition of IC varies substantially. According to Stewart (2002): “It has become standard to say that a corporation’s IC is the sum of its human capital (talent), structural capital (intellectual property, methodologies, software, documents, and other knowledge artifacts), and customer capital (client relationships).” One of the most comprehensive definitions of IC is offered by the Chartered Institute of Management Accountants (CIMA, 2001): “The possession of knowledge and experience, professional knowledge and skill, good relationships, and technological capacities, which when applied will give organizations competitive advantage.”

An expert opines that, IC is a combination of human capital—the brains, skills, insights, and potential of those in an organization—and structural capital—things like the capital wrapped up in customers, processes, databases, brands, and IT systems. It is the ability to transform knowledge and intangible assets into wealth creating resources, by multiplying human capital with structural capital. For instance, Sveiby (2004) first proposed a classification for IC into three broad areas of intangibles, viz., Human capital, Structural capital and Customer capital—a classification that was later modified and extended by replacing customer capital by relational capital. Some examples of IC are shown in Table 1.

Table 1. Components of intellectual capital

<table>
<thead>
<tr>
<th>Human Capital</th>
<th>Structural Capital</th>
<th>Customer Capital</th>
<th>Relational Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knowledge, Competence, Skills,</td>
<td>Business processes, Manuals / policies,</td>
<td>Customer relations, Customer Loyalty,</td>
<td>Relations with vendors, Investor</td>
</tr>
<tr>
<td>Individual &amp; Collective Experiences, Training, Communities of practice, ...</td>
<td>Information systems, Research findings, Trademarks, Brands, ...</td>
<td>Repeat business, ...</td>
<td>trust and feedback, ...</td>
</tr>
</tbody>
</table>

When there is a large disparity between a firm’s “market” value and “book” value, that difference is often attributed to “IC”. Market value is, of course, the corporation’s total shares outstanding times the stock market price of each. Book value is the excess of total assets over total liabilities. But what is the value of IC? Measuring the value of IC is difficult, but there are methods that can do it (Holmen 2005). As per a study conducted by Pike and Ross (2006), they have categorized 12 different approaches to measuring IC, and another researcher has identified more than 30. The various forms of IC disclosure provide valuable information for investors as they help reduce uncertainty about future prospects and facilitate a more precise valuation of the corporation. However, financial reports fail to reflect such a wide-range of value-creating intangible assets, giving rise to increasing information asymmetry between firms and users, and creating inefficiencies in the resource allocation process within capital markets.


2. Literature review on IC disclosure studies

The main IC disclosure studies were typically cross-sectional and country-specific, although some longitudinal studies have been reported too. Some of the leading IC disclosure studies, widely reported in the literature, were conducted in Australia, UK & Ireland, Sweden, Canada, Malaysia, Sri Lanka, New Zealand, Bangladesh and India. While most studies employed “content analysis” as the research methodology, other studies have used questionnaire surveys (Beattie 2007, p.5). Despite the fact that the importance of IC has increased in recent times, there are inadequate disclosures of IC in the financial statements of corporations (Bruggen et. al. 2009).

In a review of the current state of financial and external disclosure research, Parker (2007) identified IC accounting as a major area for further research. However, most of the IC disclosure studies were cross-sectional and country-specific. Examples include studies in Australia (e.g. Guthrie and Petty, 2000; Sujan and Abeysekera, 2007), Ireland (Brennan, 2001), Italy (e.g. Bozzolan et al., 2003), Malaysia (Goh and Lim, 2004), UK (e.g. Williams, 2001), and Canada (Bontis, 2003). Relatively very few longitudinal studies have been reported (e.g. Abeysekera and Guthrie, 2005). Moreover, some studies focused on the specific aspects of IC disclosure, such as human capital disclosure (e.g. Subbarao and Zeghal, 1997), while others conducted international comparative studies (e.g. Vergauwen and van Alem, 2005; Cerbioni and Parbonetti, 2007). Some IC disclosure studies have looked beyond annual reports to examine other communication channels, such as, analyst presentations.

