



## Themes Of Structural Capital Disclosure

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**ABSTRACT:** In reality, the wealth of the modern economy no longer depends on physical assets; rather, it depends on intangible intellectual assets. The most crucial component of success in the modern economic era is intellectual capital, which is also essential for maintaining competitive advantage and adding value to the company. Intellectual Capital embodies the intangible assets and resources of a company, such as knowledge, know-how, professional skills and expertise, employees, databases, intellectual properties, technologies, customers, etc., that can benefit a company. It determines its potential to grow in the future when managed and used wisely. Companies believe that intellectual capital disclosure is a good way to improve their relationships with different stakeholders and lessen information asymmetry. The intellectual capital disclosure includes the disclosure of three components of intellectual capital i.e human capital disclosure, structural capital disclosure, and relational capital disclosure. The knowledge incorporated into information technology (IT) systems, the results and products of knowledge conversion, including papers, databases, processes, plans, and the company's intellectual property, as well as all non-human knowledge repositories within a company, are all considered structural capital. This paper is an attempt to understand the different themes of human capital disclosure.

Key words: Intellectual capital, Intellectual capital disclosure, Structural capital disclosure

### 1. INTRODUCTION

In the contemporary business world, sources of competitive advantage have shifted from traditional assets to intellectual assets. This change requires the companies to measure, report and manage these assets (Sharma & Dharni, 2017). According to resource based theory, in knowledge based economy IC is considered as important resource that drives performance) Kamath, 2008). Intellectual capital may be defined as the intangible assets that are not listed explicitly on the firm's balance sheet but positively affect its performance and success (Edvinsson, 1997, Mondal & Ghosh, 2012). It consists of information, intellectual property, intellectual material, knowledge, core technique, customer relationship and experience that can be utilized to make a company rich (Stewart, 1997). So, it is essential that IC is well-understood and properly managed if organizations compete successfully in today's economy (Lee & Wong, 2019). It can be summarized that IC

embodies the intangible assets and resources of a company, such as knowledge, know-how, professional skills and expertise, employees, databases, intellectual properties, technologies, customers, etc., that can benefit a company. Firms that acknowledge the importance of intellectual capital tend to invest in it and report it in their annual report to increase their competitive advantage and success (Nimtrakoon, 2015). Jindal and Kumar (2012) confirm that annual reports provide a special communication opportunity for firms to go beyond reporting financials and prove their leadership and vision to reflect the firm's values.

## 2. REVIEW OF LITERATURE

Reporting of IC resources in the corporate annual report started in the middle of the 90's, primarily in the Scandinavian countries where companies began to publish IC report as a supplement to their annual reports. Subsequently, companies worldwide started to publish IC reports or adopt new forms of disclosure and valuation of Intangible assets. In the meantime, several empirical studies have been conducted in various countries to examine the extent of Intellectual capital disclosure in corporate annual reports.

Ousama and Hafiz-Majdi (2012) examined the extent of intellectual capital disclosure and their determinants based on a sample of 91 Malaysian listed companies. The data were collected from 2006 annual reports of the selected companies and analyzed using descriptive statistics, t-test, correlation, and regression analyses. The regression analysis supported the hypothesis that overall intellectual capital disclosure in annual reports of the Malaysian listed companies is influenced by the firm's size, profitability and industry type. In contrast, the type of audit firm and leverage did not statistically affect ICD.

Maaloul et al. (2016) analyzed the extent of intangibles disclosure of a sample of 125 US non-financial firms by using the index of 61 different intangible items- 22 human assets items, 18 structural assets items, and 21 relational capital items. The study has used a content analysis of annual reports of the sample firms to collect data about the disclosure of intangible assets. In contrast, earnings forecast properties were collected from the Bloomberg Professional database. Correlation and multivariate regression analysis were used to test the research hypotheses. The study found that analyst' earnings forecasts accuracy was affected by the extent of intellectual disclosure, and enhanced disclosure about relational assets may reduce information asymmetry.

Lim et al. (2017) examined the quality and quantity of voluntary intellectual capital disclosures (ICDs) that were made by a group of Australian Stock Exchange (ASX)-listed biotechnology companies in the 2003, 2006, and 2010 annual reports. The study has used a four-point (0-3) scale sufficient to capture the quality of IC disclosure in annual reports and ensure the reliability of the results. The study found that the highest quality disclosure was about internal capital and the lowest quality disclosure was about human capital. Individual disclosure items within human, internal and external capital classification showed that external

capital items (customers) and internal capital items (management processes corporate culture, intellectual property, and financial relations) were the significant contributors.

