Firms Characteristics and Photography Images Of Intellectual Capital In Corporate Annual Reports

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ABSTRACT

In the era of knowledge-based economy, intellectual capital is seen to increase the future value of a firm. A firm does not depend solely on physical or financial capital to be competitive but also depends on the intellectual capital that is intangible in nature. The weakness of traditional accounting framework that disregards intellectual capital has led to the voluntary disclosure of intellectual capital. As such, many studies on the level of intellectual capital disclosures in the annual report have been carried out. However, the focus of previous studies has been mainly on narrative disclosure. Less attention has been paid on visual image, particularly in the form of pictures. The aim of this study is to investigate intellectual capital reporting visual images in the 2013 annual report of 50 Malaysian Companies and to investigate its relationship with firm's characteristics such as industry type, firm profitability and size. This study employed content analysis method to capture visual image and regression analysis was conducted to test the relationship with the characteristics of the firm. The study found that 80% of 3,601 images concerned intellectual capital which majority of it represented the images of relational capital. It was also found that size of the firm and firm profitability positively affected the volume of intellectual capital images. The findings could explain to stakeholders the importance of the visual image in the corporate communications process.

Keywords: Intellectual Capital Disclosures, Visual Images, Firm's Characteristics

ABSTRAK

Di era ekonomi berasaskan pengetahuan, modal intelek dilihat dapat meningkatkan nilai sesebuah firma. Sesebuah firma tidak bergantung sepenuhnya kepada modal fizikal atau kewangan semata-mata untuk berdaya saing malah juga bergantung kepada modal intelek yang bersifat tidak ketara. Kelemahan kerangka kerja perakaunan tradisional yang mengenepikan modal intelek telah menyebabkan pendedahan modal intelek dibuat secara sukarela. Oleh itu, banyak kajian mengenai tahap pendedahan modal intelek dalam laporan tahunan telah dijalankan. Walau bagaimanapun, kajian sebelum ini lebih berfokus terutamanya kepada pendedahan naratif. Kurang perhatian diberikan kepada imej visual, terutamanya dalam bentuk gambar. Tujuan kajian ini adalah untuk mengkaji laporan imej visual modal intelek dalam laporan tahunan tahun 2013 daripada 50 firma di Malaysia dan mengkaji hubungannya dengan ciri-ciri firma seperti jenis industri, keuntungan dan saiz firma. Kajian ini menggunakan kaedah analisis kandungan ke atas imej visual dan analisis regresi untuk mengkaji hubungannya dengan ciri-ciri firma. Kajian mendapati bahawa 80% daripada 3601 imej berkenaan adalah imej modal intelek yang majoritinya mewakili imej modal hubungan. Ia juga mendapati bahawa saiz firma dan keuntungan firma memberi kesan positif kepada volum imej modal

intelek. Hasil kajian dapat menerangkan kepada pihak berkepentingan tentang kepentingan imej visual dalam proses komunikasi korporat.

Kata Kunci: Pendedahan Modal Intelek, Imej Visual, Ciri-ciri Firma

INTRODUCTION

In business reporting purpose, corporate annual report has been widely recognized as the central tool in conveying messages to stakeholders. Besides the audited financial sections in annual report, non-financial information are also prepared discreetly by the management of the firm and editorially controlled by them (Campbell, 2004). Due to that, annual reports are thought to be well-reflected of management concerns, interests, attitudes and policies. According to Davison and Warren (2009), accounting can be conveyed in the forms of numbers, words and visual images. In the annual reports, visual image can convey management massages and can be delivered in a form of maps, diagrams, graphs and photographs (Hooks, Steenkamp & Stewart, 2010).

The importance of intellectual capital in Malaysia is also emphasized in the New Economic Model in preparation for Malaysia to become a developed country due to the economic shift from resource-based economy to a knowledge-based economy. The importance of intellectual capital in creating value for shareholders is also to be a growing recognition among the business community in the knowledge-based economy (Edvinsson & Malone, 1997). In addition, intellectual capital that embedded in the firm, suppliers, customers and employees can increased the long-term competitive advantage of the firm and sustaining (Edvinsson & Malone, 1997). In traditional financial reporting, historical book value of a firm was often reported far lower than its market value partly due to unaccounted intellectual capital information that embedded in the firm (Whiting & Miller, 2008). Hence, the relevance of traditional financial reporting in reflecting the real market value of companies has been challenged by the shift from traditional to knowledge-based companies (Bismuth & Tojo, 2008).

