Intellectual Capital Disclosure and Corporate Governance

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ABSTRACT: The main aim of this study is examining the relationship between corporate governance mechanisms and the level of intellectual capital disclosure by listed companies in Tehran Stock Exchange. For this reason, 80 companies that were selected as sample during 2008 to 2011 in the Tehran Stock Exchange, were studied and analyzed. Results of research indicate that there is a positive correlation between the score assigned to the disclosure of information by Rank assigned to accepted companies in Tehran Stock Exchange according to earned points from disclosure quality and appropriate informing of intellectual Capital view and size of the board. But low correlation coefficients for each board independent variable and ownership concentration that are indicate that between the level of intellectual capital disclosure and these two variables are no significant relationship.

Keywords: Intellectual Capital - Board Independence –Ownership concentration - Information asymmetry.

INTRODUCTION

Intellectual capital is born in the realm of science. This word is still in its formative period. Despite the fact that most systems are using intellectual capital, but still a lot of working people in organizations and businesses are not aware of this concept (Zanjirdar et al., 2008). The concept of intellectual capital has been discussed often, but not well defined always and different words have been used to interpret this concept.

Stewart (1997) believes that intellectual capital is a set of knowledge, information, intellectual property, experience, competence and organizational learning that can be used to create wealth. In fact, all intellectual capital of employees, organizational knowledge and their ability to create added value make continuous competitive advantage (GhelichLee and Moshabaki, 2007).

Svibey (1997) defined the intellectual capital, three components include of human capital (the capacity to perform activities in different situations, to create tangible assets and intangible assets), structural capital (The right of invention, concepts, models and office systems and computer system) and relational capital (relationships with raw material suppliers and customers).

Recently, researchers have suggested a general definition of intellectual capital. It defines the requirements for identifying of this asset is expressed. "Intellectual capital is an asset that can measure the ability of the enterprise to create wealth. This assets haven’t any physical nature and is an invisible asset that Obtained through the use of human resources, and organizational operation and relationships outside of the enterprise. All these features create value within the organization and this obtained value, due to a phenomenon that is well within the organization, have no Merchantability” (Ross and Baroness, 2005, as quoted by Sajjadi and Mohammadi, 2010).

Intellectual capital information is necessary for shareholders to make better business decisions (Li et al., 2008). If investors have more information for invest, they can have a better assessment of the financial situation of the company that this could increase the company’s value. It is argued that if ownership focus be much higher, information asymmetry increase between management and majority of shareholder; for lower information asymmetry, the disclosure must rise.

Intellectual capital disclosure provides valuable information for investors, because it would lead to reduction uncertainty about the future prospects of the company (Bach, 2003). According to agency theory stating that the company has high agency costs seeks to the cost comes down; it takes place by increasing the corporate governance regulatory activities and increase disclosure of information. In fact Corporate Governance and
Disclosure, improve protecting the rights of investors and the capital markets can be operate efficiently(Jensen and Mac Ling, 1976, Williamson, 1981; Fama and Jensen, 1983). On the other hand, information disclosure can be accompanied with a fee and Companies prefer to reduce the costs associated with information asymmetryby improving corporate governance system (Serbiony and Perbonty, 2007). According to the above, it is expected existence relationship between corporate governance and intellectual capital disclosure. Therefore, the research question can be put this way: Is a significant relationship between the mechanisms of Corporate Governance and intellectual capital disclosure corporation level?

**Literature review**

So far a number of studies is made about the corporate governance impact on the intellectual capital disclosure (Lee et al, 2008; Serbiony and Perbonty, 2007; Bodianavati, 2009). Some researchers, after doing own research, have suggested that disclosure on non-financial indexes and intangible assets being increase (Lu, 2001; Moritsen, Lawrence, Bach, 2001). Below are some of the most important research be noted:

- Azman and Kamal Uddin (2012) studied the relationship between corporate governance mechanisms and intellectual capital disclosure in Malaysia. They was chosen variable percentage of ownership concentration, board members and members of the audit committee as a corporative governance regulatory mechanisms. Their results showed that there is positive and significant relationship between ownership structure and intellectual capital disclosure. It also has been determined that the disclosure of intellectual capital and audit committee members have a positive and significant relationship with each other. Sameni et al (2007) found that there is a negative significant relationship the disclosure of intellectual capital and of shareholder ownership percentage. This result means that companies with a large number of major stakeholders, have done more disclosure.

- Gann et al (2008) were chosen a total of 158 active companies in Malaysia in 2006 and use of their data, the relationship between corporate governance, ownership structure and intellectual capital disclosures were reviewed. The results of this study showed that family-owned companies, do lower level of intellectual capital disclosure. The only corporative governance variable in this study that has the predictive ability of disclosure of intellectual capital, is the number of audit committee meetings that has a positive impact on disclosure human capital. This study also determined that there is a significant relationship between the number of audit committee meetings, family-owned companies and low ownership concentration companies and human capital points. Lee et al (2008) in their study in Britain, were examined the relation between corporate governance and intellectual capital disclosure using 100 companies with cross-sections method. They found that, there is a significant positive relationship between this two.

- Serbiony and Perbonty in 2007 have done study entitled The Effect of Corporate Governance on Intellectual Capital Disclosure in Europe. Their results showed that corporate governance variables affect the quantity of information disclosed significantly; In relation to quality of disclosure, the results indicate that there is a significant positive relationship between the independence of the board and information disclosure.

**Variables**

The dependent variable: in this study for measuring intellectual capital disclosure measure, a check-list uses. Since the intellectual capital components divided into three parts include structure, communication and humanities, the check-list has three parts and 32 items.

