Available online at www.sciencedirect.com
ScienceDirect
Accounting Forum 31 (2007) 129–163
ACCOUNTING FORUM
www.elsevier.com/locate/accfor

Lifting the lid on the use of content analysis to investigate intellectual capital disclosures

Vivien Beattie [a], Sarah Jane Thomson [b,*]

[a] *Department of Accounting and Finance, University of Glasgow, 65-73 Southpark Avenue, Glasgow G12 8LE, UK*
[b] *Department of Accountancy and Finance, School of Management and Languages, Heriot-Watt University, Edinburgh EH14 4AS, UK*

Abstract

This methods paper highlights specific issues that arise in using content analysis to investigate intellectual capital (IC) disclosures. The use of content analysis in the IC context is debated through an analysis of prior studies and the use of an illustrative example (Next plc's 2004 annual report). It is concluded that the depth and breadth of the IC concept and the lack of common definitive language make it difficult to establish the extent and nature of disclosure currently provided. The range of choices available to researchers in terms of analysing and measuring IC disclosures further hinders interpretation and comparability. Transparency in the choices made is required. Shared meanings could be developed and the IC concept better understood through increased transparency in the categorisation of IC information, which in turn could further assist in the interpretation and comparison of findings across studies.

Keywords: Intellectual capital; Corporate disclosure; Methods; Content analysis

1. Introduction

Content analysis has become a widely used method of analysis in financial accounting research (Beattie, 2005). In recent years, several papers in accounting journals have identified and discussed significant issues regarding the use of content analysis to investigate accounting disclosures. One strand of this literature takes corporate social reporting (CSR) as its context (i.e. Hackston & Milne, 1996; Milne & Adler, 1999; Unerman, 2000). More recently, the topic area of intellectual capital (IC) disclosures has been explored (Abeysekera, 2006; Guthrie, Petty, Yongvanich, & Ricceri, 2004). The present paper contributes to the latter area of enquiry.

* Corresponding author. Tel.: +44 131 451 3559; fax: +44 131 451 3296.
E-mail addresses: V.Beattie@accfin.gla.ac.uk (V. Beattie), S.Thomson@hw.ac.uk (S.J. Thomson).

0155-9982/$ – see front matter
doi:10.1016/j.accfor.2007.02.001

IC is the term attributed to intangible assets which create company value (Mouritsen, Larsen, & Bukh, 2001). It is, at least in part,[1] reflected in the difference between market and book values, as the value and impact of intangibles are inadequately reflected in the traditional accounting framework (Cordon, 1998). To highlight the potential significance of IC, studies have reported market-to-book multiples in excess of unity. For example, Gu and Lev (2004) report that the S&P 500's average market-to-book ratio was 4.5 in September 2003 indicating for every US$ 4.5 of market value, only US$ 1 appears on the balance sheet. Beattie and Thomson (2005) found the mean market-to-book value for the UK FTSE 100 companies to be 2.52 based on data for year-end 2002/2003. In light of this evidence, a method for reporting IC information to external stakeholders appears to be required.

The term IC is now widely used among regulators, professional bodies and academics. Many attempts have been made at formal definition. However, according to Guthrie, Petty, & Johanson (2001), 'intellectual capital frequently is poorly defined or is not defined at all'. Zambon (2005) has stated that a 'generally agreed taxonomy' is needed. Despite this apparent stumbling block, considerable efforts have been made to develop models for IC reporting (e.g. DATI, 2000, 2002; DMSTI, 2003; Edvinsson & Malone, 1997; Lev, 2001; Sveiby, 1997). Suggestions have been made to extend the balance sheet to integrate IC, or to create complementary balance sheets (Rylander, Jacobsen, & Roos, 2000). Recently, a focused narrative-based approach to IC reporting has been proposed (DATI, 2000, 2002). However, the opportunity to report IC in narrative format already exists within corporate annual reports.

Corporate annual report narratives may provide the opportunity for IC reporting, but what about the incentive to do so? Voluntary disclosure of IC information can be explained in terms of theories such as positive accounting theory (PAT), legitimacy theory and stakeholder theory (Deegan, 2000; Deegan & Gordon, 1996). If company managers' interests are aligned with shareholders, IC information will be disclosed if it brings benefits to the company (PAT). IC reporting provides companies with the opportunity to take advantage of increased transparency to capital markets, establishing trustworthiness with stakeholders and to employ a valuable marketing tool (Van der Meer-Kooistra and Zijlstra, 2001). Disclosure of IC information could be self perpetuating in terms of maintaining and enhancing IC value given that 'intangible asset creation occurs through enhanced reputation and disclosure influences the external perception of reputation' (Toms, 2002, p. 258). However, reluctance to report IC information may arise from fear of both loss of competitive advantage and litigation.[2] Companies may disclose IC information to appear legitimate in the eyes of society and avoid the imposition of costs arising from non-legitimacy. The disclosure choices of comparable companies may shape legitimacy. IC disclosure may respond to the demands of the stakeholders most critical to the company's ongoing survival (managerial branch of the stakeholder theory).

These theories are mutually consistent, IC disclosure being explained in terms of a cost-benefit trade-off. The ethical branch of the stakeholder theory appears to offer an alternative explanation. Companies recognise that different stakeholders have a right to IC information and so disclosure is responsibility-driven. However, executing responsibilities in terms of disclosure is not necessarily

[1] The difference between market and book values can result from other factors such as the undervaluation of tangible and financial assets recognised in the balance sheet, intangible liabilities that are not captured in the balance sheet and market prices that do not accurately capture intrinsic value (García-Ayuso, 2003).

[2] Elliot and Jacobson (1994) argue that increased informative disclosure actually decreases litigation costs as a result of fewer allegations of insufficient disclosure. It also decreases litigation costs arising from allegations of misleading disclosures through smaller claims, better defences and fewer law suits.