Many studies regarding intellectual capital disclosure practices and growing interest in reporting intellectual capital information in annual reports have been conducted in different parts of the world (Striukova, Unerman & Guthrie, 2008; Ousama, Fatima & Hafiz-Majdi, 2012). However, most of the studies have been on numerical and narrative-based disclosure in the context of intellectual capital disclosure (Campbell & Rahman, 2010) but lack of studies on disclosure of intellectual capital in the form of visual images particularly pictures. Communication of intellectual capital through visual images is preferable due to stakeholders do not tend to read every word in the annual report and need enlightenment outside financial statements that involve a lot of numbers and narrative (Davison, 2014). Moreover, visual images can be used to communicate intangible assets that could not be delivered in the form of numbers or texts (Hui & Rudkin, 2010). Steenkamp and Hooks (2011) also stressed that ignoring visual image analysis in intellectual capital disclosure would give rise to incomplete and fails to measure intellectual capital reporting.

Besides that, there are significant differences in the level of reporting intellectual capital consists of structural capital, relational capital and human capital in previous studies (Zuliana, 2007; Whiting & Woodcock, 2011; Ousama et. al., 2012). In addition, the characteristics of the firm such as the type of industry, firm size and firm profitability have been demonstrated to affect different levels of intellectual capital reporting (Zuliana, 2007; Whiting & Woodcock, 2011; Ousama et. al., 2012). Responding to these deficits, the objectives of this study therefore are to explore the practice and effect of firms' characteristic on the practice of intellectual capital image disclosure among corporate reporters in Malaysia.

THE SIGNIFICANCE OF VISUAL IMAGE IN CORPORATE ANNUAL REPORTS

Representing visual images offer a few benefits in reporting strategy. First, human being normally responds quickly to visual image particularly pictures compared to texts. According to Anderson & Imperia (1992), visual image is thought to be louder than words which emphasized that visual images is more important and shows intentions and feeling more clearly than words. Therefore, visual image may result in several values such as appeal, comprehension and retention if it has been designed well. Second, since there were difficulties in reading accounting text narratives (Jones & Shoemaker, 1994), visual images provide more information in a language that stakeholders could understand (Simpson, 2000). Besides that, annual report with colourful and glossy visual images particularly pictures could

attract readers attention and bring persuasive elements (Hooper, Low & Kearins, 2003) and also capable to fascinate readers emotional feeling (Joffe, 2008).

Third, visual in annual reports may act as complementary information to stakeholders (Davison, 2010). Visual image particularly pictures are also not only documented firm's activities as an evidence to shareholders but it could possibly enhance the credibility of annual report (Graves, Flesher & Jordan, 1996). Forth, visual images particularly pictures are much easier to remember where readers' retention rates for remembering visual information are higher than words or numbers (Graber, 1989). Stakeholders or users who have limited time to read every word in annual report and number of financial information, visual image therefore can be regard as a time saver for them (Unerman, 2000; Davison, 2014). Finally, multifaceted and complex messages are more capable to be conveyed through visual image than text (Steenkamp & Hooks, 2011). This factor allows studies from broader perspective regarding visual image reporting in annual report.

PREVIOUS STUDIES OF VISUAL IMAGE IN ANNUAL REPORTS

There are many studies regarding the disclosure of intellectual capital have been carried out such as study by Yau, Chun and Balaraman (2009), Whiting and Woodcock (2011) and Ousama et al. (2012). Even though visual image was a critical element in corporate annual reports, the disclosure of intellectual capital using visual images analysis has not been given much attention and has been largely ignored in the analysis of intellectual capital in accounting research (Davison, 2007).

Campbell, McPhail and Slack (2009) studied 14 company's annual reports in United Kingdom from 1989 to 2003 on the extent to which the image of human faces presented in the annual reports and how its work. The study concluded that over the 15 years period, there was a significant rise in human representation in the form of human faces image and suggests the presence human faces in annual reports may has caused the denial of 'humanness' to the other people and opposed the ethic. Justesen and Mouritsen (2009) explore the 3-D visualization in annual reports by analysing interaction of different types of visualization with the various aspects of activities such as in marketing and sales, design and planning and operations.

