



Continuities in the use of the intellectual capital statement approach: Elements of an institutional theory analysis



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ABSTRACT

The Danish Guideline Project and its principal output, the intellectual capital statement, have attracted only a very limited extent of empirical attention since the conclusion of the initiative in December 2002. The paper reports the findings of a series of semi-structured interviews with individuals employed in the small subset of companies that were found to have persevered with intellectual capital reporting during most of the following decade. Interviews explored three themes: motivations for initiating intellectual capital reporting; reasons for continuing to do so; and details of the implementation and evolution of these practices. The paper utilises a number of elements of institutional theory to organise the findings and to discuss the continuities in intellectual capital reporting practice documented therein.

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1. Introduction

Throughout the 1990s, the growing importance of intangible assets and intellectual capital (IC) for successful value creation, combined with the inherently risky nature of such assets (Lev, 2001), resulted in a range of unilateral developments on the part of organisations designed to take them into account and create meaningful reporting around them. Initially the most widely recognised development was probably Skandia's IC reporting framework, the Navigator, pioneered at its AFS division by (Edvinsson, 1997; Mouritsen, Larsen, & Bukh, 2001a). In response to the emergence of these early IC accounting and reporting practices, the financial markets, academics, regulators and government bodies began to express concerns about the validity, reliability and comparability of the information derived for and presented in such statements and reports. Addressing these concerns quickly resulted in the initiation of projects designed to establish frameworks and guidelines for disclosing information on IC that reflected the quality and credibility of the information normally found in the financial statements produced by the accountancy profession.

One of the most influential projects to date in creating models and structures that could support organisations in their work of measuring, managing and communicating the role IC and knowledge resources in the value creation process was the Danish Guideline Project for Intellectual Capital Reporting. This project ran in two phases during the period 1997 to 2002. The initial, modest phase resulted in the publication of *Developing Intellectual Capital Accounts: Experiences from 19 Companies* (DATI, 1999) and *A Guideline for Intellectual Capital Statements—A Key to Knowledge Management* (DATI, 2000). The

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second, more extensive exercise culminated in the publication of a further pair of outputs: *Intellectual Capital Statements—The New Guideline* (Mouritsen et al., 2003a) and *Analysing Intellectual Capital Statements* (Mouritsen et al., 2003b). During the course of the project, 100 companies were involved in creating and disclosing information on their stocks of IC utilising the principal output of the project, the Intellectual Capital Statement (ICS). To date, and despite continued reference in the literature to the considerable merits of the ICS approach, the outcome of the Danish initiative has attracted very little empirical interest.

In the autumn of 2012, and in recognition of the tenth anniversary of the publication of the new guideline on 2 December 2002, a research project designed to address the latter absence in the literature was initiated¹. The study sought to document the continuing use of the ICS approach and any developments introduced among the guideline project's population during the intervening years (Nielsen, Roslender, & Schaper, 2015). Elsewhere, Schaper (2015) explores the underlying reasons that motivated the greater part of companies once involved in the guideline project to subsequently abandon the ICS approach. The present paper discusses the motivations of a small number of companies for initiating IC reporting; the reasons for continuing with these practices over time; and how companies had implemented and developed their specific disclosure practices. The empirical content is provided by eight in-depth semi-structured interviews carried out with respondents from these companies and extends the findings of the broader study reported in Nielsen et al. (2015) and Schaper (2015).

The paper is organised as follows. A brief overview of the Danish Guideline Project, and its principal output, the ICS approach, is provided in the following section. In Section 3 the institutional theory (IT) framework, the broad theoretical perspective identified as being appropriate to underpin this paper, is also reviewed, albeit in brief, with attention being drawn to a number of potentially insightful aspects that are particularly applicable here. The research design of the broader study is outlined in Section 4 while the Section 5 reports the findings of the interviews carried with respondents from the seven companies that evidenced an extended commitment to working with the ICS approach. These findings are discussed in the concluding Section 6.

2. The Danish Guideline Project

The Danish Guideline Project was initiated and funded by the Danish Government in 1997, terminating in December 2002. Project members were recruited from private and public sector organisations, the civil service and the auditing profession, with academic leadership provided by Mouritsen and Bukh. The motivation for the initiative was the recognition that in order to maximise Denmark's success as a 21st century knowledge society, it was necessary to effectively manage, measure and report the utilisation of stocks of IC resources that increasingly provided the key to sustained value creation and delivery. The first phase of the project was pursued under the auspices of the Danish Agency for Trade and Industry (DATI), and entailed working with nineteen "companies" (as they were referred to in the project, reducing to 17) to construct the first ICS as identified in *A Guideline for Intellectual Capital Statements—A Key to Knowledge Management* (DATI, 2000).

The first guideline proposed a three-element model characterised by an emphasis upon narrative rather than numbers, in contrast to the first wave of IC scoreboard reporting frameworks such as the Skandia Navigator (Edvinsson, 1997; Mouritsen et al., 2001a). The most fundamental element was a *knowledge narrative*, in which a company seeks to document how it intends to utilise its stock of knowledge resources to create the market offerings sought by customers. The knowledge narrative should also incorporate the company's mission and values, as in a conventional strategy statement, indicating the implicit strategic underpinnings of any ICS. This emphasis, like the narrative attribute, reflected the impact that knowledge management thinking had on key members of the project team. The emergence of the knowledge management field in the mid-1990s (Nonaka & Takeuchi, 1995; Davenport & Prusak, 1997) predates that of IC (management) by a couple of years, and provides a complementary set of insights to those associated with 'intangibles'. Consequently, the guideline project was always envisaged as being more inclusive in emphasis than those that immediately preceded it.

The second element of an ICS was termed *management challenges*. These are derived from the knowledge narrative and identify the key activities that are required, involving the utilisation of four generic knowledge resources: employees; customers; processes; and technology, in the pursuit of successful value creation as identified in the knowledge narrative. It is these activities that are systematically monitored over time, making use of relevant indicators to report performance. The third element was termed *reporting* and refers to how performance is reported within the statement. The project team envisaged incorporating a measure of scoreboarding through the use of a combination of financial and non-financial indicators to communicate outcomes. However, these data would be complemented by the use of a range of more unfamiliar (to accountants) visualisations, selected for their individual relevance and their contribution to providing as complete a picture of performance as possible.

The second phase of the guideline project began in early 2001, now under the auspices of the Danish Ministry for Science, Technology and Innovation (DMSTI). It involved working with approximately 100 companies (plus two consulting organisations who acted as facilitators) to trial the guideline with the intention of developing a more refined version over the next couple of years. The outcome was the development of a second, "new" guideline as outlined in *Intellectual Capital Statements—The New Guideline* (Mouritsen et al., 2003a). The principal advance was the incorporation of a fourth element

¹ The study was initiated on equal terms by the authors and as a collaboration between the "G. d'Annunzio" University of Chieti-Pescara in Italy, Aalborg University, Denmark and the University of Dundee, UK.

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