THE TRANSPARENCY IN THE REPORTING OF INTELLECTUAL CAPITAL: BETWEEN THE MANAGEMENT RESPONSIBILITY AND THE STAKEHOLDERS' REQUIREMENTS

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The increasingly ample orientation of the companies towards the intellectual capital is based on the rediscovery of this resource with (almost) unlimited potential, generating economic benefits for a company. Given its importance, the information needs of stakeholders on this line have increased. Thus, in this context, it was put the issue of reporting information related to intellectual capital and the transparency of information published by companies, given that its reporting is not currently regulated. The objective of this paper is to establish an answer to a question: Up to what limit should be made public information related to this capital, given that stakeholders want as much information, and managers only publish information that favors the company's image? In addressing this issue, the point of departure is the intellectual capital structure, most commonly found in the literature, namely human capital, structural capital and relational capital. With this structure, the paper establishes, as a first step, a series of relevant indicators relating to the three components from three different perspectives: resources, management achievements and future expectations. At first observation, the indicators are divided into two categories: financial and non-financial, the first ones targeting the company's performance in relation to the components of intellectual capital, and the latter ones having a pronounced social touch. Based on these indicators, the paper analyses whether a company is willing to publish information, particularly those with social influence, especially in the current conditions of intensely requested social responsibility. In addition to documentary research, we also consider the most important findings based on existing reporting arrangements of the companies, especially from the reports published by them, depending on different criteria, such as social engagement, financial and accounting criteria etc. Given the lack of clear regulations in this respect, it is up to the companies the amount of information publicly provided about this topic, although the benefits of social responsibility have an important impact on the intellectual capital and its components. In this context, accounting helps stakeholders by proposing a valuation model of intellectual capital, based on accounting figures. This financial assessment of intellectual capital, although very useful, is limited and not sufficient in reflecting the image of a company in public reports. This paper aims to present intellectual capital reporting valences, its two sides, financial (which includes the performance of the intellectual capital) and non-financial, including scoring the issues that underline the importance of such reports, from the perspective of the stakeholders and the accountability of the managers in relation to them.

Keywords: intellectual capital, transparency, stakeholders, human capital, intangible assets

JEL Codes: M11, M14, M41

I. The intellectual capital – the 21st century's resource

Bringing in front the intellectual capital in the 21st century companies was a direct consequence of the attitude towards the resources. The theory of resource-based company specifies that company is a collection of material, financial and intellectual resources, the development and the performance of a business being ensured by their use (Neagu 2007: 164). Judging in terms of traditional accounting and directly related to the problem, intellectual capital is generally treated as intellectual property, plus those unspecified resources, grouped under the specific designation of intangible assets. A composition of intellectual capital is presented as follows:

One is people or *human capital*. We can define human capital as the amount of skills, abilities, talent, knowledge and expertise of employees (Arsene 2010: 158). Another component is what is surrounding people in an organization and that is *structural capital* – all those intangibles left behind, when people go home, internal processes and structures, patents, databases, all documents certifying the know-how of a company. As third part, there are external processes and relations, customer relationships and company's image, called *social (relational) capital.*

A closer analysis reveals though the necessity to include in the definition above any type or transformation of any intangible assets which are under some control of an organization and contribute to the general process of creating added value for that organization. So, from this point of view, intellectual capital must be more than pure intellect, but include intellectual action. It is the move from "having" knowledge and skills to "using" them (Swart 2005: 3). The "using" of knowledge implies that relationships (social capital) and intangible assets and processes (structural capital) are needed to transform knowledge, abilities, skills and expertise (which are owned by the employees – human capital) into a product or service that is of value to the firm and its stockholders.

Analyzing the intellectual capital though *the input-process-output relationship, we may consider that the input is the knowledge, expertise and skills of the employees. This input is transformed by the processes reflected in the structural and social capital (the know-how of a company combined with its image and relationships with the economic and social environment). The output is the added value for the stakeholders and the company itself.*

Related to this matter, there are two different discourses of transparency, namely one discourse based on generic reporting versus a second discourse based on management driven information. In other words, one discourse highlights as much information to stakeholders as possible, but seems to be in the process of being substituted by another, which emphasizes reporting what is seen from the perspective of management, namely the "right" information. The value of the product provided by a company for its stakeholders – the information – should be the result of demand and supply. But that does not happen just so, sometimes the offer of information appears to be a response to stakeholders' demand, but it turns out to be a handled one.

II. The need for transparency in companies' reporting

Transparency considers two categories of information: one related to financial aspects of a company's life and one which takes into account the non-financial life of a company, in terms of relations with stakeholders, environment and society as a whole.

Starting from this general view on transparency of public information of a company, we consider some aspects related to the transparency of the information related to the intellectual capital.

