

Exploring corporate disclosure and reporting of intellectual capital (IC): emerging innovations

Introduction

As outlined in the call for papers, the objective of this special issue is to explore corporate disclosure of IC in light of emerging changes in technology and communication. Arguably, the annual report has long outlived itself as the best source of corporate disclosure because it contains backward looking information and is only a one-way means of presenting information rather than engaging with information users. Similarly, the stand-alone IC report is now rarely used to disclose IC information. In fact, the words “reporting” and “disclosure” are often used synonymously, when they have different meanings. Disclosure is: “the revelation of information that was previously secret or unknown”, while reporting is a “detailed periodic account of a company’s activities, financial condition, and prospects that is made available to shareholders and investors” (Dumay, 2016, p. 178). Thus, investors and stakeholders value IC disclosures, not reports. Therefore, the call for papers encouraged emerging innovations for voluntary IC disclosure, to open up new possibilities for presenting previously secret or unknown IC information about today’s dynamic and intangible-based organisations.

This special issue gave researchers the opportunity to explore innovations in IC disclosure and reporting forms and channels, such as press releases, websites, LinkedIn, Facebook, Twitter and Google+. We were not disappointed with papers on LinkedIn (Pisano *et al.*, 2017), social media (Lardo *et al.*, 2017) and prospectuses (Garanina and Dumay, 2017), along with a critique of established frameworks such as the Balanced Scorecard (Nielsen *et al.*, 2017).

Additionally, we encouraged and received a paper on exploring other communication technologies and processes that can open up a two-way discourse between the organisation and its stakeholders (Giacosa *et al.*, 2017). Similarly, new forms of reporting such as integrated reporting (International Integrated Reporting Council, 2013), which include IC and other capitals is sparking a resurging interest in IC and has inspired Garanina and Dumay (2017) to link their study to the forward-looking arguments of integrated reporting and Giacosa *et al.* (2017) to integrated ICS. We received several other good submissions, which while they do not appear in this special issue, were at the time of writing still under review and will possibly appear in forthcoming issues of the *Journal of Intellectual Capital*. We also welcomed both theoretical work (Dumay and Guthrie, 2017) and empirical research using quantitative (Garanina and Dumay, 2017; Whiting *et al.*, 2017) or qualitative methods (Schaper *et al.*, 2017). Thus, the submissions demonstrate relevance to the understanding of IC and corporate disclosure, through emerging innovations in disclosure and reporting. As such we reveal what we see as being innovative about each of the papers included in the special issue.

In presenting the papers, we have attempted to place the papers in a logical order. In doing so, we call on the Guthrie *et al.* (2012) classifications of first, second and third stage research. While Petty and Guthrie (2000) declared that the missions of creating awareness in and creating a discourse in IC were then accomplished, we observe that a rekindling of first stage efforts is needed to reinvigorate that discourse. Thus, we begin this special issue with what we recognise as first stage and normative articles that include an up-to-the-minute intellectual capital disclosure (ICD) literature review (Cuozzo *et al.*, 2017), a theoretical paper introducing the concept of involuntary ICD (Dumay and Guthrie, 2017) and a paper



exploring internal management disclosures which critiques implementing the Balanced Scorecard (Nielsen *et al.*, 2017).

We then include papers that we consider closely related to second stage value relevance research. These papers examine metrics deriving from social media networks to disclose voluntary and involuntary information about IC and how it is related to value creation in football clubs (Lardo *et al.*, 2017), an examination and critique of the Danish IC statement project (Schaper *et al.*, 2017), human capital disclosure by European companies via social media (Pisano *et al.*, 2017), analysis of ICD and value creation in prospectuses (Garanina and Dumay, 2017).

Next, third stage practice-based papers are presented to close the special issue. Three papers test new models in practice. First, Giacosa *et al.* (2017) reconceptualise and develop a model to assist listed companies in the production of voluntary ICD. Second, Whiting *et al.* (2017) develop a model to measure reputation, engagement and goodwill of New Zealand SMEs. Third, Francioli and Albanese (2017) develop a model to disclose, report and manage IC in a network of companies. Fourth, Zakery *et al.* (2017) develop a model to simulate firm resource dynamics to find effective IC interventions.

When we reflect on this special issue, we underline that there are many papers where we see the sharing of research and knowledge between young and senior researchers (e.g. Cuzzo *et al.*, 2017). This indicates to us that there is growing band of IC researchers, who should continue to develop interesting innovations in IC and ICD research. Additionally, we note several papers where the researchers come from widely different countries to collaborate and create the opportunity to further ICD research as an international, rather than just a local endeavour (Zakery *et al.*, 2017; Garanina and Dumay, 2017).

