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Corporate Intellectual Capital Reporting: the Case of Germany

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the Case of Germany

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Prof. Dr. Claus Meyer

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Viktoria Göbel

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Foreword

The Claus und Brigitte Meyer-Stiftung awards the Thomas-Gulden-Preis for outstanding academic achievements in memory of the former student Thomas Gulden who died from an incurable disease at the age of 25 years.

The Thomas-Gulden-Preis was awarded for the first time in the summer semester 2005. In the winter semester 2009/2010, the Meyer-Stiftung awarded Viktoria Göbel (née Zerr) for her outstanding academic results in the programme Controlling, Finance and Accounting (with distinction) and particularly for her excellent undergraduate dissertation with the Thomas-Gulden-Preis. The Claus und Brigitte Meyer-Stiftung published her work with the title “Ansatzpunkte zur Optimierung des Controllingsystems im kommunalen Immobilienmanagement” as Volume 9 of the Monograph Series MEYER STIFTUNG.

After completing her studies at Pforzheim University and her Master of Science in Accounting and Finance at Aston Business School in Birmingham, both with distinction, Viktoria Göbel continued studying at the University of Edinburgh with the aim of a PhD in the autumn of 2010. For her thesis “Corporate Intellectual Capital Reporting: the Case of Germany” Viktoria Göbel attained the doctorate degree “Doctor of Philosophy” on 26th November 2013.

The Claus und Brigitte Meyer-Stiftung is pleased to publish this valuable contribution to business theory and practice as Volume 13 of the Monograph Series, particularly, being based on an empirical analysis of management reports of German listed companies.

We would like to thank sincerely Ms. Neugebauer and Dr. Brauner at the publisher Wissenschaft & Praxis for their generous support in publishing the Monograph Series.

Stuttgart, July 2014

Prof. Dr. Claus Meyer



The Claus und Brigitte Meyer-Stiftung is a legally responsible and charitable foundation constituted under civil law based in Stuttgart, being approved as foundation by the administrative authority in Stuttgart on 21st April 2005. The purpose of the foundation is realised in promoting science and research, education and development as well as funding support of students in need at Pforzheim University, particularly by:

- Awarding grants and similar support to students, particularly to those in need, to be able to continue and successfully accomplish their studies.
- Awarding the Thomas-Gulden-Preis for outstanding academic results and/or an excellent bachelor/master thesis in the area of Business/Controlling, Finance and Accounting to one or several students.

Thomas Gulden was born on 15th March 1978. He studied Business/Controlling, Finance and Accounting at Pforzheim University and completed his studies with a “very good” overall grade. Due to a congenital and developing myopathy, Thomas Gulden was confined to a wheelchair since the age of ten. On 11th April 2003, he died from this disease of which course he was aware. Posthumously, Thomas Gulden was awarded with an advancement award for his excellent diploma thesis, graded with a mark of 1.0. According to his wish, humanitarian organisations were supported with this award and his entire fortune.

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Preface

This study was conducted and submitted as PhD thesis for completion of a PhD in Accounting at the University of Edinburgh in November 2013. For the purpose of this publication, the study was revised in July 2014. After finishing the PhD, the projects of this study were further developed as research papers and are currently under review at peer reviewed journals. The first project in chapter 5 was accepted for publication in the Journal of Intellectual Capital, forthcoming in 2015.

I would like to thank Prof. Dr. Claus Meyer, his wife Brigitte Meyer and the MEYER STIFTUNG for supporting and publishing my academic work.

I would also like to thank my supervisors Professor Pauline Weetman and Professor Bill Rees for their support, advice and feedback. Their stimulating questions helped me to continuously look for ways to improve my work.

I am particularly grateful for the support from my husband, my family, particularly my parents and my sister, my friends Heike, Sonja, Göksel, Sven and Isabell, and my colleagues. Their patience and encouragement helped me during this challenging PhD time.