Hui and Rudkin (2010) in a study that covering the annual report of HSBC from 1958 to 2008 found that the current political and economy scenario influenced the theme of visual images in annual report that the visual image changed and was accorded to those factors. Bujaki and McConomy (2010) conducted a study in 2003 corporate annual reports on visual image analysis over the gendered interactions. The study found that public visible companies such as retail, bank and media disclosed more mixed sex visual image. Besides that, majority of mixed sex images were involved the same hierarchical level while women tend to be subordinate when mixed sex image involved different hierarchical level.

Low, Davey and Davey (2012) reviewed New Zealand professional accountant institute in the 100 years of annual reports on how they declared their professional identity through textual information and visual images in annual report. The study found that the definitive statement of professional identity was not taken place in the annual report. However, visual images were employed to project expertise, integrity and global relevance of the institute and also to empowering textual information.

Even there are numbers of studies that have been conducted regarding intellectual capital reporting but there have been concerns about the lack of studies on visual content of intellectual capital in corporate reporting for example study by Whiting and Woodcock (2011) was not analysed pictures in their visual image item. The studies above discussed the importance of visualization in all aspects of the firm's activities and indirectly portray the belief and philosophy hold by companies. This study also outline the importance of visual images in annual reports and therefore is in line with Steenkamp and Hooks (2011) who argued that the study of intellectual capital reporting would lead to be incomplete if ignores the photographic image in the analysis.

Meanwhile, many studies on intellectual capital disclosure and firm's characteristics (such as firm size, profitability and type of industry) were conducted in Malaysia (Ousama et al., 2012; Yau et al., 2009; Zuliana, 2007) and abroad (Whiting & Woodcock, 2011). However, there are limitations in the studies. Those studies examined the level of intellectual capital disclosure based on narrative and ignored multiple format of disclosure language such as visual images. According to Beattie and Thomson (2007), ignoring multiple-format disclosure will fail to capture the wholeness of reporting behaviour. So this study used the visual images as unit of disclosure.

THEORETICAL FRAMEWORK

Theory of signalling purports that companies will signal information explicitly to outsiders in order to narrow the information asymmetry. Information asymmetry exists when companies have relevant information that investors do not (Sengupta, 1998). This situation eventually gains more economic benefit and reputation to the firms. The firms use annual reports to disclose a wider range of information including visual images in achieving this benefit. It is argued that, large and high profit companies are considered high quality companies thus more likely they will produce more visual images. Previous studies also showed that different industry give different amount of disclosure owing to the different business model and strategy. The companies from similar industry would employ similar disclosure strategy in order to signal that they are consistent with industry (Watson, Shrives & Marston, 2002). Failure to do so is perceived as bad news from investors.

Signalling to capital markets through intellectual capital disclosure seems to be a resolution for intellectual capital information asymmetry problems, Ousama et al. (2012) also argued that it is particularly for companies who rely heavily on intellectual capital. Voluntary intellectual capital disclosure may signal the firms' capability in creating future value and at the same time allow more precise valuation of the firm and improving corporate image (Whiting & Miller, 2008). Therefore, this study argues that firms are strongly motivated to increase its signal positive information about intellectual capital of the firm as the increasing important of knowledge assets in knowledge based economy. Besides that, signalling intellectual capital is to ensure that the firm is not been undervalued.

METHODOLOGY

Annual reports of 50 companies from the year ended 2013 were selected from two types of industries, services and products. Services industry consists of banking, communications and also real estate investment and service while products industry consists of food manufacturers, technology hardware and equipment and also general retailers. The selection is based on the firm's total market capitalization on the assumption that large firms have substantial resources and were able to produce a visual annual report. This study employed visual image content analysis by using photo capture as unit analysis. Each photo captured is counted as one unit (regardless of size).

