

Considerations on the Financial Reporting of Intangible Capital in Romania, Spain, and France

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Abstract

We have studied a series of criteria of intangible capital, made up of human, relational and structural capital, in order to identify the extent to which the Romanian, French and Spanish accounting environments meet the challenges concerning the acknowledgement of intangible elements. We have analyzed the annual financial statements corresponding to the fiscal year closed on 12.31.2011, drawn according to IAS/IFRS provisions, for 19 companies listed in the Bucharest Stock Exchange, 27 Spanish companies quoted in the Madrid Stock Exchange, components of the IBEX 35 market index and 35 French companies quoted in the Paris Stock Exchange, components of the CAC 40 stock exchange index.

Keywords: intangible capital, human capital, relational capital, structural capital, financial reporting

1. Introduction

We live in an ever more competitive, globalized world, in permanent technological evolution. The International Accounting Standards (IAS/IFRS) have been the natural answer to the need for standardization and increase of the relevance of the information provided in the financial statements by quoted companies.

The results of the research in the field of reporting of the intangible capital are complementary to the recommendations included in the accounting standards and contribute to improving one of the main qualitative features of financial information: comprehensibility (Lopes, 2010). Researchers as well as practitioners subscribe to the affirmation that traditional financial statements cannot seize the value of intangible assets, which leads to an increase in the information asymmetry, the solution consisting of focusing, in the annual reports, on non-financial information (Arvidsson, 2011).

2. Literature review

Since the introduction of the concept of "management by objectives" by Peter Drucker in 1954 (Dinesh and Palmer, 1998), managers have focused on identifying and measuring the strategic

objectives and progresses recorded on the way to meeting them, so that the adage¹ “If it cannot be measured, it cannot be managed” became part of management folklore. Most intangible capital reporting models are based on the same logic. However, Dumay and Rooney (2011), starting from a case study made dynamically on the public company Lands, reached the conclusion that it is possible to manage intangible capital, without it to be integrated in a balance sheet. The authors of the study consider that the reporting of intangible capital is easier to communicate by narrating the way in which it is mobilized, by describing the obtained achievements, without the need to establish a concrete set of indicators to evaluate the immaterial part of the business. The Australian company Lands proved that it is easier to adapt to, and model the internal needs of acknowledged reporting frames, such as the Balanced Scorecard and the Danish Guide, than to apply them *ad literam*, which allows focusing on reporting practices, rather than on the accounting of intangible capital.

At the same time, other researchers suggest using causal diagrams for understanding, monitoring, and evaluating intangibles. Ittner and Larker (2003) suggest using maps for identifying and measuring the critical intangible factors, with a significant impact in the process of plus-value creation, as the success of a company is determined by the network of interconnections between the intangible elements. Causal models clearly prove the cause-effect relations between the key variables and the final objectives and help companies determine the intangible elements that need to be permanently monitored through specific indicators.

The question whether we have appropriate tools for measuring the immaterial elements is also attempted to be answered by *L’Observatoire de l’Immatériel* of France, which provides European companies with information on the methods and instruments that would allow them to study and capitalize upon immaterial assets.

Certainly, the issue of the instruments that can be used to measure intangible capital is far from receiving generally accepted answers. Researches continue, being also based on the correlations between the degree of dissemination of the information on intangible capital and the culture and activity field of the company. In this respect, in a study published in 2011, made on companies in various activity fields in Australia, Hong Kong, Singapore, and the Great Britain, Vafaei *et. al.*(2011) show that, according to the specificity of the country and of the activity branch, there may exist a direct relation between the reporting of intangible capital and the stock exchange ratio. Reports referring to intangible capital provide investors with relevant information only in non-traditional activity fields in Australia and Great Britain. On the other hand, Tovstiga and Tulugurova (2009) analyzed the influence of intangible capital on the competitiveness of the innovative companies in four regions in Russia, Germany, Denmark, and USA, and drew the conclusion that there are more resemblances than differences in what concerns the practices of reporting the immaterial capital, and that they significantly influence the performance of companies. Innovative companies in Spain, with state of the art technologies, have been closely examined by the researchers De Castro and Saez (2008), who noticed that in this activity field, human capital determines the success of companies, and the leader position is insured by the quality of the labor force, on the principle “the best people, the best company”.

¹Lord Kelvin, Nobel prize for Chemistry in 1934.

An extended study, performed in the period September 2006 – May 2007 by the Institute of Intellectual Capital of Mexico (*Instituto de Capital Intelectual*), on a sample made up of companies from 8 geographical regions and 16 activity fields, proves that contextual factors (the geographical region, the activity field, the size of the company) have a significant influence on the value of intangible capital (Axtle Ortiz, 2009).