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- BAFA Doctoral Colloquium 2011 and 2012
- PhD Day at the University of Edinburgh Business School 2011 and 2012
- ScotDoc 2011 and 2012
- Year-end panel review of the Accounting & Finance Group 2011 and 2012
- FRBC Doctoral Stream 2012
- FRBC Conference 2013
- EIASM Interdisciplinary Workshop on Intangibles, Intellectual Capital & Extra-financial Information 2012
- Doctoral Seminar at the Justus-Liebig-University Gießen 2012
- EAA Annual Congress 2013

Munich, July 2014

Viktoria Göbel, PhD

Table of Contents

List of Tables	17
List of Figures	19
Abbreviations	20
1 Introduction.....	21
1.1 Motivation for this study.....	21
1.1.1 New reporting models for intellectual capital	21
1.1.2 Intellectual capital reporting in Germany.....	22
1.2 Research questions and contribution	24
1.2.1 Research questions	24
1.2.2 Overview of the research approach	26
1.2.3 Focus of this study	26
1.2.4 Contribution.....	27
1.3 Main results.....	27
1.3.1 Estimating a measure of IC value.....	27
1.3.2 Designing a parsimonious research framework for IC content analysis...28	
1.3.3 Applying agency theory and legitimacy theory to IC reporting	29
1.4 Structure of thesis.....	30
2 Review of literature on intellectual capital reporting	33
2.1 Introduction.....	33
2.2 The concept of IC.....	34
2.2.1 Definitions of IC.....	34
2.2.2 IC within corporate reporting	36
2.2.3 Development of IC research in three stages.....	38

2.3 IC reporting research.....	39
2.3.1 Approaching IC reporting.....	39
2.3.2 Investigating IC reporting in content analysis studies	40
2.4 Methodological considerations in IC reporting research.....	44
2.4.1 Comparison of approaches in IC reporting research.....	44
2.4.2 Theories related to IC reporting	44
2.4.3 Sample selection for IC reporting studies	47
2.4.4 Considerations of time.....	48
2.4.5 Country focus in IC reporting studies	49
2.4.6 Communication channels under review	51
2.4.7 IC reporting across industry sectors	53
2.4.8 Unutilised IC reporting information in prior studies.....	54
2.5 Conclusion	55
3 German context for researching intellectual capital reporting.....	59
3.1 Introduction.....	59
3.2 German management report.....	60
3.2.1 Historic development of the management report	60
3.2.2 German Accounting Standard 15 (GAS 15).....	62
3.2.3 GAS 15 recommendations related to IC.....	64
3.2.4 Revision of GAS 15 in 2010	66
3.2.5 New standard on combined management and risk reporting GAS 20	67
3.3 Movements towards IC management and reporting in Europe	69
3.3.1 European projects and guidelines on IC reporting	69
3.3.2 German ‘Wissensbilanz’	71
3.4 German setting for IC reporting.....	72
3.4.1 National efforts on knowledge resources	72
3.4.2 Strong stakeholder representation	73

3.5 Conclusion	74
4 Methodology overview.....	77
4.1 Introduction.....	77
4.2 Research questions.....	77
4.2.1 Summary of research questions.....	77
4.2.2 Underlying assumptions	78
4.3 Research design.....	79
4.3.1 Research setting.....	79
4.3.2 Approaching the research questions in three projects.....	79
4.3.3 Intended interviews for triangulation	82
4.4 Sample selection	84
4.4.1 Sample for measuring IC value in project one.....	84
4.4.2 Sample for investigating IC reporting in projects two and three	85
4.4.3 Industry grouping	86
4.4.4 Issues with database <i>Datastream</i>	90
4.5 German company characteristics	91
4.5.1 Variety of shares.....	91
4.5.2 Proportion of debt.....	92
4.5.3 Adoption of international reporting standards in Germany	93
4.6 Limitations of the study	94
4.7 Conclusion	95
5 Estimating a measure of intellectual capital value to test its determinants	97
5.1 Introduction.....	97
5.2 Literature review	99
5.2.1 Importance of measuring IC value	99

5.2.2 Approaches to measure IC value	101
5.2.3 Addressing weaknesses of MtB as measure of IC value.....	106
5.2.4 Aspects to be considered when measuring IC value	108
5.2.5 Potential determinants of IC value	110
5.3 Research design.....	113
5.3.1 Sample of German companies.....	113
5.3.2 Estimating Tobin's q	114
5.3.3 Estimating LRVTB.....	116
5.3.4 Comparing IC value measures.....	122
5.3.5 Testing hypotheses on determinants of IC value	125
5.4 Results	127
5.4.1 Results for comparing measures of IC value.....	127
5.4.2 Results for determinants of IC value.....	132
5.5 Conclusion	135
6 Content analysis of intellectual capital reporting – Parsimony in research design	139
6.1 Introduction.....	139
6.2 Literature review	140
6.2.1 Investigating IC reporting with research frameworks.....	140
6.2.2 Comparison of high-level IC categories in research frameworks.....	141
6.2.3 Comparison of lower-level IC components in research frameworks.....	145
6.2.4 IC sub-groupings as suggested solution for disparities.....	151
6.2.5 Framing the research question.....	152
6.3 Research methods	153
6.3.1 Sample of German companies.....	153
6.3.2 German language characteristics.....	153
6.3.3 Content analysis.....	154
6.3.4 Pilot study to develop a research framework for German setting.....	157

