Intellectual Capital Reporting and Measurements: A Review of Literature on Indian IT Industry with World Wide

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Abstract: Today knowledge and intellectual capital play a principal role in the approach of corporate performance. This importance is reflected in the fact that companies without the force of any regulations start to measure their knowledge and intellectual capital. Even governments are beginning to measure the intellectual capital of cities, regions, and countries. Companies and investors alike are trying to measure their intellectual capital and the value of knowledge. There is increasing evidence that the drivers of value creation in modern competitive environments lie in a firm’s intellectual capital rather than its physical and financial capital. Therefore, the identification and development of an organization’s intellectual capital are important, as are insights of intellectual capital in action and any impact that this may have. The main objective of this paper is to investigate and examine several contemporary reviews of theories on intellectual capital and how they are utilized in practice in India and other countries. Basically, the paper aim is to review of the literature. We see review some of the most significant extant literature on intellectual capital and its development path. The emphasis is on important theoretical and empirical contributions relating to the measurement and reporting of intellectual capital.

Introduction

The knowledge is very essential source for people, firms and countries. The treasures and values of firms can increase or decrease depending on how well they create, capture, and leverage their knowledge. It is widely accepted that the core of managing an organization supports on knowledge. Every decision making process, planning, strategy implementation of an organization is reliant on a never-ending gathering, analyzing, and use of relevant data and knowledge.

In the past decade the economy mainly depended on land, natural resources and equipment. But in modern times the source of organization resources has changed due to a competitive economy. A new approach or the driver for information economy has introduced a new term, i.e. ‘intellectual capital’. Intellectual capital encompasses with value for an organization in the context of knowledge management. An increasing number of organizations can be identified as knowledge intensive, for example, consulting firms, law firms, software developers, and similar organizations operating in the service sector that are totally dependent on their intellectual capital for the success of their business. However, all organizations require intellectual capital if they are to operate effectively and maintain sustainability.

Intellectual capital is critical to sustaining competitive advantage and is a valuable source of wealth creation. The value of a business of managing intellectual capital lies in recognizing the potential to the organization of the intellectual capital it has, and utilizing it to open up opportunities for future growth. Considerable value resides in the depth and range of an organization capability and
competencies and maximizing those resources is essential for its development.

Significance of Intellectual Capital

Today knowledge and intellectual capital play a principal role in the approach of corporate performance. This importance is reflected in the fact that companies without the force of any regulations start to measure their knowledge and intellectual capital. Even governments are beginning to measure the intellectual capital of cities, regions, and countries. Companies and investors alike are trying to measure their intellectual capital and the value of knowledge. There is increasing evidence that the drivers of value creation in modern competitive environments lie in a firm’s intellectual capital rather than its physical and financial capital.

Elements of Intellectual Capital

Many practitioners suggest that Intellectual capital consists of three elements (Sveiby, 1997 and Bontis, 1998).

- Human capital, which includes experience, the know-how, capabilities, skills, and expertise of the human members of the organization.
- Structural capital (organizational capital) which includes the systems, networks, policies, culture, distribution channels, and other ‘organizational capabilities’ developed to meet market requirements as well as intellectual property.
- Relational capital (customer capital) which includes the connections that people outside the organization have with it, their loyalty, the market share, the level of back orders, and similar issues.

Research Gap

On a global level a number of researchers have worked on Intellectual capital, disclosures and reporting of intellectual capital. It is a multidisciplinary area for organization. In India a few studies have been conducted on intellectual capital, with specific emphasis on disclosure practices of intellectual capital. So there is need to conduct a comprehensive research on the intellectual capital disclosure in the Indian IT industry.

Objectives of the Study

The specific objectives of the present study are as follows:

1. To review various studies conducted on the intellectual capital reporting and measurement practices in the India and worldwide.
2. To examine and perspective towards intellectual capital reporting and measurement.

Conclusion

The findings of this research demonstrate that intellectual capital reporting and measurement are not a right of way for the Indian information technology sector. A few studies demonstrated that Indian IT companies are very low which suggests that there is low recognition and a lack of interest in recording and reporting of intellectual capital variables with the companies. The companies have not even reported principal intellectual capital terms such as intellectual capital, knowledge management and employee skills and quality. The reporting practices for intellectual capital items were not consistent and lacked an appropriate measurement approach. It has also been found that there is a general absence of well defined guidelines for the intellectual capital disclosure in the annual reports.
from the national or international accounting bodies and Indian professional accounting associations. Accordingly, Indian information technology companies are lagging behind in the reporting and disclosure of intellectual capital in their annual reports. However, the findings of the study are similar to various other studies on different corporate groups and the studies on information technology sector conducted by intellectual capital researchers in different countries. Knowledge, innovation, information technology and people are key contributors in the future of any organization and intellectual capital is the key driver of market value in the knowledge economy. The low level of reporting on intellectual capital by the Information Technology companies, whose very basis of existence is knowledge and innovation may be partly because of the fact that the Intellectual capital is voluntary in nature.

It has been already discussed in this paper that there is no established financial reporting framework for the disclosures of intellectual capital either in India or worldwide and it includes accounting bodies and the accounting profession. The absence of clear guidelines and regulatory frameworks has resulted in only a few organizations adopting a proactive approach in attempting to measure and voluntarily report this type of information.

**Limitations and Future Research**

This study is not without limitations. It is recognized that the link between intellectual capital and knowledge productivity is complex and contingent on several multidimensional organizational actions, for example, organizational learning as well as specific strategic activities. Nonetheless, by producing different literature streams, intellectual capital and knowledge productivity, this study has initialized efforts to understand the multidimensional intellectual capital / knowledge productivity linkage. Another limitation was the dependence on individual perceptual measures since it was difficult to obtain relevant objective measures summarize the variations in intellectual capital and knowledge productivity. The results of this study suggest several avenues for future research on knowledge productivity, with a particularly fertile area being moderating effects.

**References**