



Does Voluntary Reporting of Intellectual Capitals Affect Firm Value?

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Abstract

Traditional financial reporting framework is not adequate to report information on intangible assets this leads to an information gap between management and other stakeholders. Emerging market is demanding more information on intellectual capitals for their decision making. This study investigates the relationship between corporate Intellectual Capital Disclosures (ICD) and the firm value to provide new insights on voluntary ICD in the Sri Lankan context. Annual reports from 2010 to 2015 of sixty non-financial companies were selected based on market capitalization and were scrutinized to collect data on ICD. Market related information was gathered from the data library of Colombo Stock Exchange. Panel data regression was employed due to time series and cross sectional nature of data. The ICD were categorized into external capital, internal capital and human capital by scholars. The ICD collected from the annual reports were quantified using disclosure index developed based on literature. Information on intellectual capitals in annual reports were reviewed by using the index and gave the marks from zero to three by considering their nature such as qualitative and quantitative. Firm value is measured by using the Tobin's Q ratio. Further, organizational characteristics such as leverage, profitability and firm size were used as control variables. Findings suggest that ICD is one of the strong determinant of the firm value in companies listed in Sri Lanka. Moreover, leverage positively influence the firm value. Firm size does not have a statistically significant impact on the firm value. However the profitability does not have any impact on the value of the Sri Lankan listed companies. In conclusion, the value relevance of intellectual capital disclosures is higher in the Sri Lankan context. As a result, fewer agency conflicts between shareholders and managers were observed. The findings of this study contradicts with the argument of the increased disclosure adversely affect competitiveness. The findings of this study would facilitate framing guidelines and principles for ICD and motivate managers to adopt better disclosure practices.

Key words: *firm value, intellectual capital, leverage, profitability, voluntary disclosures*

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