6.3.5 Correlation analysis of IC components	158
6.4 Pilot study to develop a research framework for IC reporting	162
6.4.1 Developing a research framework for IC reporting	162
6.4.2 Pilot study results for German annual reports	167
6.5 Testing for parsimony and comparability	169
6.5.1 Content analysis results for the German sample	169
6.5.2 Correlation analysis for parsimony in the IC research framework	173
6.5.3 Correlation analysis for comparability of prior studies.....	178
6.6 Conclusion	182
7 Applying agency theory and legitimacy theory to intellectual capital reporting.....	187
7.1 Introduction.....	187
7.2 Literature review	189
7.2.1 Calls for theory testing in the IC reporting literature	189
7.2.2 Potential motivations for IC reporting.....	190
7.2.3 Agency theory and IC reporting.....	193
7.2.4 Legitimacy theory and IC reporting	197
7.3 Research methods	201
7.3.1 Sample of German companies.....	201
7.3.2 Measures of IC value and mispricing.....	202
7.3.3 Content analysis of IC reporting	202
7.3.4 Distinction of reporting types: required, recommended, voluntary	203
7.3.5 Statistical analysis of IC reporting	204
7.4 Results	209
7.4.1 Analysis of IC reporting by IC categories.....	209
7.4.2 Analysis of IC reporting by reporting types.....	215
7.5 Sensitivity test.....	220

7.5.1 Propensity score matching approach.....	220
7.5.2 Propensity score matching results	223
7.6 Conclusion	224
8 Conclusions.....	229
8.1 Introduction.....	229
8.2 Summary and discussion.....	230
8.2.1 Summary of research objectives.....	230
8.2.2 Summary of research approach	231
8.2.3 Discussion of key findings	236
8.3 Contribution of research	239
8.3.1 Contribution to the literature	239
8.3.2 Implications for policy and practice.....	240
8.4 Limitations and suggestions for future research.....	242
References.....	247
Appendix.....	259
List of IC components in English and German resulting from pilot study.....	259
Alphabetical Index.....	277

List of Tables

Table 2.1	Synoptic table of previous studies of IC reporting.....	45
Table 3.1	Development of the regulation on the German management report	61
Table 3.2	Comparison between Fourth Council Directive and GAS 15	63
Table 3.3	IC-related reporting recommendations in the appendix of GAS 15.....	65
Table 3.4	Comparison of GAS 15 and GAS 20 regarding IC information	68
Table 3.5	Timeline of IC reporting guidelines in European countries	70
Table 4.1	Prepared questions for intended interviews.....	83
Table 4.2	Sample of German companies for measuring IC value.....	85
Table 4.3	Sample of German companies for investigating IC reporting.....	86
Table 4.4	ANOVA and Kruskal-Wallis analysis for industry groupings.....	88
Table 4.5	Industry groupings of German sample for investigating IC reporting.....	89
Table 4.6	Difference between MVC and MV in German sample	92
Table 4.7	Proportion of debt in German sample.....	93
Table 5.1	Sample of German companies by industry and year	114
Table 5.2	Variables for estimating Tobin's q	115
Table 5.3	Different models for estimating LRVTB.....	119
Table 5.4	Estimating LRVTB	121
Table 5.5	Descriptive statistics for the analysis of IC value measures.....	124
Table 5.6	Descriptive statistics for determinants of IC value.....	126
Table 5.7	Descriptive results of IC value measures	128
Table 5.8	Regression results for measures of IC value	130
Table 5.9	Results for Vuong's closeness test	131
Table 5.10	Regression results for determinants of IC value.....	133
Table 6.1	Comparison of high-level IC categories.....	143
Table 6.2	Synopsis of lower-level IC components.....	147