Studies have also been conducted to explore IC related issues from the firm’s perspective. Chaminade and Roberts (2003) investigate the implementation of IC disclosure systems in Norway and Spain. Habersam and Piper (2003) employed case studies to explore the relevance and awareness of IC in hospitals. Studies that looked at possible determinants of voluntary IC disclosure include García-Meca et al. (2005) and Cerbioni and Parbonetti (2007). Based on analyst presentation reports of listed Spanish corporations, García-Meca et al. found significant association between IC disclosure and size and type of disclosure meeting but not ownership diffusion, international listing status, industry type and profitability. Based on analysis of European Biotechnology corporations over a period of three years, Cerbioni and Parbonetti (2007) found governance related variables to strongly influence voluntary IC disclosure. Guthrie and Petty’s (2004, p. 286) analysis of IC disclosure practices suggests that disclosure has been expressed in discursive rather than numerical terms and that little attempt has been made to translate the rhetoric into measures that enable performance of various forms of IC to be evaluated.

India presents an ideal case for the analysis of IC disclosures by the IT corporations because the economy has been undergoing rapid economic transformation in the financial services, tourism, IT sectors and the niche manufacturing gaining momentum. In the Indian-context, there has been very limited number of IC disclosure studies, as compared to its European counterparts. However, two recent studies are available on IC disclosure in India using content analysis, which were done by Kamath (2008), and Joshi et al. (2009). The foregoing discussion suggests that the literature on the determinants of IC disclosure in Indian-context is very limited and inconclusive. Thus, our study builds on the previous literature of IC disclosure practice and overall IC disclosure scenario in the Indian corporate sector, especially knowledge-based IT firms. The scope of the study has been confined to 16 corporations from the IT sector, and a content analysis was performed on their annual reports for two years, namely, 2007-2008 and 2008-2009 respectively.
3. Methodology used

With the rise of the “knowledge economy,” the management of IC is becoming even more important and, therefore, it should be disclosed in the annual reports. In the knowledge-based economy, most of the organizations have realized that the true potential of creating value for their organizations lies in the measurement, valuation, and disclosure of their IC (Jing et al., 2007). However, due to lack of “regional” research on IC disclosures in India, we decided to focus on a “longitudinal” study of IC reports published by the Indian pioneer firms. After some initial research on business and intangible resources in the Indian corporations, we found that just three corporations had published their first IC reports in 1997, which were discontinued later on. These firms are: Balrampur Chini Mills Limited, Reliance Industries Limited, and Shree Cement Limited. After some initial difficulties, we collected copies of IC reports published by these firms. The aim was to study the idiosyncrasy of the reports built in the Indian subcontinent. This research also aims at mapping the current state of IC-related disclosures in the Indian scenario.

4. Development of IC reports

Endeavors to reconstruct corporate annual reports to include IC indicators were spearheaded in the early 1990s by a small number of corporations, such as, the Swedish insurance corporation “Skandia and Celemi,” the Danish corporation “Ramboll and the “Dow Chemical Corporation”. In fact, all these pioneering corporations included various aspects of their IC in their 1994 annual reports. As per Cuganesan et al., (2006), “An IC Report (ICR) consists of three components: (a) vision of the organization and the values that it seeks to follow; the strategic objectives, competencies, critical intangibles or ‘dream tickets’ (intangible assets that a corporation cannot do without to achieve its objectives); (b) a summary of the IC (intangible assets, intellectual resources, intangible activities) and the efforts undertaken by the organization to nurture the IC; and (c) indicators or parameters that quantify the IC. Indicators, in fact, provide measurable quotients for the audience of the ICR to correctly estimate the value of an organization’s IC and its expected potential and payoff.”

The Skandia Navigator (1994) incorporated a total of 30 key indicators in the various areas, which are monitored internally on a yearly basis. To give an example, the key indicators for “customer” focus include number of accounts, number of brokers and number of lost customers, “process” focus include number of accounts per employee and administrative costs per employee, “human” focus include personnel turnover, proportion of managers, proportion of female managers, and training and/or education costs per employee, and finally, “development/renewal” focus include satisfied employee index, marketing expense/customer, and share of training hours.

