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Viktoria Göbel

Corporate Intellectual Capital Reporting: the Case of Germany

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Corporate Intellectual Capital Reporting:
the Case of Germany

Monograph Series



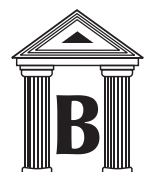
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Viktoria Göbel

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Foreword

The Claus und Brigitte Meyer-Stiftung awards the Thomas-Gulden-Preis for outstanding academic achievements in memory of the former student Thomas Gulden who died from an incurable disease at the age of 25 years.

The Thomas-Gulden-Preis was awarded for the first time in the summer semester 2005. In the winter semester 2009/2010, the Meyer-Stiftung awarded Viktoria Göbel (née Zerr) for her outstanding academic results in the programme Controlling, Finance and Accounting (with distinction) and particularly for her excellent undergraduate dissertation with the Thomas-Gulden-Preis. The Claus und Brigitte Meyer-Stiftung published her work with the title “Ansatzpunkte zur Optimierung des Controllingsystems im kommunalen Immobilienmanagement” as Volume 9 of the Monograph Series MEYER STIFTUNG.

After completing her studies at Pforzheim University and her Master of Science in Accounting and Finance at Aston Business School in Birmingham, both with distinction, Viktoria Göbel continued studying at the University of Edinburgh with the aim of a PhD in the autumn of 2010. For her thesis “Corporate Intellectual Capital Reporting: the Case of Germany” Viktoria Göbel attained the doctorate degree “Doctor of Philosophy” on 26th November 2013.

The Claus und Brigitte Meyer-Stiftung is pleased to publish this valuable contribution to business theory and practice as Volume 13 of the Monograph Series, particularly, being based on an empirical analysis of management reports of German listed companies.

We would like to thank sincerely Ms. Neugebauer and Dr. Brauner at the publisher Wissenschaft & Praxis for their generous support in publishing the Monograph Series.

Stuttgart, July 2014

Prof. Dr. Claus Meyer



The Claus und Brigitte Meyer-Stiftung is a legally responsible and charitable foundation constituted under civil law based in Stuttgart, being approved as foundation by the administrative authority in Stuttgart on 21st April 2005. The purpose of the foundation is realised in promoting science and research, education and development as well as funding support of students in need at Pforzheim University, particularly by:

- Awarding grants and similar support to students, particularly to those in need, to be able to continue and successfully accomplish their studies.
- Awarding the Thomas-Gulden-Preis for outstanding academic results and/or an excellent bachelor/master thesis in the area of Business/Controlling, Finance and Accounting to one or several students.

Thomas Gulden was born on 15th March 1978. He studied Business/Controlling, Finance and Accounting at Pforzheim University and completed his studies with a “very good” overall grade. Due to a congenital and developing myopathy, Thomas Gulden was confined to a wheelchair since the age of ten. On 11th April 2003, he died from this disease of which course he was aware. Posthumously, Thomas Gulden was awarded with an advancement award for his excellent diploma thesis, graded with a mark of 1.0. According to his wish, humanitarian organisations were supported with this award and his entire fortune.

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Preface

This study was conducted and submitted as PhD thesis for completion of a PhD in Accounting at the University of Edinburgh in November 2013. For the purpose of this publication, the study was revised in July 2014. After finishing the PhD, the projects of this study were further developed as research papers and are currently under review at peer reviewed journals. The first project in chapter 5 was accepted for publication in the Journal of Intellectual Capital, forthcoming in 2015.

I would like to thank Prof. Dr. Claus Meyer, his wife Brigitte Meyer and the MEYER STIFTUNG for supporting and publishing my academic work.

I would also like to thank my supervisors Professor Pauline Weetman and Professor Bill Rees for their support, advice and feedback. Their stimulating questions helped me to continuously look for ways to improve my work.

I am particularly grateful for the support from my husband, my family, particularly my parents and my sister, my friends Heike, Sonja, Göksel, Sven and Isabell, and my colleagues. Their patience and encouragement helped me during this challenging PhD time.