Table 6.3	Summary of content analysis procedures applied in this study.....	156
Table 6.4	Investigation units for correlation analysis of IC components.....	159
Table 6.5	Applied widely-used IC components in selected prior studies	161
Table 6.6	Research framework for IC content analysis in this study	164
Table 6.7	IC reporting results of pilot study by location in annual reports.....	168
Table 6.8	Descriptive results of IC content analysis by company size panels.....	170
Table 6.9	Reporting scores of widely-used and total IC components.....	172
Table 6.10	Correlation results for structural capital components.....	174
Table 6.11	Correlation results for relational capital components.....	175
Table 6.12	Correlation results for human capital components.....	175
Table 6.13	Correlation results for selected prior research frameworks.....	179
Table 7.1	Required and recommended IC components in GAS 15.....	205
Table 7.2	Descriptive statistics of regression variables.....	207
Table 7.3	Descriptive results of IC content analysis by IC categories.....	210
Table 7.4	Regression results by IC categories.....	213
Table 7.5	Descriptive results of IC reporting by reporting types	216
Table 7.6	Regression results by types of IC reporting	218
Table 7.7	Descriptive statistics for propensity score matching.....	222
Table 7.8	Propensity score matching results for voluntary IC reporting	224

List of Figures

Figure 1.1	Hierarchy of research objectives	25
Figure 2.1	Boundaries of IC.....	36
Figure 2.2	Influences between and across prior IC research frameworks.....	42
Figure 4.1	Sequence of research projects in this study.....	80

Abbreviations

AktG	Aktiengesetz (German Companies Act)
GAAP	Generally Accepted Accounting Principles
GASC	German Accounting Standards Committee
HC	Human capital
HGB	Handelsgesetzbuch (German Commercial Code)
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IC	Intellectual capital
ICB	Industry Benchmark Classification
IDW	Institut der Wirtschaftsprüfer (Institute of Public Auditors, Germany)
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Committee
LRVTB	Long-run value-to-book
MtB	Market-to-book
MV	Market value
MVC	Market value consolidated
R&D	Research and development
RC	Relational capital
ROA	Return on assets
ROE	Return on equity
SC	Structural capital
SME	Small and medium-sized enterprise
VAIC™	Value Added Intellectual Coefficient™

1 Introduction

1.1 Motivation for this study

1.1.1 New reporting models for intellectual capital

Publications from international institutions have recommended new financial reporting models for explaining value creation processes (ICAEW, 2009; IIRC, 2011; 2013). The suggested models focus on two main areas in corporate reporting practices. On the one hand, international institutions advocate that new reporting models should create links between business models, strategy and corporate value creation. On the other hand, they emphasise reporting on other forms of capital which are not explicitly accounted for in the financial statements. The International Integrated Reporting Committee (IIRC) proposes that these other forms of capital include among others intellectual capital and social capital (IIRC, 2011; 2013). The suggested reporting models offer new research areas with a wide range of potential research questions. Some questions have been approached in the literature on how to interrelate reporting areas, such as value, strategy and business models. With a different focus, investigations have been conducted of corporate reporting on other forms of capital. This study focuses on one interesting aspect within the discussion on other forms of capital: intellectual capital (IC) reporting.

The approach to integrated reporting by the IIRC dedicates particular attention to corporate reporting on other forms of capital, including IC. In a consultation draft, published by the IIRC in 2013, a separate section outlines these other forms of capital, named ‘the capitals’ (IIRC, 2013, sec.2B). When the discussion paper from 2011 and the consultation draft from 2013 are compared, an increased emphasis on IC reporting by the IIRC is apparent (IIRC, 2011; 2013). The guidelines on ‘the capitals’ have been further elaborated in the consultation draft in 2013. In 2011, other forms of capitals were briefly outlined to be incorporated in an integrated reporting model. The IC reporting approach in the consultation draft in 2013 focuses more detailed on stocks and flows of capitals and their value contribution. The consultation draft declares that the aim of reporting on the various forms of ‘the capitals’ is to provide information on corporate value creation (IIRC, 2013, sec.2D). The findings of this study may provide a basis for further discussions on the approach to IC reporting in the IIRC consultation draft.