First stage and normative articles

The first paper by Cuzzo *et al.* (2017) represents an up-to-the-minute literature of ICD. The paper identifies relevant themes developed within ICD and the evolution of the theory to derive “insights to guide future research agendas for the benefit of researchers and ICD users”. Cuzzo *et al.* (2017) use a structured literature review of ICD based on the analysis of research articles from 12 relevant journals for the 17-year period between 2000 and to this special issue to emphasise new insights for ICD research by adding to a data set created by Guthrie *et al.* (2012). The main finding of Cuzzo *et al.* (2017) is a lack of significant innovation in the evolution of ICD research and that it needs rekindling. Hopefully, the papers in this special issue will help begin that rekindling.

Interestingly, Cuzzo *et al.* (2017) use their findings to delve deeper into why there is a decline in ICD research impact and an absence of ICD research in the world’s biggest capital market, being the USA. Here they find there is a differing use of terminology across continents between academic researchers and the parlance used in practice, with IC researchers preferring the term “intellectual capital” while the business discourse prefers “intangible assets” (Eccles and Krzus, 2010). Thus, researchers and practitioners might be talking about the same thing, but using different terminology.

The next paper by Dumay and Guthrie (2017) presents an exploratory essay to evaluate whether involuntary ICD is value relevant, discussing existing ICD research and practice and offering new ways forward for future research. Dumay and Guthrie (2017) provide a foundation from which researchers should contemplate a powerful new force in ICD brought about from the transformation in technologies and forces of mass communication by introducing the concept of “involuntary disclosure” which they define as “what external stakeholders and stakeholders disclose about a company”. This paper is interesting because it challenges the foundations of ICD research and opens up new and potentially interesting avenues for research and practice.

The paper by Nielsen *et al.* (2017) is another essay which begins with a timely critique of the Balanced Scorecard, and other performance measurement concepts developed over the

last 25 years from an internal disclosure perspective. However, rather than just critique they also offer a way forward by examining whether contemporary conceptions of value creation from the field of business models can improve the currently applied frameworks used for generating internal management disclosures on IC. Nielsen *et al.* (2017) reveal “that internal management disclosures need more precise underpinnings of value creation than offered by current frameworks”. This paper is innovative because it demonstrates how researchers can rethink ICD and borrow ideas from outside IC research to develop new and interesting ideas and ways forward.

Second stage value relevance articles

The paper by Lardo *et al.* (2017) explores the relationship between popularity on social media networks and the companies’ value, revenues and costs in the football industry. The paper also explores how social media network metrics can act as tools and measures for voluntary and involuntary IC disclosure that can be related to the market value of football clubs which are also listed companies. In the paper Lardo *et al.* (2017) find the evidence that social media network metrics is related to the value of IC professional football clubs. We see the innovation of this paper being that it uses social media data sources to understand how we can develop different measures of IC and how these might be proxies for economic value.

The next paper by Schaper *et al.* (2017) develops insights for a potential shift from IC reporting towards IC-related disclosures. In their study, they present findings of follow-up research based on companies involved in the Danish Guideline Project for Intellectual Capital Statements (Mouritsen *et al.*, 2001). Schaper *et al.* (2017) conduct 21 semi-structured interviews with respondents in 16 companies involved in the Danish Guideline Project between 1999 and 2003 and develop a critical perspective towards IC reporting. One implication proposed by Schaper *et al.* (2017) is the coexistence of timely, value-relevant IC disclosures and compliant reporting. One highlight of their paper is the discovery that there is an overall reluctance towards specific IC reporting and that companies tend to want to withhold rather than disclose valuable information. Additionally, there is a propensity towards integrating different forms of reporting, rather than having separate reports for ICD which bodes well for integrated reporting supporters.

The next paper by Pisano *et al.* (2017) is innovative by proposing a new model for measuring human capital disclosure by European Companies via social media. Pisano *et al.* present evidence on the relationship between ownership concentration and human capital disclosure released via LinkedIn developing a disclosure index that includes items concerning both the stock of knowledge and capabilities of employees and human resource management practices. The significant innovation in Pisano *et al.* (2017) is their ability to recognise that not all firms are alike in ownership structure and therefore there are different information demands on managers. The paper uses data from Italy, France and Germany, where firms have a high ownership concentration, rather than having a diverse set of investors, as would be found in listed companies in the UK or the USA. Thus, the information needs and channels of tightly held companies are significantly different to publicly listed companies.