Studies performed on Scottish companies reached the conclusion that, at a national level, the hidden, unused value of the intellectual assets owned by companies can be estimated to several billion sterling pounds. Thus, at the companies' request and with the government's support, the Intellectual Assets Centre was created in Scotland, whose purpose was to help companies identify and capitalize upon the value of the owned intellectual assets. The project "*Valuing Intangible Assets in Renewable Energy*" – VIA – aims to support the adoption by the management of the companies in this activity field of initiatives for managing intangible assets for improving performance and increasing the organizational ability to create value (Lerro, 2011).

3. Methodology and analyses

In our approach, we aimed to study the extent to which Romanian, Spanish, and French companies present, beyond the IAS/IFRS requirements and recommendations, elements of intangible capital in annual reports.

We analyzed the annual financial statements corresponding to the fiscal year ended on 12.31.2011, drawn in accordance with the IAS/IFRS provisions, for 19 companies quoted in the Bucharest Stock Exchange, 27 Spanish companies quoted in the Madrid Stock Exchange, components of the IBEX 35 stock exchange index, and 35 French companies quoted in the Paris Stock Exchange, components of the CAC 40 stock exchange index. We computed the mean degree of dissemination of the information on intangible capital based on the points obtained by each company to a set of criteria, structured on the three components of intangible capital: human capital, relational capital, and structural capital. In the data collection stage, we resorted to mediated collection techniques of the data from the annual financial statements and from the annual reports, and in the processing and analysis stage, we used the empirical comparative analysis to identify the resemblances and differences between the information published by the companies in the three companies subject to the study, as well as quantitative analysis. The data was processed using the SPSS 19.0 software – ***Statistical Package for the Social Sciences***.

We considered the following criteria, frequently used in specialized literature:

Table 1. Criteria of intangible capital

Criteria for Human Capital	Criteria for Relational Capital	Criteria for Structural Capital
Number and age of the employees	National and international certifications obtained in the field of product quality	Innovation, research and development activities
Motivations/benefits granted to the employees	Concern with the environment	Systems
Time allocated for employee training	Customer satisfaction index	Number of patents
	Social programs, donations	

The algorithm for determining an approximate value of human capital, relational capital, and respectively structural capital is simple: if the company presents complete information on a criterion, it is marked with 1, if it does not present information, it receives 0 points, and if it presents only partially certain information, it is marked accordingly: 0.25, 0.5, or 0.75. At the end, each component of intangible capital will be equal to the arithmetical mean of the points obtained for each criterion taken into consideration. The arithmetical mean of the values obtained for human, relational, and structural capital is the intangible capital of the company. The values obtained for structural capital, human capital, and relational capital by the autochthonous companies are presented in table no. 2:

Table 2. Values of the components of intangible capital – Romania

	N	Minimum	Maximum	Mean	Std. Deviation
Human Capital	19	.00	.67	.1842	.22835
Relational Capital	19	.00	.83	.2105	.19319
Structural Capital	19	.00	.75	.4803	.22443

The relational capital of Romanian companies has a mean value equal to 0.48, while the mean values of the other two components of intangible capital are much lower: 0.18 in the case of structural capital, respectively 0.21 for human capital. Starting from these numbers, we cannot state, however, that Romanian companies are characterized by a low value of intangible capital, but only that they do not present information on the analyzed criteria.

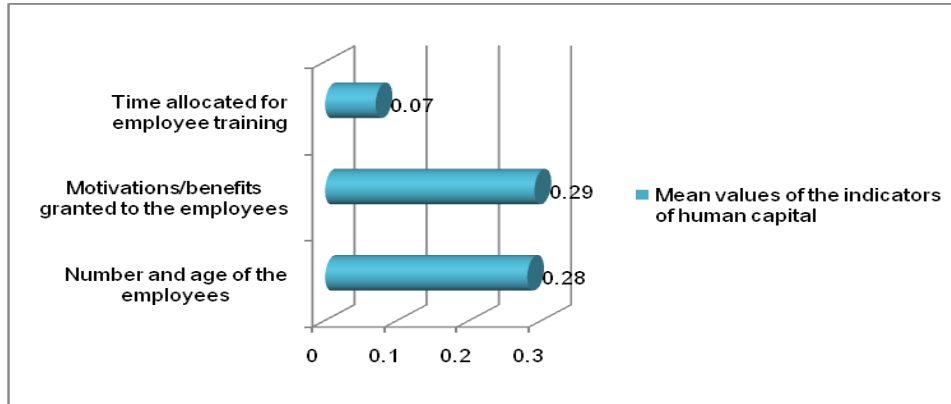


Figure 1. Mean values of the criteria for human capital – Romania

The mean values of the criteria considered for the evaluation of human capital are low, and the most often met information is on the number of employees, without the mention of their age categories.