Guidelines in making inferences about the photograph images was understood and agreed upon between the researchers of this study. A mutual consistencies in interpretation and understanding of the photograph image was conducted via a pilot study over twenty three annual reports. The technique of Barthesian Semiotics was employed in this study that the interaction of the language (caption) and iconic (representation and symbolism) elements was translated into the meaning of the photographic images (Davison, 2014). Krippendorff (2004) argued that the language elements can also be considered as a unit that conforming the image. However, according to Mat Husin, Hooper and Olesen (2012), the context unit of the photo was expanded to its surrounding texts when the photographic images are not accompanied by caption or texts.

Photograph images are identified based on intellectual capital framework as presented in Table 1. It comprises of three main categories namely structural capital image (SCI), relationship capital image (RCI) and human capital image (HCI) and detailed further into sub-categories of each of the main categories. In this study, there are three independent variables that may affect the volume of intellectual capital visual images such as types of industry (services and products), profitability (return on equity) and size (total assets) of companies. A common method applied in intellectual capital disclosure studies, multiple ordinary least square (OLS) regression model using Van der Waerden approach (Ousama et al., 2012) was used to test the relationship between independent variables and the dependent variable. Data is converted from raw data to the normal data before using regression analysis using normal score. The regression model is depicted as follows:

$$\text{ICVI j} = \alpha + \beta_1 \text{ IND j} + \beta_2 \text{ SIZE j} + \beta_3 \text{ PROFIT j} + \epsilon_i \text{ j}$$

Where: ICVI = IC visual images; IND = Type of industry; SIZE = Size of companies; PROFIT = Profitability (ROE); j = firm; ϵ_i = error terms.

FINDINGS

A total of 3,601 visual images were found with 80% (2,872) of the images relating to intellectual capital and the remaining portion is considered non-intellectual capital images. In average, there are

about 57 images of intellectual capital were presented in each annual report. The minimum and maximum image per annual report was 0 and 221 images respectively. The descriptive analysis is presented in Table 2. It was also found that there were seven companies showed no any intellectual capital images. From the total of 2,872, there are 177 concerned structural capital, 1,811 images concerned relational capital and meanwhile human capital images accounted for 884 images. In general, it can be seen that relational capital images accounted for highest percentages (63%) of total intellectual capital images followed by human capital images (31%) and structural capital (6%).

The most popular images concerned corporate reputation which made up 22% (625 images) of total intellectual capital images. Image of community engagement is ranked second with 470 images or 16% of the total. It is followed by images featuring directors which made up of 305 images (11% of total).

Service industry was found to be the highest conveyor intellectual capital images compared to product industry which accounted to 1872(65%) and 1000 (35%) images respectively.

Finally, regression analysis was conducted to test the relationship between firm's characteristic and intellectual capital visual images. The correlation between the independent variables must not exceed 0.7 to indicate that there is no multicollinearity problem with each other (Pallant, 2010). Due to multicollinearity problem among independence variables (Table 3), services industry was taken out from analysis which later produce free multicollinearity problem with VIF value <10 (Pallant, 2010). As presented in Table 4, intellectual capital of visual image (the dependent variable) can be explained by the independent variables of 51.2% ($R^2 = 0.512$). This study found that, size of firms (t=0.681, p=0.000) and firm profitability (t=0.233, p=0.032) are significantly affect the volume of intellectual capital images representation. This means that larger and profitable companies significantly produce more intellectual capital images in annual reports than smaller and unprofitable companies. Meanwhile, types of industry did not significantly influence the intellectual capital images disclosure.

DISCUSSION AND CONCLUDING REMARKS

It can be concluded that the intellectual capital image is an effective strategy of corporate disclosure and can be used by companies to signal the importance of the knowledge-based assets and activities of the company to the stakeholders. The disclosure strategies through the traditional symbol of corporate success such as through disclosure of financial and hard assets either narrative or numbers might have been seemed less effective. Besides that, some specific intellectual capital using narrative analysis are difficult to measure and to be understood because of the complexity of the techniques to measure and to quantify intellectual capital might also have contributed to large number images about it.