The ICR serves to make the organizational “intangible” resources “visible” and to measure them. The ICR could be prepared for the purpose of giving external partners’ relevant information ‘supplementary’ to the other parts of the annual report and/or for using it as an ‘ad-hoc’ management tool for the development of the organization. Although the primary target groups of the ICR are existing and potential customers and employees, it also catches the attention of capital investors, the press, and the university researcher community (Brennan 2001). Some leading European and a few Indian firms had in the past published two types of reports: the intellectual capital report and the financial report. Some firms elaborate and publish the ICR separately as a “supplement” to their financial report. However, both types of reports are complementary and seek to offer a more “holistic” view of the firm. The ICR is aimed at providing a ‘holistic’ picture of the firm on the basis of chosen strategies, actions taken and current challenges. Rather than focusing on financial resources in accounting reports, the ICR is focused on “softer” resources, such as, intellectual capital (CIMA 2004). In essence, it is a “supplement” to the financial accounts, as well as, a valuable strategic management tool.
4.1 The birth of world’s first ICR

The first ICR was born and made public in the year 1994. Its ‘father’ was Leif Edvinsson at Skandia, and its birth constituted a milestone in the field of IC measurement, management and disclosure. From that year onwards, many firms realized the strategic importance of measuring and disclosure IC but so far just a few firms decided to build it. Looking at Skandia’s first and subsequent IC reports, this pioneer firm decided to assume the challenges of building IC reports without the existence of any IC “guidelines” put forward by any regulatory bodies and/or any other certifying agency.

Skandia’s first ICR was focused on “intellectual capital as a whole.” It addressed organizational hidden values, indicators for the future, a vision of the satisfied customer, the search for success factors, quality of the system, people and technology, competency, renewal and growth, the path forward, and a glossary of terms related to IC. The first IC report had 22 pages, and subsequent ones issued in 1995 and 1996 had 7 and 11 pages, respectively.

The first, 1994 report also described a ‘new’ disclosure model called, the “Skandia Navigator”. As it is well-known, this famous tool was designed to describe and measure the IC of an organization. The Navigator models (1996) visualize value components that make up IC, as well as, the method of managing them and disclosure on their development. It is designed to provide a balanced picture of the financial and IC (1995). Its greatest advantage is “the balanced total picture it provides of the operations” (Skandia, 1998). The focus on financial results, capital and monetary flows is complemented by a description of IC and its development. Indicators that specify both the level and change are highlighted. At Skandia, the IC ratios are grouped into four major focus areas viz., the customer, human, process, and renewal & development focus, as shown in Table 2.

Table 2. Assigning values to Skandia’s intellectual capital (measurement methodology)

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th>1996</th>
<th>1995</th>
<th>1994*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial Focus</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating income (MSEK)**</td>
<td>104</td>
<td>86</td>
<td>85</td>
<td>75</td>
</tr>
<tr>
<td>Total operating income (MSEK)</td>
<td>398</td>
<td>373</td>
<td>351</td>
<td>226</td>
</tr>
<tr>
<td>Income/expense ratio after loan losses</td>
<td>1.35</td>
<td>1.30</td>
<td>1.32</td>
<td>1.49</td>
</tr>
<tr>
<td>Capital ratio (%)</td>
<td>12.90</td>
<td>14.95</td>
<td>24.48</td>
<td>25</td>
</tr>
<tr>
<td><strong>Customer Focus</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of customers</td>
<td>197,000</td>
<td>157,000</td>
<td>126,000</td>
<td>38,000</td>
</tr>
<tr>
<td><strong>Human Focus</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average number of employees</td>
<td>218</td>
<td>200</td>
<td>163</td>
<td>130</td>
</tr>
<tr>
<td>Of whom, women (%)</td>
<td>56</td>
<td>49</td>
<td>45</td>
<td>42</td>
</tr>
<tr>
<td><strong>Process Focus</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payroll costs/administrative expenses (%)</td>
<td>49</td>
<td>46</td>
<td>42</td>
<td>38</td>
</tr>
<tr>
<td><strong>Renewal &amp; Development Focus</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets (MSEK)</td>
<td>9,100</td>
<td>8,100</td>
<td>5,600</td>
<td>3,600</td>
</tr>
<tr>
<td>Share of new customers, 12 months (%)</td>
<td>25</td>
<td>25</td>
<td>232</td>
<td>N/a</td>
</tr>
<tr>
<td>Deposits and borrowing, general public (MSEK)</td>
<td>7,600</td>
<td>6,200</td>
<td>4,300</td>
<td>1,300</td>
</tr>
<tr>
<td>Lending and leasing (MSEK)</td>
<td>8,500</td>
<td>7,600</td>
<td>3,700</td>
<td>3,200</td>
</tr>
<tr>
<td>Net asset value of funds (MSEK)**</td>
<td>9,900</td>
<td>7,400</td>
<td>6,300</td>
<td>4,700</td>
</tr>
</tbody>
</table>
Accounting-based indicators for 1994 have not been recalculated in accordance with the new Swedish Insurance Annual Accounts Act, which took effect on January 1, 1996. **MSEK = Million Swedish Krona ***Changed calculation methods for 1996 and 1997.