The paper by Garanina and Dumay (2017) investigates the value relevance of IC disclosures in initial placement offer prospectuses of technology companies listing on the NASDAQ from 2002 to 2013, post and pre the global financial crisis. Their paper is innovative for two reasons. First, they use prospectuses as a data source, because it is one of the few documents specifically designed to convince investors to buy shares. Here, Garanina and Dumay (2017) use a novel application of agency theory to discuss how managers attempt to reduce information asymmetry because it is in their best interest to disclose more information to sell the company’s shares. Garanina and Dumay (2017) determine the impact of ICD by analysing the post-issue stock performance and find evidence to support the

theory that disclosing IC is related to higher share prices in the long term. Second, they use the prospectus as a proxy for integrated reporting which also argues that there is a relationship between providing forward-looking information about a company's business model and prospects.

The Garanina and Dumay (2017) paper advances ICD studies by showing how it is possible to design innovative research that investigates the theory of reducing IC information asymmetry by providing forward-looking non-financial information about a company's future development. However, a caveat is that while the relationship exists, the disclosure of IC may not be the cause, but rather companies who instill measuring, managing and reporting of IC in their operations is the cause of success, not disclosing IC because ICD and reporting is an artifact of solid managerial practices.

Third stage practice-based articles

The paper by Giacosa *et al.* (2017) draws a conceptual model that practically assists listed companies in the production of an effective voluntary ICD. The conceptual model is innovative because it illustrates the relationship between several voluntary ICD mechanisms, and includes stakeholder feedback mechanisms. Giacosa *et al.* (2017) emphasise the advantages of the conceptual model, both for companies and stakeholders and, dimensions such as frequency, content and means of disclosure already in use in general communication models, which they apply to ICD. The conceptual model proposed by Giacosa *et al.* (2017) shows the value of feedback mechanisms from stakeholders after the company's integrated ICD, through a dyadic exchange of information.

The next paper by Whiting *et al.* (2017) proposes a rating and scoring tool to assess the reputation, engagement and goodwill of New Zealand SMEs, including internet presence and following on social media. It is one of the few ICD studies to use a survey as a research method and thus we consider their application of the potentially all pairwise rankings of all possible alternatives method via an online survey an innovative research approach to ICD. As a result, they outline the importance of six indicators of firms' internet presence and following on social media and create a tool to rate and score the performance of individual SMEs. The weighted indicators Whiting *et al.* (2017) propose are: "1. 'Captured' customer opinions about the business (0.28), 2. Contact with customer database (0.19), 3. Website traffic (0.16), 4. Google Search ranking (0.15), 5. The size of the customer database, (0.11), and 6. Following on social media (0.11)". And the application of a content analysis permits to emphasise that participants' age influence the weights of indicators. Whiting *et al.* (2017) argue that the proposed indicators and their weights provide a practical and inexpensive rating and scoring tool for measuring SMEs' reputation, engagement and goodwill.

Next, Francioli and Albanese (2017) take an interventionist research approach to develop the Network Competence Report as a model to disclose, value, report and manage IC in a network of companies. The Network Competence Report is innovative because it provides a monetary evaluation of intangible core competencies. The novelty is increased because it has been some time since we have seen a new IC model espousing monetary measures that is typically part of first and second stage research (Sveiby, 2010; Dumay and Roslender, 2013). Furthermore, Francioli and Albanese's (2017) application of an interventionist approach is also creative and answers recent calls for interventionist research into IC practices (Chiucchi, 2013; Dumay, 2014). We continue to encourage research similar to what Francioli and Albanese (2017) present because interventionist research provides insights from both practice and theory (Jönsson and Lukka, 2007).

The last paper, by Zakery *et al.* (2017) makes a novel contribution by outlining how it is possible to understand how intangible assets interact in a business model to reduce the causal ambiguity of value creation. To do so, they create models and simulations of firm resource dynamics to develop IC interventions designed to improve the operation of the

business model. The paper is innovative because it tackles the causal ambiguity problem to uncover not only intangible assets but also intangible liabilities (Caddy, 2000; Giuliani, 2015). So while most proponents of IC argue that intangible resources create value, there are also resources that can destroy value, and in practice-based research, it is essential to uncover and manage both.