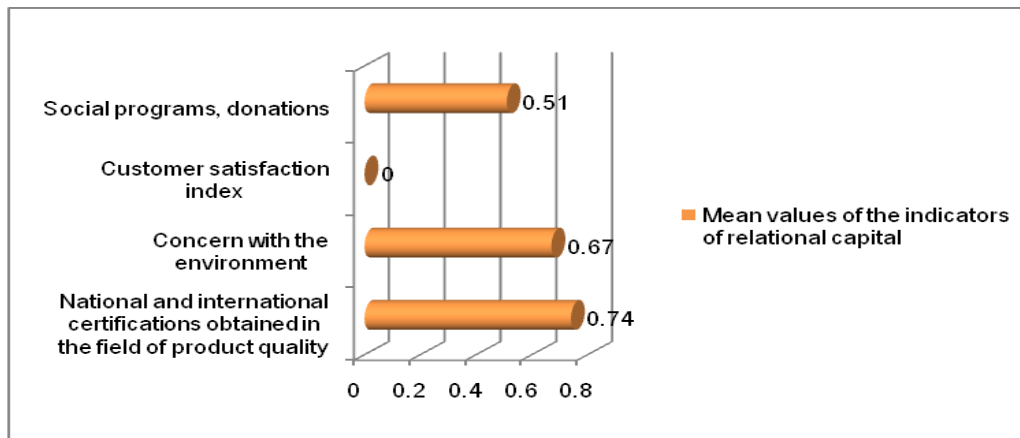


Figure 2. Mean values of the criteria for relational capital – Romania

None of the analyzed Romanian companies presents the customer satisfaction index, but most provide information on the national and international certifications obtained in the field of product quality (figure 3):

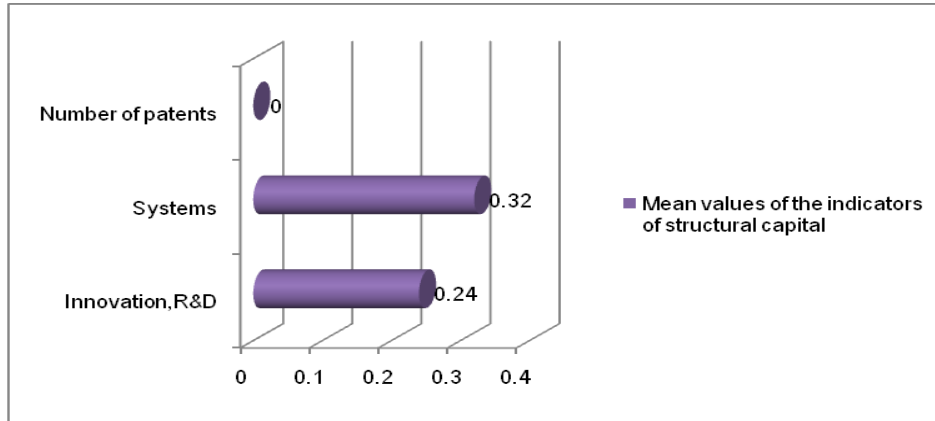


Figure 3. Mean values of the criteria for structural capital – Romania

Analyzing the annual reports, the financial statements, and the other information published on the official pages of the companies, we have not identified any information on the number of patents used or owned, and lapidary references on the research and development activities and on innovation.

The SPSS output reveals that the mean values of the components of intangible capital are much higher in the case of the Spanish companies. The high difference between the values of the components of intangible capital obtained by each country is justified, on the one hand, by the fact that only one Romanian company (OMV PETROM) presents a corporate social responsibility report, and other 4 companies have on their official pages sections with vague information on social liability, while all the Spanish companies present such reports. We have also noticed that some Iberian companies (e.g.: Gamesa, Ferrovial) present on their official page a menu labeled “human capital”. Therefore, the mean value of human capital is equal to 0.79, the mean of the relational capital indicator is 0.73, while the mean value of structural capital is 0.6 (Table 3).