IC has gained increasing attention in the literature because IC has been argued to constitute an important competitive advantage and to play a major role in corporate value creation (Hall, 1992; 1993; Brooking, 1996; Sveiby, 1997; Stewart, 1997). The importance of IC has evoked research into different aspects of IC, such as IC management, IC measurement and IC reporting (e.g. Edvinsson, 1997; Marr et al., 2003; Guthrie & Petty, 2000). As IC reporting represents a central communication platform for this important form of capital, IC reporting has been investigated by academics, practitioners and governmental institutions. International institutions have developed IC reporting guidelines to support corporate IC reporting (DATI, 2000; DMSTI, 2003; European Commission, 2001; 2009). The International Accounting Standards Board (IASB) has also implemented IC reporting in a practice statement for a management commentary (IASB, 2010a). This brief overview introduces the research area of IC reporting which offers interesting research opportunities for this study. The literature on IC reporting is reviewed in more detail in chapter 2. The review of the literature reveals that research gaps exist in the area of IC reporting, particularly regarding potential motivations for corporate IC reporting.

1.1.2 Intellectual capital reporting in Germany

Germany offers a unique research setting for IC reporting due to a mandatory management report containing information on IC (GASC, 2010a). Further information on the German management report is outlined in chapter 3 in an overview of the German context. The German management report has traditionally been required as a separate section in the annual report to provide additional narrative disclosure on corporate performance and value creation. Within the German regulation, IC-related information is partly required and partly recommended. The required management report facilitates approaching the research questions for this IC reporting research. The German Accounting Standard (GAS) 15 provides requirements and guidelines for reporting (GASC, 2010a). According to GAS 15, corporate reporting is aimed to reduce the information gap between managers and users (GASC, 2010a, sec.3) and to focus on sustainable value creation (GASC, 2010a, sec.30–35). These declared aims are consistent with the concepts of agency theory, as further elaborated in chapter 7.

The reporting regulation provides an interesting research setting in Germany for IC reporting, as the ideas of agency theory are encouraged. Based on this situation, agency theory is applied in this study. To investigate motivations for IC reporting, the concepts of agency theory are contrasted with the ideas of legitimacy theory.

Following these two theories, different potential motivations for IC reporting are investigated. As agency theory and legitimacy theory represent theories of voluntary disclosure, a separation of voluntary IC reporting is important to test developed hypotheses. The German regulation with requirements and recommendations on IC information allows distinguishing voluntary IC reporting. This thesis addresses the gap of investigating potential motivations for corporate IC reporting in the unique setting of listed German companies. Despite the interesting study setting for IC reporting in Germany, few academic studies have investigated IC reporting, as outlined in chapter 3. Studies on corporate reporting in Germany exist but with a different focus, such as value reporting (Hayn & Matena, 2005) or IC reporting concepts for small and medium-sized companies (BMWi, 2006).

Regarding the German management reporting regulations, a new German standard was published combining management and risk reporting in 2013, GAS 20 (DRSC, 2013). A change in the German approach to IC reporting is apparent (GASC, 2010a; DRSC, 2013), as further outlined in chapter 3. The German Accounting Standards Committee (GASC) altered the declared aim of the management report. In GAS 15, the aim of the management report is to reduce the information gap between users and management (GASC, 2010a, sec.3). The aim of GAS 20 is to report on the use of the group's resources (DRSC, 2013, sec.3). Furthermore, the principle to 'focus on sustainable value creation' (GASC, 2010a, sec.30–35) was abandoned in GAS 20. The change in the declared aim of the management reporting regulation indicates that the GASC transformed the underlying concepts for corporate IC reporting. The new aim, to report on the use of resources, is consistent with the concepts of legitimacy theory, as further outlined in chapter 7. Therefore, the investigation of potential motivations for corporate IC reporting is particularly interesting for the German setting.

The motivation for this IC reporting study in Germany was guided by the idea of corporate IC reporting to outline IC value creation encouraged by the management reporting regulation. As a German native speaker with a first degree in Controlling, Finance and Accounting from a German university, the researcher is in a position to judge the outcomes in the light of the German background. The background knowledge is important for the design of the research framework for IC reporting, being developed in a pilot study approach in chapter 6. This IC reporting study started with enthusiasm that the German IC reporting approach may take a pioneering role for IC reporting models. However, the findings show that IC reporting of German companies is used as a legitimisation tool rather than