For their useful feedbacks and comments to my presentations, I very much thank the participants, and particularly the session chairs, of the following events:

- BAFA Doctoral Colloquium 2011 and 2012
- PhD Day at the University of Edinburgh Business School 2011 and 2012
- ScotDoc 2011 and 2012
- Year-end panel review of the Accounting & Finance Group 2011 and 2012
- FRBC Doctoral Stream 2012
- FRBC Conference 2013
- EIASM Interdisciplinary Workshop on Intangibles, Intellectual Capital & Extra-financial Information 2012
- Doctoral Seminar at the Justus-Liebig-University Gießen 2012
- EAA Annual Congress 2013

Munich, July 2014

Viktoria Göbel, PhD

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Abbreviations

AktG	Aktiengesetz (German Companies Act)
GAAP	Generally Accepted Accounting Principles
GASC	German Accounting Standards Committee
HC	Human capital
HGB	Handelsgesetzbuch (German Commercial Code)
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IC	Intellectual capital
ICB	Industry Benchmark Classification
IDW	Institut der Wirtschaftsprüfer (Institute of Public Auditors, Germany)
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Committee
LRVTB	Long-run value-to-book
MtB	Market-to-book
MV	Market value
MVC	Market value consolidated
R&D	Research and development
RC	Relational capital
ROA	Return on assets
ROE	Return on equity
SC	Structural capital
SME	Small and medium-sized enterprise
VAIC™	Value Added Intellectual Coefficient™

1 Introduction

1.1 Motivation for this study

1.1.1 New reporting models for intellectual capital

Publications from international institutions have recommended new financial reporting models for explaining value creation processes (ICAEW, 2009; IIRC, 2011; 2013). The suggested models focus on two main areas in corporate reporting practices. On the one hand, international institutions advocate that new reporting models should create links between business models, strategy and corporate value creation. On the other hand, they emphasise reporting on other forms of capital which are not explicitly accounted for in the financial statements. The International Integrated Reporting Committee (IIRC) proposes that these other forms of capital include among others intellectual capital and social capital (IIRC, 2011; 2013). The suggested reporting models offer new research areas with a wide range of potential research questions. Some questions have been approached in the literature on how to interrelate reporting areas, such as value, strategy and business models. With a different focus, investigations have been conducted of corporate reporting on other forms of capital. This study focuses on one interesting aspect within the discussion on other forms of capital: intellectual capital (IC) reporting.

The approach to integrated reporting by the IIRC dedicates particular attention to corporate reporting on other forms of capital, including IC. In a consultation draft, published by the IIRC in 2013, a separate section outlines these other forms of capital, named ‘the capitals’ (IIRC, 2013, sec.2B). When the discussion paper from 2011 and the consultation draft from 2013 are compared, an increased emphasis on IC reporting by the IIRC is apparent (IIRC, 2011; 2013). The guidelines on ‘the capitals’ have been further elaborated in the consultation draft in 2013. In 2011, other forms of capitals were briefly outlined to be incorporated in an integrated reporting model. The IC reporting approach in the consultation draft in 2013 focuses more detailed on stocks and flows of capitals and their value contribution. The consultation draft declares that the aim of reporting on the various forms of ‘the capitals’ is to provide information on corporate value creation (IIRC, 2013, sec.2D). The findings of this study may provide a basis for further discussions on the approach to IC reporting in the IIRC consultation draft.