The Skandia Navigator is not intended to “provide a specific value for the various components of its IC. Rather, the navigator is designed to provide a balanced overview, as well as, a basis for the systematic management process that is essential for the creation a future value. The four focus areas of Skandia’s model are the same for the other parts of Skandia’s organizational, while the indicators vary from unit to unit” (Skandia, 1998).

4.2 The second generation of ICR

The second milestone in the ICR field happened in the year 1997. In that year, most of the pioneer firms published their first IC reports. Mainly these corporations were from Denmark, Sweden, Spain and India. The experience of the European IC reports is well covered in the literature: the Danish case (Danish Agency for Trade and Industry, 1997, 2000, 2001), the Norwegian case (Roberts, 1999), the Spanish case (Ordóñez de Pablos, 2002, 2004) and the Swedish case (Celemi, 1995; Sveiby, 1997).

However, we should not forget that there is a long way to march ahead to cover in the field of the IC report. It is necessary to design IC report “guidelines,” which are accepted and carried out by those firms that decide to measure and report their IC or in a not-so-distant future may be enforced by regulatory bodies—as it is the case of physical and financial resources and certain intangible resources like goodwill and intellectual property (FASB 2001).

5. Intellectual capital disclosure scenario in India: A longitudinal study

Attracted by the lack of “regional” research on IC disclosures in India, we decided to focus on a “longitudinal” study of IC reports published by the pioneer Indian firms. After some initial research on business and intangible resources in the Indian corporations, we found that three private-sector corporations had published their first IC report in the year 1997. These firms are Balrampur Chini Mills Limited, Reliance Industries Limited, and Shree Cement Limited. After some initial difficulties, we collected IC reports published by these firms. The aim was to study the “idiosyncrasy of the reports built in the Indian subcontinent.” Why did these firms decide to build this innovative report? The reason is that the IC report contributes to the management of intangible resources, and also provides the shareholders’ with a “holistic” picture of the organizational resources. Let us study the experience of three leading firms, which had taken the lead by providing IC-related disclosures, so as to learn some valuable lessons from them.

5.1 Balrampur Chini Mills Limited

The Balrampur Chini Mills Limited (visit www.chini.com) is one of India’s largest sugar corporations, with three factories in Uttar Pradesh. In addition to the core sugar business, the corporation also produces and sells molasses and alcohol.

In the 1996-1997 Annual Report, the firm elaborates about the rationale of IC and intangible report as: “to provide share owner a different and broader perspective of the corporation, and the fundamentals that drive its business.” The Balrampur Model is specific to the corporation (1997-98) as “it reflects our priorities, our method of working, our attitude and our people.” If successfully
activated, this model becomes regenerative. As the corporation stated in its 1998-1999 report, “as we keep this intellectual capital wheel in motion, the Balrampur will always be a growing corporation.”

According to the firm, the five elements of IC are: credibility, efficiency, human, structural, and customer capital. Customer capital has a strategic importance for the firm. As it states, “This is the apex of Balrampur’s intellectual capital model. All the expertise built up on the manufacturing and marketing sides of the business is eventually judged on the ability of the corporation to produce sugar of acceptable quality.” (2000-01)

Moreover, the corporation stresses the benefits of valuing brands. The ability to outperform the sugar industry average is a reflection of the considerable intellectual capital that it has built into its business—at the farm, factory and marketing levels (2000-01, p. 10). The Balrampur Chini Mills’ ICR constitutes an independent document to the annual report. These reports had 11 pages (1996-1997), 24 (1997-1998), 48 (1999-2000) and 40 (2000-2001), respectively.