Table 3. Values of the components of intangible capital – Spain

	N	Minimum	Maximum	Mean	Std. Dev.
Human Capital	27	.08	1.00	.7870	.27085
Relational Capital	27	.06	1.00	.7315	.26956
Structural Capital	27	.00	1.00	.5988	.27253

The table above presents the minimum, maximum, and mean values of the analyzed criteria. If in the case of Romanian companies, no criterion reaches the maximum value of 1, in the case of Iberian companies, all the studied criteria reach this maximum (Table 4).

Table 4. Values of the criteria of intangible capital- Spain

	N	Minimum	Maximum	Mean	Std. Dev.
Concern with the environment	27	.25	1.00	.9074	.23151
National and international certifications obtained in the field of product quality	27	.00	1.00	.6204	.46186
Customer satisfaction index	27	.00	1.00	.4722	.49192
Social programs, donations	27	.00	1.00	.9259	.26688
Time allocated for employee training	27	.00	1.00	.8704	.28898
Motivations/benefits granted to the employees	27	.00	1.00	.7407	.43012
Number and age of the employees	27	.00	1.00	.7500	.27735
Innovation, R&D activities	27	.00	1.00	.7407	.40716
Systems	27	.00	1.00	.8333	.32522
Number of patents	27	.00	1.00	.2222	.38813

The indicator with the smallest mean value is the number of patents (0.22), while involvement in the community is most often described in the annual reports of Spanish companies. Moving the analysis at the level of French companies, we can see that the least represented indicator is the customer satisfaction index. At the opposite pole are the concern with the environment and involvement in the community. Also, all the indicators reach the maximum value of 1. Although not all the French companies draw corporate social responsibility reports, all the analyzed companies include in their annual reports or reference documents² sections referring to the research and development activities, to the social programs under way, to environmental protection, human resources, ethics, etc.

The Saint-Gobain company received, in 2011, the grand prize “Trophy for Human Capital”, and was also awarded in the ethics category for behavioral and action principles and for the way of disseminating them among the employees.

² The reference documents are drawn in compliance with art. 212-213 of the General Regulation of the Authority for Financial Markets (l’Autorité des Marchés Financiers).

Table 5. Values of the criteria of intangible capital- France

	N	Minimum	Maximum	Mean	Std. Dev.
Concern with the environment	35	.75	1.00	.9929	.04226
National and international certifications obtained in the field of product quality	35	.00	1.00	.4929	.44757
Customer satisfaction index	35	.00	1.00	.2000	.34192
Social programs, donations	35	.25	1.00	.9357	.17514
Time allocated for employee training	35	.00	1.00	.9071	.23550
Motivations/benefits granted to the employees	35	.00	1.00	.7714	.31722
Number and age of the employees	35	.25	1.00	.7286	.23772
Innovation, R&D activities	35	.00	1.00	.9000	.23639
Systems	35	.00	1.00	.8571	.32813
Number of patents	35	.00	1.00	.5429	.45571

Unlike the Spanish companies, which record the smallest mean value in the case of structural capital, the French companies are characterized by high values of structural and human capital, while relational capital has the minimum value (still higher to the values recorded in the case of the Romanian companies).

Table 6. Values of the components of intangible capital – France

	N	Minimum	Maximum	Mean	Std. Deviation
Human Capital	35	.25	1.00	.8024	.17041
Relational Capital	35	.31	.94	.6554	.15187
Structural Capital	35	.17	1.00	.7667	.27252

As a result, the values recorded by the analyzed criteria for human capital, relational capital, and structural capital are translated into a low value of intangible capital in the case of Romania

(0.292), while foreign companies have a mean value of intangible capital of 0.706 (Spain) and 0.741 (France).

4. Conclusions

After studying specialized literature, we noticed that there are very few concerns with the financial reporting of intangible assets and intangible capital in Romanian companies, although at the level of the other European countries numerous empirical studies have been performed. In general, the analyzed Romanian companies do not present information on intangible capital, they do not draw social liability reports, and focus mainly on the information required by the national regulations. Unlike the Romanian companies, the Spanish and the French companies present in their annual reports a large amount of data and information on intangible capital. Although we have studied the financial statements of 252 Romanian companies quoted in the Stock Exchange, we have identified only 19 companies that apply IAS/IFRS. As a result, one of the limitations of our study is the small dimension of the sample of Romanian companies. We consider that it will be possible to overcome this issue starting with the financial statements corresponding to the year 2012, considering that, according to art. 1 of OMFP 881/2012 *on the application by the trading companies whose movable values are allowed in transactions on a market regulated by the International Financial Reporting Standards*, starting with the fiscal year 2012, companies whose movable values are allowed in transactions on a regulated market have the obligation to apply the International Financial Reporting Standards (IFRS) in drawing the individual annual financial statements.

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