IC has gained increasing attention in the literature because IC has been argued to constitute an important competitive advantage and to play a major role in corporate value creation (Hall, 1992; 1993; Brooking, 1996; Sveiby, 1997; Stewart, 1997). The importance of IC has evoked research into different aspects of IC, such as IC management, IC measurement and IC reporting (e.g. Edvinsson, 1997; Marr et al., 2003; Guthrie & Petty, 2000). As IC reporting represents a central communication platform for this important form of capital, IC reporting has been investigated by academics, practitioners and governmental institutions. International institutions have developed IC reporting guidelines to support corporate IC reporting (DATI, 2000; DMSTI, 2003; European Commission, 2001; 2009). The International Accounting Standards Board (IASB) has also implemented IC reporting in a practice statement for a management commentary (IASB, 2010a). This brief overview introduces the research area of IC reporting which offers interesting research opportunities for this study. The literature on IC reporting is reviewed in more detail in chapter 2. The review of the literature reveals that research gaps exist in the area of IC reporting, particularly regarding potential motivations for corporate IC reporting.

1.1.2 Intellectual capital reporting in Germany

Germany offers a unique research setting for IC reporting due to a mandatory management report containing information on IC (GASC, 2010a). Further information on the German management report is outlined in chapter 3 in an overview of the German context. The German management report has traditionally been required as a separate section in the annual report to provide additional narrative disclosure on corporate performance and value creation. Within the German regulation, IC-related information is partly required and partly recommended. The required management report facilitates approaching the research questions for this IC reporting research. The German Accounting Standard (GAS) 15 provides requirements and guidelines for reporting (GASC, 2010a). According to GAS 15, corporate reporting is aimed to reduce the information gap between managers and users (GASC, 2010a, sec.3) and to focus on sustainable value creation (GASC, 2010a, sec.30–35). These declared aims are consistent with the concepts of agency theory, as further elaborated in chapter 7.

The reporting regulation provides an interesting research setting in Germany for IC reporting, as the ideas of agency theory are encouraged. Based on this situation, agency theory is applied in this study. To investigate motivations for IC reporting, the concepts of agency theory are contrasted with the ideas of legitimacy theory.

Following these two theories, different potential motivations for IC reporting are investigated. As agency theory and legitimacy theory represent theories of voluntary disclosure, a separation of voluntary IC reporting is important to test developed hypotheses. The German regulation with requirements and recommendations on IC information allows distinguishing voluntary IC reporting. This thesis addresses the gap of investigating potential motivations for corporate IC reporting in the unique setting of listed German companies. Despite the interesting study setting for IC reporting in Germany, few academic studies have investigated IC reporting, as outlined in chapter 3. Studies on corporate reporting in Germany exist but with a different focus, such as value reporting (Hayn & Matena, 2005) or IC reporting concepts for small and medium-sized companies (BMWi, 2006).

Regarding the German management reporting regulations, a new German standard was published combining management and risk reporting in 2013, GAS 20 (DRSC, 2013). A change in the German approach to IC reporting is apparent (GASC, 2010a; DRSC, 2013), as further outlined in chapter 3. The German Accounting Standards Committee (GASC) altered the declared aim of the management report. In GAS 15, the aim of the management report is to reduce the information gap between users and management (GASC, 2010a, sec.3). The aim of GAS 20 is to report on the use of the group's resources (DRSC, 2013, sec.3). Furthermore, the principle to 'focus on sustainable value creation' (GASC, 2010a, sec.30–35) was abandoned in GAS 20. The change in the declared aim of the management reporting regulation indicates that the GASC transformed the underlying concepts for corporate IC reporting. The new aim, to report on the use of resources, is consistent with the concepts of legitimacy theory, as further outlined in chapter 7. Therefore, the investigation of potential motivations for corporate IC reporting is particularly interesting for the German setting.

The motivation for this IC reporting study in Germany was guided by the idea of corporate IC reporting to outline IC value creation encouraged by the management reporting regulation. As a German native speaker with a first degree in Controlling, Finance and Accounting from a German university, the researcher is in a position to judge the outcomes in the light of the German background. The background knowledge is important for the design of the research framework for IC reporting, being developed in a pilot study approach in chapter 6. This IC reporting study started with enthusiasm that the German IC reporting approach may take a pioneering role for IC reporting models. However, the findings show that IC reporting of German companies is used as a legitimisation tool rather than