In practice, there can be two different opinions: the application of non-financial indicators provides interesting new angles and are of great value to investors, while identifying important performance indicators aims at informing both managers and investors. In the 21st century, we may affirm is a general consensus that by applying many new non-financial measures, e.g. sustainability measures and social responsibilities (Global Reporting Initiative), companies can strengthen their external communications, thereby achieving greater transparency. *The term transparency becomes equivalent to disclosing non-financial information and information relating to the company's value creation.*

A characteristic of all information, not just those related to intellectual capital, the manipulation at the limit of legality actually allows changing the image to promote the enterprise on the market, being considered, to one point, as "creative". But as in any other case, the demarcation between opportunity and opportunism is sensitive, and the creativity can become fraud.

Development of creative side of the information publicly provided by the companies, driven by gaps in laws and regulations, makes it difficult or even impossible to assessing the actual situation of the company and causes serious degradation in the truth, putting into question both the responsibility of information producers and their level of transparency. The reporting of intellectual capital, not being regulated, imposes questions about the limits of information publicly offered to the stakeholders, in relation to the transparency required by the responsibility of the information producers.

From these specifications, two partial conclusions can be drawn. First, transparency in terms of providing sufficient information for stakeholders in order for them to be able to evaluate the activities of corporations must be directed towards society as a whole. Second, transparency is mobilized as a means and not a goal in itself, because in this case, it is seen as a characteristic of the information publicly offered to the stakeholders. The more complete information is, the better informed are the decisions makers.

Additional, it has been discussed that a dilemma exists between minimizing information asymmetry and the costs of disclosure, both from a cost/benefit perspective, but more importantly also with regard to the sensitivity of the information disclosed (Nielsen and Madsen 2009: 849-851).

III. The relationship between the intellectual capital and the social responsibility: from internal reporting to accountability and transparency

Production and dissemination of information by a firm is nothing but simply the result of human will and consciousness and it is in fact a social phenomenon. For these reasons, it must be characterized by accountability and transparency. Interests of users of information are different, which causes some, such as managers, to intervene in the application of companies' policies and methods so as to be benefited. Then, position occupied by some users is that they have a privileged status in terms of information (the investors or the banks).

Before trying to find a financial value of the intellectual capital, first we propose an internal representation of the three main components, each considered briefly from three different, but connected, points of view: as company's resources – these can be measured and reported ("what there is"), as a representation of how the intellectual capital management system works ("what is done"), and whether the use of intellectual capital is leading to efficient products and services requested by customers ("what should happen") (Brennan and Connell 2000: 206-240). Are the components of intellectual capital increasing the flow of benefits for the company?

Table no 1 Indicators for reporting the three components of intellectual capital

Category	What there is	What is done	What should happen
Human capital	Seniority	Share of employees with development plan	Employee satisfaction and fidelity
	Education	Number of training days per employee	Human resource turnover and other financial ratios
	Value-added per employee	Report between the profit plus pay and the number of employees	Employee competency and abilities; increase of the expertise
	Education costs	Education/training costs	Value per employee
Relational capital	Distribution of turnover on markets/products	Customers per employee	Customer satisfaction; customers' rating Annual sales per customer
	Market share	Company's policy related to customers; Share of	Lost customers, new customers

Category	What there is	What is done	What should happen
		turnover related to existing customers	
	Marketing expenses	Marketing expenses over net turnover Administration costs per marketing	Medium size of customers; medium time of the company-customers relationship; customers database; brand image
Structural capital	Investments in R&D IT investments	Product development time – intellectual assets generation; brands, know-how, licenses; PCs per employees; IT expenses per employee	Quality Low error rate IT literacy
	Organizational culture	Quality improvements Management philosophy	Reputation inside the company and on the market
	Risk management	Corporate governance	**Increased level of transparency**
	Knowledge-based infrastructure	Laboratories; databases; distribution channels	

Source: Adapted from Brennan and Connell 2000.

As we can see, the columns for what there is and what is done can be publicly presented, in our opinion. But the third column is usually related to internal issues, and the probability for a company to unconditionally present this information is very low. The third column has a strong social component, so we may consider it is a part of corporate social responsibility and all the indicators should be presented in a social report, as part of the non-financial reporting of a company.

Starting from the indicators presented above, we can find connections between the benefits of corporate social responsibility and the main components of the intellectual capital, pointing out the impact on the latter. Thus, the social responsibility can contribute to the increase of company's intangibles and intellectual capital (especially, of human and relational capital) even if in some cases the effects are embedded in the nature of social responsibility and appear not so evident (Table no 2). The disclosure is essential because it signals the value of investment in intangibles, otherwise unrealized by stakeholders. Therefore stakeholders become aware about social responsibility and this enhances the visibility, legitimacy and reputation of the company itself. In this perspective, corporate social activity is a resource that can be leveraged also by an informative disclosure that reinforces the company capabilities to gain a competitive advantage (Emilio Pasetti et al. 2009: 5). In the last few years, the attitude of the companies is opened to transparency in presenting the information about their social attitude and preoccupations.