5.2 Reliance Industries Limited

The Reliance Industries Limited (RIL) activities include exploration and production of oil and gas, refining and marketing, power, telecommunications, petrochemicals, textiles, financial services and insurance, and infocom initiatives. It has emerged as India’s most admired business house, for the third successive year in a TNS Mode survey for 2003. The Reliance’s employee skills are its competitive muscle. Its skills differentiate Reliance from its competitors—whether it be through the speedier implementation of a project or in its implementation at a cost which is significantly lower than that of the competition, or in the ability to extract more out of capital equipment, even when it ages. These skills are germinated in the Reliance culture (1998).

The ICR of RIL (www.ril.com) aims to: “redress the imbalance between non-financial and financial data, in recognition of the belief that value of organizations will, in times to come, increasingly reside in their intangible assets.” (1998) The ICR is just focused on intellectual capital and addresses several key topics: the importance of the IC report itself, IC and value creation, human capital, structural capital, customer capital, and investor capital. However, it does not address the business model. It constitutes an independent document from the annual report with a total of 20 pages.

The firm recognizes that “the development and the use of human potential and a learning organization is Reliance’s bridge to continued success in the future.” It uses the term “customer capital” not “relational capital” as most firms do. In this area, variables that matter are market creation, quality of customers, customer retention and growth, market share and the quality factor. Regarding structural capital, the firm admits that it must develop an organizational capability covering “strategy, speed of decision processes, ability to raise funds and prioritization… Organizational ability covers system architecture, the business process (horizontal integration), people processes, as well as, education, learning and knowledge building.” Finally, investor capital was the growth engine of Reliance. In this section (1998), the firm discusses issues focused on institutional shareholding, return to investors, stability in ownership, awareness initiatives, investor education and investor servicing.

5.3 Shree Cement Limited

The Shree Cement Limited (visit www.shreecementltd.com) is operating in the cement industry, which possesses two cement plants at Beawar, Rajasthan. It also has one of the few R&D centres in the Indian cement industry. It has a worldwide reputation for maximizing capacity utilization and low energy consumption level.

Shree Cement Limited’s IC report is an independent document (having 28 pages) that
constitutes a ‘Supplement’ to the Annual Report 2001. The firm understands that IC is “capturing our various experiences for organizational benefit, cross-pollinating our collective knowledge across various operational tiers, maximizing output with the minimum of resources, and doing things right the first time.” The Corporation’s IC resides in its own employees. Thus, the firm has retained the majority of its members possessing valuable technical, financial and manufacturing skills.

Shree Cement Limited’s drivers of excellence have an intangible nature. As it recognizes, they are: “an achievement-oriented culture, continuous innovation, widespread employee participation, sustained plant modernization, cross-functional information sharing, constructive dissatisfaction, personal pride in collective achievement, a family work culture, operational discipline, caring management, aggressive empowerment, reward and recognition system, workplace enthusiasm, mix of youth and experience, informal environment, spirit of “must do”, and quality obsession.” The ICR of the firm is in “narrative style” as it does not incorporate double-entry tables with indicators for its intellectual capital.

6. Peculiarities of Intellectual Capital Reports in India

There is a vast difference in the disclosure mechanisms and methodology followed by the Indian corporations. In this context, Dr. Kamath (2008) lucidly concludes as: “Some firms have been considering IC as an inseparable part of their total assets and disclosed it in their annual reports as ICR using the standard disclosure models. And, others publish those reports as a supplement to their annual reports, and some others give the details of growth in their IC over the previous period in a separate section in their annual report.” There is no doubt that in India, IC disclosure is still in its “evolutionary” stages and all the three means of disclosure are accepted. Moreover, we appreciate the growing awareness and attempts made by some leading IT corporations to disclose IC in their annual reports.

The Indian ICR does not focus on any business model, values, mission and vision, and/or knowledge management issues, as is the case with the European ICR. It presents information in a “narrative” style: it describes a firm’s IC and analyses its components without focusing extensively on specific indicators that measure these components. This is a major distinctive feature of Indian ICR. In sharp contrast with the European Union ICR, Indian reports do not combine a “narrative” and “quantifying” style (Abeysekera 2007). All Indian ICR analyzed in this study constitute an “independent” document that “complement” the Annual Reports. However, their length is much larger than the European Union reports. It is clear that corporations in the European Union are way ahead of their counterparts elsewhere when it comes to the measurement, disclosure and management of their IC (Andriessen 2004). Finally, one of the firms in this study—Reliance Industries Limited—even created a specific term for investor relations (the investor capital) and provides an in-depth analysis of this capital.

