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An Impact of Firm Based Characteristics on Intellectual Capital Disclosure Practices

By

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A thesis submitted to the University of Sri Jayewardenepura in partial fulfillment of the requirements for the Degree of Master of Science in Management on 2016.

Declaration

"The work described in this thesis was carried out by me under the supervision of Dr. A.A.J. Fernando 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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Certification

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

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List of abbreviations

AICPA	American Institute of Certified Public Accountants
ANOVA	Analysis of Variance
ASPI	All Share Price Index
BOD	Board of Directors
BOI	Board of Investment
BSC	Balanced Scorecard
CA	Chartered Accountant
CBV	Competence Based View
CFO	Chief Financial Officer
CSE	Colombo Stock Exchange
CSR	Corporate Social Reporting
ECD	External Capital Disclosure
ESOP	Employee Share Option Plans
FDI	Foreign Direct Investment
GDE	Gross Domestic Expenditure
GDP	Gross Domestic Product
GII	Global Innovation Index
GRI	Global Reporting Initiatives
HCD	Human Capital Disclosure
IAM	Intangible Assets Monitor
IAs	Intangible Assets
IAS	International Accounting Standards
IBV	Intellectual Based View
IC	Intellectual Capital
ICD	Intellectual Capital Disclosure
ICR	Intellectual Capital Reporting
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
IIRF	International Integrated Reporting Framework
InCD	Internal Capital Disclosure
IR	Integrated Reporting

KBE	Knowledge Based Economy
KBV	Knowledge Based View
LKAS	Lanka Accounting Standards
MERITUM	MEasuRing Intangibles To Understand and improve innovation Management
MVA	Market Value Added
OECD	Organization for Economic Co-operation and Development
PLC	Public Limited Company
R&D	Research & Development
RBT	Resource Based Theory
RBV	Resource Based View
ROE	Return on Equity
SD	Standard Deviation
SLFRS	Sri Lanka Financial Reporting Standards
SNS	Skandia Navigator Scheme
S&P	Strong and Poor
SRR	Social Responsibility Reporting
TBL	Triple Bottom Line
VIF	Variance Inflation Factor

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ABSTRACT

In the today's knowledge based economy [KBE], intellectual capital [IC] is considered as a strategic asset which determines the value of the company. Different practices of disclosing the IC information in annual reports do not result the real value of financial position of the company, is a main problem in Sri Lankan companies. The objectives of this thesis are to develop an ICD index to measure the extent and quality of ICD, to examine the extent and quality of ICD and its practices and to find out the relationship and impact between the firm based characteristics and ICD practices of listed companies on CSE for the period of five- years from 2010 to 2014. Content analysis of annual reports as the qualitative method and questionnaire survey as the quantitative method were used. This thesis is a longitudinal study. Top fifty companies were selected based on market capitalization and the data was collected from the sample companies' annual reports. The ICD index comprised 20 items in terms of Internal Capital Disclosure (InCD), External Capital Disclosure (ECD) and Human Capital Disclosure (HCD). The data was analyzed using parametric tests, correlations and panel regression analysis based on pooled regression, fixed effect and random effect. One-way repeated measures ANOVA and paired sample t-test point out that there was a commonly upward trend for the disclosure of ICD items and categories throughout the period is concerned. Most of the Sri Lankan listed companies are now being disclosed ICD in text, sentences, pictures, tables and graphs with the core discipline of Global Reporting Initiative [GRI] guidelines in their annual reports. ECD was mostly reported in the annual reports of the companies followed by HCD and InCD. According to the pooled regression analysis, GRI compliance, size and board independence had a positive significant impact on ICD. Other factors such as: industry type, age, profitability, leverage and ownership concentration did not have a significant impact on ICD. This thesis has more extended theoretical framework (agency theory, stakeholder theory, legitimacy theory and signaling theory) than previous studies conducted in Sri Lanka to date. This thesis makes an original contribution as a longitudinal study to the growing body of empirical studies on ICD practices in Sri Lanka. The study offers an insight to the corporate and business level managers, policy makers, potential investors and future researchers regarding to ICD practices in terms of extent and quality.