Independent Variables: Independent variables in this study are defined and calculated:

- Concentration of ownership: ownership concentration is defined as the distribution pattern of shares among shareholders of different company. If shareholders is less, ownership will be more centralized. In this study, in order to calculate the ownership concentration, Herfindahl–Hirschman (HHI) index is used. Mentioned index, obtained from sum of shares percentage owned by corporate shareholders. These factors, along with the increase in ownership concentration increases.

- Board independence: it obtained from dividing number of executive Board of Directors by the total number of board members.

**Sample selection**

In this study, we have used the companies accepted in Tehran Stock Exchange (TSE) across the period from 2008 to 2011. This sample includes companies which have the following condition to signify:

- Financial year is ended to March
- Corporate financial reports should be represented to during the mention time.
- Corporate shouldn't be in loss.
- Corporate shouldn't be investment companies or financial and credit institute.
Companies shouldn't have a trade pause more than 30 days. During this time, they shouldn't change their business or their financial year. The required items for accounting variables should be existed during its time.

Total firms in Tehran Stock Exchange are 431, According to these terms, statistical sampling of study includes 80 companies among accepted companies in Tehran Stock Exchange (TSE).

**findings**

Four variables were examined in this study. Each variable has its own averages and other own descriptive statistics features. Picture 1 shows Descriptive statistics for the variables examined in this study.

<table>
<thead>
<tr>
<th>Variables</th>
<th>N</th>
<th>MIN</th>
<th>MAX</th>
<th>MEAN</th>
<th>STD</th>
<th>VAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>IC Disclosure</td>
<td>356</td>
<td>1.00</td>
<td>4.00</td>
<td>2.2837</td>
<td>.75498</td>
<td>.570</td>
</tr>
<tr>
<td>Board Independence</td>
<td>320</td>
<td>.00</td>
<td>8.00</td>
<td>3.0531</td>
<td>1.28421</td>
<td>1.649</td>
</tr>
<tr>
<td>Size board</td>
<td>320</td>
<td>4.00</td>
<td>8.00</td>
<td>5.7375</td>
<td>.67175</td>
<td>.451</td>
</tr>
<tr>
<td>Ownership concentration</td>
<td>320</td>
<td>3.33</td>
<td>97.00</td>
<td>50.8919</td>
<td>22.02437</td>
<td>485.073</td>
</tr>
</tbody>
</table>

Figure 2. 4 shows Correlation matrix of variables in this study. Front number of each variable shows Correlation coefficients between and the lower value shows the level of significance or lack of significance for the relationship or lack of relationship between two variables. This image can be also used to evaluate the association of each variable with another variable.

<table>
<thead>
<tr>
<th>Variables</th>
<th>IC Disclosure</th>
<th>Board Independence</th>
<th>Size board</th>
<th>Ownership concentration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board Independence</td>
<td>.081</td>
<td>1</td>
<td>.187</td>
<td>-.123</td>
</tr>
<tr>
<td>Size board</td>
<td>.162</td>
<td>296</td>
<td>.001</td>
<td>.034</td>
</tr>
<tr>
<td>Ownership Concentration</td>
<td>.000</td>
<td>299</td>
<td>299</td>
<td>299</td>
</tr>
<tr>
<td>Ownership Concentration</td>
<td>.202&quot;</td>
<td>.187&quot;</td>
<td>1</td>
<td>.019</td>
</tr>
<tr>
<td>Ownership Concentration</td>
<td>.000</td>
<td>320</td>
<td>.019</td>
<td>1</td>
</tr>
</tbody>
</table>

In this method, the independent variables with considering importance, enter equation respectively; with this difference every time after entering a variable, the variables that have already been imported are re-examined. And if the level of theirs significantly reduced, exit from model and otherwise the model.

<table>
<thead>
<tr>
<th>Model</th>
<th>B</th>
<th>T</th>
<th>Significant level</th>
<th>correlation</th>
<th>tolerance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board Independence</td>
<td>.045&quot;</td>
<td>.776</td>
<td>.438</td>
<td>.045</td>
<td>.969</td>
</tr>
<tr>
<td>Ownership concentration</td>
<td>.015&quot;</td>
<td>.266</td>
<td>.790</td>
<td>.016</td>
<td>.999</td>
</tr>
</tbody>
</table>

**CONCLUSIONS**

The results indicate that there is a positive correlation between the scores of information disclosure by the rating assigned to the accepted company’s in Tehran Stock Exchange according to information quality and appropriate capital items inform score with the board size. But low correlation coefficients for each independent variable of the board and ownership concentration in the tables in Chapter IV show that there is no significant relationship between level of intellectual capital disclosure and these two variables.

The low multiple correlation coefficient, indicating a weak correlation between the set of independent variables and the dependent variable -linear combination of the disclosure. The coefficient of the regression model indicates the regression model of study not able to fit the data well. In fact, only a small percentage of the disclose score changes examined by the independent variables of this study was explained and justified and the rest of the changes (97 percent) related to variables that are not included in this study and they are under the influence of external variables in the regression model for this research. The obtained standardized regression showed that among examined variables and effector on the disclosure of intellectual capital of companies, board size has greatest impact on the company’s disclosure score variable. According to results of this study, it suggest to investors and other financial statements users that during of financial study and decision making about buying and
selling company shares and considerate consideration of the disclosure score for companies. First, consideration to the size of the board is necessary and other corporate governance must be considerate in other priorities decision-making.

ACKNOWLEDGMENT

The Islamic Azad University, Delam Branch have financed the budget of this research.

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