7. Conclusions

Intellectual capital can be a source of competitive advantage for businesses and stimulate innovation that leads to wealth generation (Marr et al., 2003). The measurement and disclosure of IC is relatively new, with only a smattering of pioneering corporations using the “newer” measures. It is still too early to be making predictions about whether or not a model or system for measuring IC will be successfully articulated and integrated into the existing management and financial disclosure system. A careful examination of the history of IC clearly indicates that there is a long way to move ahead in this field.
This brief review of the measurement and disclosure of IC terrain highlights the case for “re-engineering” the traditional accounting and management disclosure processes (Daniel 2004). If efforts are not made towards incorporating the value of intangibles into a “formalized” disclosure framework then, for many public and private sector organizations, the management’s disclosure in the financial statements will become increasingly irrelevant as a tool supporting meaningful decision-making. There is overwhelming evidence, as per Bernard et al. (2003), in support of the notion that there are several benefits to managing, measuring and disclosing IC in the annual reports. Many firms across the EU are already publishing IC statements on a voluntary basis. They see it as a way of increasing “transparency” and explaining their view of the corporation’s business model to the market. While separate IC statements may be appealing to users of information, especially individual shareholders, they may place an “unwelcome burden” on corporations already facing greater demands for transparency.

Much of what has been done to date in the field of researching IC has an intuitive appeal, but is this enough to attract and convince the critical mass of supporters (particularly within the accounting profession) whose support is very much needed for the change to take place? Both the CIMA and CICA, leading accounting bodies, have supported the IC disclosure initiatives of their FASB (2001) cousins. No doubt, some progress has already been made in this direction by the publication of IC guidelines developed by the Danish Agency of Trade and Industry (2000, 2001), the Meritum Project (2002), the 3R Model (Ordóñez de Pablos, 2004), etc. Based on best practices observed in more than 100 European Union corporations, the Meritum projects have resulted in “guidelines” on how to report IC. Although the guidelines vary slightly in content and terminology, the underlying ideas are the same.

Three corporations in India that were applying IC measures have found that “it gives them better understanding of the drivers of value and is improving management and growth of these vital assets.” Unfortunately, IC disclosures made by the three Indian firms is seen to be almost negligible and partial, in tune with the developed countries. Moreover, the disclosure of IC was not at all uniform, and there is lack of evidence regarding the usage of the measurement, management techniques, and tools by these firms. Thus, there is an urgent need to highlight the importance of IC disclosure to these firms and encourage them to provide voluntary IC disclosures. A brief summary of the present research study reveals the following aspects:

- The key components of IC are “poorly understood, inadequately identified, inefficiently managed, and are not reported within a consistent framework.”
- The findings of over 20 international research studies reflect the “exploratory nature of the IC disclosure work, and the fact that we are at an embryonic stage of investigation.”
- The extent of disclosure is “minimum but the types of IC that tend to be most often reported include human resources, technology and intellectual property rights, and organizational and workplace structure.”
- A review of industry clusters within the study suggests that “no individual industry is significantly ahead of any other in its IC disclosure practices.”
- By and large, most corporation representatives believe that “the management of IC is an important factor in determining future corporation success and facing competitiveness.” However, few executives are able to identify initiatives within their organization that are designed to assist in managing IC.
- IC disclosures made by the Indian firms “are very negligible, partial, and descriptive, lack of consistency in reporting etc. in sharp contrast with the developed countries. A very small number of the total firms studied actually reported IC-related terms, disclosure was not uniform, and there was lack of evidence regarding the usage of the measurement, management techniques, and tools by these firms.
So far, published guidelines on a “voluntary” basis represent good initiatives undertaken by the academics, based on the experience of some pioneering corporations in developed countries that build the IC report. No doubt, they provide some practical guidelines on how to measure and report IC in the annual reports. However, corporations are not forced to follow these guidelines, and therefore, they just offer an orientation and learning experience. In fact, the whole field of IC disclosures is still relatively ‘new’ and slowly ‘evolving’. Therefore, every one (both preparers and users) have to grapple with IC concepts, philosophy, and detailed methodologies. Real-life corporate experience suggests that rushing into the details of IC measurement before understanding the fundamentals is going to prove counter-productive. Now, we feel the time is ripe for international professional bodies to develop that understanding and to develop new measures that will guide them more clearly to a prosperous future.

References