Sukhari and De Villiers (2019) examined the annual reports and integrated reports of 40 companies selected from the 271 companies listed on the main board of the JSE on 31 December 2013 to assess the influence of preparing an integrated report and cross-listing on the level of IC disclosure. The study found that IR-producing companies disclosed more IC, specifically human capital disclosures, characterized by a greater variety of items and more emphasis on human capital. The study also revealed that cross-listing companies exposed to international capital market pressures do not disclose more IC information.

Kavida and Kuniparambil (2020) examined the past empirical studies on intellectual capital disclosure that have been undertaken in the Indian context. The study found that most empirical research emphasized the quantity and quality aspect of reporting of Intellectual capital and is limited to industry-wise and for a short period. The majority of the empirical studies stated that intellectual capital disclosure is limited and is in narrative form and emphasized the need for a standard framework to ensure proper disclosure of intellectual capital.

Al-Sartawi (2020) investigated the relationship between firm value and the level of social media disclosure of intellectual capital by Kuwaiti and Omani-listed firms. The extent of social media disclosure of intellectual capital was measured by adapting a checklist of 78 items. The study found that level of social media disclosure of intellectual capital was 71% of the firms under research and confirmed a significant positive relationship between the firm value and level of social media disclosure.

Hatane et al. (2021) examined the role of intellectual capital (ICD) on earnings forecasting by analysts in the pharmaceutical industry in emerging countries, particularly in Indonesia, Malaysia and Thailand. Panel data analysis was used on a sample of 17 companies from pharmaceuticals industries in Indonesia, Malaysia, Thailand – Growth Triangle (IMT-GT), which were listed in the Indonesia Stock Exchange (IDX), Malaysia Stock Exchange (MYX) and Stock Exchange of Thailand (SET) from 2010 to 2017. The results indicated that the three components of ICD, namely human capital disclosure (HCD), structural capital disclosure (SCD) and relational capital disclosure (RCD), insignificantly influence average analysts' consensus recommendation and analysts' earnings forecast dispersion. However, the findings showed a significant negative influence of relational capital disclosure (RCD) on analysts' earnings forecast error.

### **3. OBJECTIVE OF THE STUDY**

The aim of this paper is to identify the different themes of human capital disclosure to understand the extent of intellectual capital disclosure by listed companies in India.

#### 4. THEMES OF STRUCTURAL CAPITAL DISCLOSURE

Structural capital relates to the knowledge that has been captured and institutionalized within an organization's structure, process, and culture, a subset of its explicit knowledge. Structural capital relates to information about information technology, product technology, process, organization structure, management philosophy, corporate culture and intellectual property, etc. It is firm's organizational capabilities to meet the set goals (Edvinsson, 1997) and its development has a positive relationship with business performance regardless of industry (Bontis et al., 2000). Structural capital is everything (infrastructure) in and owned by an organization that facilitates and supports employees (human capital) in their work (Lee & Wong, 2019).

These four identified themes of structural capital disclosed by the selected companies are mentioned below:

- Intellectual Property
- Management Philosophy and Corporate Culture
- Information/Networking System
- Research and Development Infrastructure

A detailed description of all the themes is given below:

- **Intellectual Property**

Intangible works of human mind that are legally protected are considered intellectual property. The most well-known types of intellectual property are patents, copyrights, trademarks, trade secrets, licenses, commercial rights, and other related items. The main purpose of intellectual property law is to encourage the creation of a wide variety of intellectual goods for consumers. A patent is a form of right granted by the government to an inventor or their successor-in-title, giving the owner the right to exclude others from making, using, selling, offering to sell, and importing an invention for a limited period, in exchange for the public disclosure of the invention. Trademark is a recognizable sign, design or expression which distinguishes products or services of a particular trade from similar products or services of other traders. A copyright gives the creator of original work exclusive rights, usually for a limited time. Copyright may apply to a wide range of creative, intellectual, or artistic forms or works. Industrial design right protects the visual design of objects and consists of creating a shape, configuration, or composition of pattern or colour, or combination of pattern and colour in three-dimensional form containing aesthetic value. An industrial design can be a two-or three-dimensional pattern used to produce a product or industrial commodity. Generally, it is what makes a product look appealing, and as such, it increases the commercial value of goods. A trade secret is a formula, practice, process, design, instruments, pattern, or compilation of information that is not generally known or reasonably ascertainable and organisation can obtain an economic advantage over competitors and customers. The keywords identified to disclose this theme include: *Intellectual Property, Intangible Assets, Patents, Trademarks, Copy Rights, Trade Secrets, Commercial Rights, Licensing, Intellectual Resources, Knowledge Assets, Intellectual Assets, Intellectual Capital, Intellectual Resources, Industrial Design. Accreditations.*