Table no 2 Corporate Social Responsibility and intellectual capital

Corporate Social Responsibility Benefits	Impact on intellectual capital
Human capital	
Increasing motivation; improvement of skills and competences through training activities	Employee training
Increasing loyalty, employee safety and health, employee benefits; attract qualified personnel	Employee wellness
Structural capital	
Improvement of voluntary disclosure, of quality of processes, and of internal communication system	Management Process
Proactive risk management; increasing the level of company transparency	Corporate governance
Repositioning of brand name; rethinking competitive strategies; management of stakeholders' relationships	Strategy
Changing in corporate culture; improving commitment	Culture
Improvement of environmental R&D activities	R&D
Relational capital	
Improve company reputation (social, financial, etc.)	Brand image
Acquire new clients, increase client loyalty	Customers
Strengthen co-operation, improvement of supplier ethical and social profile and performance	Suppliers
Increasing investors attention, and financial analysts attention, better market trust, access to ethical indices	Financial relationships

Source: Emilio Pasetti et al. 2009.

IV. An accounting model for the financial assessment of intellectual capital

The financial overview of intellectual capital imposes a review of the most common financial reporting, which is represented by the differences, sometimes substantial, between company book values and market values, and of the transparency of the accounting information related to that. Together, these indicate the presence of assets not recognized and measured in company balance-sheets. Usually, the intellectual capital accounts for a substantial proportion of this discrepancy.

At present, companies are not required to report on intellectual capital assets, which leave the traditional accounting system ineffective for measuring the true impact of such intangibles.

If the report of intellectual capital would become mandatory in the explanatory notes to the financial statements, the form of the financial overview of intellectual capital is as follows (Hoogendoorn et.al 1999: 4):

Fair value of the company (A) - The fair value of the tangible and monetary assets, after deduction of debts and provisions (B) - The fair value of the identifiable and separable intangible assets (C) = The fair value of the remaining intellectual capital (D)

This overview is drawn up on the basis of the idea that the value of the intellectual capital equals the difference between the fair value of the company (or the shareholders' value) and the book value of the tangible and financial assets less debts and provisions. In order to realize an accurate valuation of the intellectual capital, which equals the sum of C and D, we take the view that the fair value of the company should be deducted from the fair value of the tangible and monetary assets, less the fair value of the debts and provisions. If, for example, the cost of property would be used instead of the fair value, the difference between fair value and historical cost would improperly be attributed to the valuation of the intellectual capital.

In case of reporting for intellectual capital, the distinction between elements C and D is important for the assessment of the company's financial position by stakeholders. The better a company is

able to translate its intellectual capital into identifiable and separable intangible assets, the less dependent the value becomes on future profit expectations: after all, identifiable and separable intangible assets can be traded independently and can therefore generate earnings independently, regardless of movements in the profitability of the organization as a whole.
This accounting model does not pose the problem of transparency, but it answers partially to the information needs of stakeholders, providing information about the aggregate value of intellectual capital. In this case, we have to mention that, in our opinion, the financial reporting (mainly related to performance indicators calculated in relation to intellectual capital and the valuation model) must combine with a non-financial, social reporting.

V. Conclusions

This paper is an overview of financial and non-financial indicators relating to the intellectual capital, which should be reported by companies, in order for them to answer to informational needs of their stakeholders. The impact of non-financial reporting of intellectual capital, as part of the corporate social responsibility, is a strong argument in this direction. Of course, the reporting may include a way to commensurate it using the accounting data.
Yet, regardless of the nature of information, for it to be included in external reports, it imposes restrictions: the question of which level of aggregation of information can still provide meaningful and useful information for the stakeholders. A financial amount is enough or it must be completed by non-financial aspects, which determined that amount? The question of whether information included in reviews intended for internal corporate control, in the form of performance indicators, qualifies for publication in external reports must also be answered. Clearly, confidential information and information of strategic importance to competitors cannot be disclosed, despite the fact that stakeholders are seen as privileged users. This last point poses the problem of transparency. *Where the confidentiality ends and transparency starts? Because, in the case of intellectual capital, transparency is not regulated, it became a matter of responsibility and professional reasoning of the management?*
Arguing the need for transparency in financial and non-financial reporting of intellectual capital is defining in presenting a company as a sum of tangible and intangible resources. Limiting the transparency and awareness of users can affect the quality of decisions and their degree of confidence in decision making. Promoting this concept and its influence on the materiality of disclosed information can improve the quality of financial and non-financial reporting of economic entities.

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