Additionally, the Zakery *et al.* (2017) paper is innovative because it applies the principles of system dynamics to managing and disclosing IC internally. They apply the principles of system dynamics to model resource dynamics across a knowledge-based industry, to represent a real-life management problem of an insurance company and use the SD tools to disclose, monitor and make recommendations for improving the alignment of key resources with the firm's market growth strategy. Hence, the results by Zakery *et al.* (2017) demonstrate the advantages of applying SD for analysing resource management problems to identify the critical IC components, intervention points and decision rules that may stimulate value-creating loops. Such dynamic insights are far different from the static tripartite IC model or the black box business models of integrated reporting that ambiguously espouse combining capitals to create value. Using the systems dynamics approach by Zakery *et al.* (2017) arguably opens up that black box to reveal the interactions that both create and potentially destroy value, thus reducing causal ambiguity.

Conclusion

In developing the conclusion to this paper, it is important for us as editors to reflect and determine what we learned from the experience of editing and engaging with the articles that appear in this special issue. It was when writing the summary of the Zakery *et al.* (2017) article that the importance of our task and the main contribution of this special issue became clear; that IC is still important to organisations, and there is a need to reveal more about IC as a management technology. We have added an emphasis on the word reveal for two reasons. First, from an academic research perspective, it is our duty as researchers to reveal new insights into what IC is and how it works. Second, from a practice perspective, it is important for practitioners to reveal where IC is in their organisation and how it works.

When we use the term reveal IC, we mean to make IC known to the organisation because without first revealing IC, how can IC be disclosed to other stakeholders? As shown in the Zakery *et al.* (2017), revealing IC is a process of discovery that is needed before IC can be disclosed? Revealing IC is difficult because where do you start? In ICD research we are inundated with different frameworks and we either choose not to use them, create our own or occasionally use them. Thus one conclusion we have is that we do not have one consistent way of revealing IC, so it logically follows that we do not have one consistent way of disclosing or reporting IC. The evidence presented in the accompanying literature review (Cuozzo *et al.*, 2017) and the diverse range of papers in this special issue, including those that develop new models is a testament to this conclusion (e.g. Francioli and Albanese, 2017).

What is also clear to us is that ICD research needs reinvigorating and we hope that the papers presented here are a catalyst for reinvigorating ICD research. Here we continue to emphasise the relevance of Guthrie *et al.*'s (2012) classification of first, second and third stage IC research which is becoming a useful tool for understanding where research is positioned (see Dumay *et al.*, 2016). As we alluded to at the beginning of this paper, we see the need for more first stage normative ideas about IC and how to reveal, disclose and report it. Here the normative ideals expressed by Cuozzo *et al.* (2017) to rethink the use of the terms "intellectual capital" vs "intangible assets"; the introduction of the term "involuntary disclosure" by Dumay and Guthrie (2017); and Nielsen *et al.*'s (2017) radical proposal to kill the Balanced Scorecard are demonstrable examples of rethinking ICD.

In the second stage we reveal innovative ways of looking at value relevance through different lenses in the papers by Lardo *et al.* (2017) on deriving metrics from social media

networks, by Schaper *et al.* (2017) critique of the Danish IC statement project; Pisano *et al.* (2017) who showcase human capital disclosure via LinkedIn; and by Garanina and Dumay's (2017) analysis of ICD and value creation in prospectuses. The third stage practice-based papers reveal papers that apply new models to understanding and improving IC practice, with Giacosa *et al.* (2017) reconceptualising and developing a model to assist listed companies in the production of voluntary ICD; by Whiting *et al.* (2017) model to measure reputation, engagement and goodwill in New Zealand SMEs; and by Francioli and Albanese (2017) who develop a model to value, disclose, report and manage IC in a network of companies. Last, Zakery *et al.* (2017) use system dynamics to reveal the interaction of organisational resources and to identify both intangible assets and liabilities.

All the papers included in the special issue complement each other by revealing important and innovative perspectives on ICD research, regardless of the stage we classify them. This means there is ample opportunity to reinvigorate ICD research and expand it. By exploring new normative ideas that can be empirically tested for value relevance, or to understand how those new ideas work in practice. Thus, the first stage helps reinvigorate and develop new ideas in the field of ICD; the second stage helps look at different data sources and contexts related to value creation, and the third stage is to enhance practice-based ICD research. Additionally, we would be remiss not to mention the possibility of fourth stage IC research (Dumay and Garanina, 2013) into ICD, even though no papers in this special issue fit this classification. Here researchers have the opportunity to investigate how cities, regions and even nations might reveal, disclose and report IC, and what impact it has beyond the boundaries of individual organisations.

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