- **Management Philosophy and Corporate Culture**

**Management philosophy and Corporate Culture** includes the organization's vision, values, norms, systems, symbols, language, assumptions, beliefs, and habits (Ramdhani et al., 2017). It refers to working culture of an organization. The management philosophy is a set of beliefs or rules used by managers to help make decisions. A good management philosophy gives direction and cohesion to the organization. Corporate culture is the set of key values, beliefs, attitudes, and understanding shared by people and groups in an organization that control the way members interact with each other and other stakeholders. It is defined as the underlying beliefs, assumptions, values, and ways of interacting that contribute to an organization's unique social and psychological environment. Organizational culture includes an organization's expectations, experiences, philosophy, as well as the values that guide member behaviour, and is expressed in member self-image, inner workings, interactions with the outside world, and future expectations.

The keywords identified to disclose this theme include: *Vision, Mission, Values, Value System, Organizational Values, Leadership, Management Philosophy, Management Processes, Business Knowledge, Management Quality, Quality Management, Centre Of Excellence, Economic Value Added, Economic Value Added, Corporate Culture, Organizational Culture, Organizational Learning, Corporate Learning, Knowledge Management, Organization Flexibility.*

- **Information/Networking System:** Information/networking system includes the system available in an organisation that allows interaction of people via a broad array of communication media and devices, e.g., voice mail, e-mail, voice or video conferencing, the internet, groupware and corporate intranets, personal digital assistance and newsletters include e-commerce. It includes the detail on development, application and impact of information systems. Information technology is the development, maintenance, or use of systems- especially computer systems, software and networks for storing, retrieving and sending information Technology (IT) performs a number of key roles in organizations in improving communication, inventory management, decision making, data management, and customer relationship management. It facilitates storing and regaining huge information quickly with the help of hardware and software networks and workstations at lesser costs. Information technology enables the combination and configuration of data to create distinctly new information, which aids in making quick decisions. Human resources can be utilized in the best possible manner with the help of information technology to have a competitive edge by increasing the operational efficiency of human resources and speedily increasing productivity. The use of information technology will change the work style of traditional nature because the decision support system will help make quick decisions by the front line supervisors, which higher-ups took in the managerial hierarchy. The keywords identified to disclose this theme include: *Network, Research and Development, Knowledge Resources, Information Technology, Electronic Data Interchange, Software Systems, Telecommunication, Technological Processes, Operating Systems, Operating Software, Technological Initiative, Knowledge-Based Infrastructure, Information System, Networking System.*



## 5. CONCLUSION:

This study identified the different themes and keywords of human capital disclosure such as Intellectual Property, Management Philosophy and Corporate Culture, Information/Networking System, Research and Development Infrastructure. Indian companies should prepare separate Annual Intellectual Capital report. It may be either a stand-alone report or a part of the corporate annual report. This would assist both internal and external users in assessing the company's intellectual capital base and how the company is using these resources to generate value. Consequently, this IC report would perhaps increase the company's stakeholders' confidence and thereby help raise cost-effective funds from investors and various financial institutions. The findings of this study have profound implications for policymakers and standards setters for rethinking the issue of incorporating IC disclosures in the financial statements as compulsory items. This will not only add to the quality of information but stakeholders will be able to make an assessment of the true value of a firm. It gives the managers of companies an opportunity to improve upon their disclosure policies in view of the findings. This would reduce information asymmetry and the related agency costs in an effective manner. Regulators (e.g., Reserve Bank of India, Securities Exchange Board of India, Ministry of Finance, and others) can use the findings to develop listed companies' disclosure and monitoring policies.

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