

# Intellectual Capital Reporting in Malaysia

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## Abstract

This research asserts to achieve two objectives. Firstly, it attempts to examine the extent and major categories of Intellectual Capital Disclosure (ICD) in the Malaysian Initial Public Offering (IPO) prospectuses. Secondly, it examines for the trend of ICD between year 2005 and 2006. Empirical tests are conducted on a sample size of 30 Malaysian companies seeking for listing in the Bursa Malaysia between year 2005 and 2006. The samples are selected from population which is stratified into year of listing. The extent of ICD is measured by "Disclosure Score Index" and content analysis is performed on the IPO of samples selected for year 2005 and 2006.

The result of this research indicates a very low level of ICD among companies undergoing listing exercise. Among the three categories of ICD (i.e. external structure, internal structure and employee competence), external structure is the most reporting category. This result is consistent with the reporting practice in the annual report of listed corporations in Australia, Italy and Spain. In addition, there is a significant difference among the category of ICD. However, there has been no significant difference in the amount of reporting, by category and in total, from year 2005 to 2006 of the IPO prospectuses.

The above results indicate a lack of awareness on the importance of ICD among business corporations in Malaysia. As the economy is getting more competitive and complex, the importance of disclosure of ICD, needs to be acknowledged, in enhancing information for users' decision-making.

## **1. Introduction**

### **1.1 The Emergence of Intellectual Capital (IC)**

Nowadays the world has rapidly moved from an industrial economy, in which economic growth was considered to be mostly determined by the employment of material resources, towards a knowledge-based economy in which wealth creation is associated with the development and maintenance of competitive advantages based on intangible elements that are frequently grouped under the generic term “knowledge”. Knowledge is increasingly considered as a commodity and, as such, is subject to economic transactions. The emergence and development of knowledge is facilitated by the advancement of information and communication technologies (ICT).

The advent of computers and information technology (IT) requires the firm to require a more sophisticated work force which relies on expertise more than manual labor, in order to be competitive. IT has changed the way in which the employees work in order to provide better services to the customer. Technology is used to communicate with customers from all over the world due to emergence of globalization, which aid in speeding the delivery process, saving traveling time and costs.

Expertise workforce is considered as a valuable asset of the organization. Developing the know-how and keeping the employee has been critical as a loss of employee means a lost of a chunk of a corporate memory (Brooking, 1996, pp9).

Good relationships established between a vendor and its customers could maintain the existing customers' loyalty and enhance company sales.

The above-mentioned is the result of the transformation of the industrial economy to knowledge economy, which creates intangible benefits in the competitive market environment, which is always named as “Intellectual Capital (IC)”.

IC has been defined in various ways in the literature. Brooking(1996) defines IC as the combined intangible assets which enable the company to function and also represents the difference between the book value of the company and the amount of money someone is prepared to pay for it (Brooking, 1997). As quoted in Meritum (2002), IC is generally defined as non-monetary sources of probable future economic profits, lacking physical substance, controlled (or at least influenced) by a firm as a result of previous events and transactions (self-production, purchase or any other type of acquisition) and may or may not be sold separately from other corporate assets.