The intellectual capital image is seen more about for self-promotion and the construction of external impressions that messaging to shareholders signals the messages that the firm is knowledgeably incorporating or aware of the latest information. It means that the high volume of intellectual capital images found in this study was seen not only as a tool for conveying precise and measureable value but predominantly as a tool to create image and to signal the recognition of intangible assets in business reporting. Relational capital images in annual reports in this study make a clear dominant was partly due to the changes in business strategies in creating business and shareholders values from internal to external strengths. The corporate reputation image of relational capital covered about successful awards and recognition by external parties, appearance in and covered by main media, sponsorship of major events. Companies tended to disclosure corporate reputation images perhaps likely to signal higher representation of corporate reputation pictures that distinguish them from other companies in term of external impression towards them.

The result of industry type is found not to be significant. It appears that the decision about how much intellectual capital images to portray on was not really industry dependent, which is consistent with prior study by Zuliana (2007). It seems that all industry agreed the images of intellectual capital are crucial to their disclosure strategy. Therefore, more information is disclosed about their intellectual capital activities to signal their value and activities. On the contrary, this finding is not consistent with argument in the respect of relationship between disclosure strategy and industry membership.

The significant relationship of firms' size and profit on intellectual capital images is consistent with the notion that large and profit making companies have more resources to produce 'catchy images' that usually can be produced at large cost. Large firms also require more imaginary information disclosure most likely due to variety of activities that take place in their organisations. This finding of size of firm is also consistent with some previous studies which discovered positive relationship between size and disclosure (Zuliana, 2007; Yau et al., 2009; Ousama et. al., 2012).

Similarly, the finding of profitability is also consistent with study by Ousama et al. (2012) that discovered the positive effect of profitability on voluntary disclosure. The findings are in line with signalling theory that by disclosed more intellectual capital images, profitable and large companies signal that they are better companies and the intellectual capital image disclosure might be used as a signal of successful symbol to their achievements.

In the light of the study's findings, several future researches were suggested. Firstly, future research should focus on the impact of visual images in annual reports. Secondly, future research may examine actual motives behind the intellectual capital images disclosures which interview session with representatives of companies should be conducted to obtain understanding about it. Thirdly, future research may examine user perspectives by taking users' opinion and actual needs on what and how intellectual capital images is consumed and should be reported.

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TABLE 1: Category and sub-categories of Intellectual Capital Images

SC Images	RC Images	HC Images
Technology	Shareholders	Board of Directors
Information technology	Market presence	Chairman
Knowledge-based infrastructure	Customers	Top management
R & D and Innovation	Business partners	High skill staff
	Community involvement	Operator
	Environment supports	Training and development
	Other stakeholders (media, Shariah committee, audit committee , NGO)	Staff appreciation or featured staff
	Government	
	Brand name	
	Corporate reputation (awards)	

Source: Rahman, Yusof & Hassan (2015)

TABLE 2: Descriptive Statistical Analysis Results Of The IC Visual Images

	IC Visual Images	Profitability	Size of Firm	Log of Firm Size
N	50	50	50	50
Minimum	0	-43.5	60,933,137	7.78
Maximum	221	258.1	560,443,226,000	11.75
Mean	57.44	15.62	46,185,250,483	9.62
Standard Deviation	60.52	38.52	107231139380	1.08
Skewness	1.07	5.23	3.32	0.18
Kurtosis	0.283	33.31	11.93	-0.99

TABLE 3: Multicollinearity Test (Pearson's Correlation Analysis)

	Normal Score of Log of Firm Size	Normal Score of Profitability	Product Industry	Service Industry
Normal Score of Log of Firm Size	1	0.281 * 0.048	0.209 0.146	-0.209 0.146
Normal Score of Profitability		1	0.520 ** 0.000	-0.520 ** 0.000
Product Industry			1	-1.000** 0.000
Service Industry				1

* Correlation is significant at the 0.05 level
** Correlation is significant at the 0.01 level

TABLE 4: Regression Analysis Results of Firms Characteristics of IC Visual Images

Variables	Coefficients t	Standard Error	t-statistic	Significant p		VIF
Constant	-0.167	0.141	-1.184	0,242		
Normal Score of Firm Size	0.681	0.120	5.662	0.000	**	1.432
Normal Score of Profitability	0.233	0.105	2.216	0.032	**	1.092
Industry Type	0.368	0.220	1.672	0.101		1.379

R^2 = 0.512; Adjusted R^2 = 0.480; F-value = 16.078; Significant F = 0.00
** signicant at p<0.05