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Investigating The Relationship Between Managerial Features and Intellectual Capital Disclosure

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ABSTRACT

Until now, there is a wide variety of literature in the field of identifying the factors influencing intellectual capital disclosure. Among those determining factors, company-level factors like company size, ownership structure, profitability, company age, liquidity ratios, etc. have received considerable attention. Whereas the success of organizations relies on their management capabilities and the personal features of organization's managers can shape their behavior and decision-making in the organization which consequently affects many financial issues such as financial reporting and intellectual capital disclosure. Thus, it was hypothesized that managers can manipulate company assets and offer false information to investors. The findings illustrated that managerial characteristics have a meaningful impact on intellectual capital disclosure in companies.

Keywords: Managerial Features, Intellectual Capital Disclosure, Financial Knowledge.

INTRODUCTION

Nowadays, one of the fundamental concerns of managers is understanding the future horizon of their companies and the process of creating value, and they are striving to use information about intangibles in decision-making activities. In fact, the evolution of accounting for disclosing intellectual capital or intangible assets is considered a necessity. Factors such as globalization, innovation in countries, especially emerging and newly developed economies, mean that intangible resources such as research and development, communications, skills, and basic innovation capacity are the foundation of companies' competitive advantage and superior business performance. On the other hand, fully reflecting information on intangible resources based on accounting principles is not possible and faces many problems, including ambiguity about management benefits and lack of informational consistency.

In general, two perspectives have been presented regarding the effects of management on organizational outcomes. In the first perspective, presented by Hannan and Freeman (1977), they claimed that senior management has little impact on organizational outcomes because large organizations suffer from a type of inertia and imbalance and move with the help of external forces. However, the alternative perspective, commonly referred to as the upper

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echelons perspective, was introduced for the first time by Hambrick and Mason (1984). According to this perspective, organizational outcomes, including strategic options and performance levels, are expected to be a function of the characteristics of the company's management. One of the human capitals that plays an important role in the organization and can guarantee the growth of organizations is the existence of efficient management within the organization. Among the factors that lead to success for every individual, including management, are individual abilities and traits.

Demerjian, Lev, Lewis, and McVay (2013), provided evidence that suggests a direct relationship between a manager's ability and lower rates of future renewals, higher profit stability, and fewer errors in claims estimation. C. Li, Tseng, and Chen (2016), argue that managers with greater inherent ability have a better understanding and analysis of their company's current and future conditions, resulting in higher-quality estimates regarding company assets. This results in more honest accounting profits and increases financial report transparency. When the CEO also serves as the board chairman, they hold a powerful position in the board, enabling them to refrain from providing unfavorable information to outsiders. Therefore, the CEO monitors their own activities and decisions. In this case, the company's actions may not be directed towards benefiting its shareholders.

On the one hand, with the shift from commercial nature to a competitive economy and the change in various resources for creating value, the usefulness of traditional business unit reporting has changed. It has been proven that competition in the new economy relies on knowledge-based assets such as human knowledge, innovation, technology, and information. A collection of this knowledge, information, intellectual assets, experience, organizational competition, and learning comprises intellectual capital.

Intellectual capital is a valuable asset for companies to possess, and its significance in the success of companies cannot be denied. Therefore, identifying and disclosing information related to intellectual capital is crucial(Alfraih, 2018; J. Li, Pike, & Haniffa, 2008; Mangena, Pike, & Li, 2010). Increased disclosure of such information can lead to an increase in capital market by reducing information asymmetry between investors and individuals within the organization(Al-Hajaya, Altarawneh, & Altarawneh, 2019; Whiting & Miller, 2008), as well as affecting the decisions of investors and financiers of companies and thus optimizing resource allocation in society(Cuozzo, Dumay, Palmaccio, & Lombardi, 2017).

Large investments are made in intellectual assets such as research and development, branding, franchising, and employee empowerment. Managers may choose to register these investments as expenses or depreciate them at their discretion to create value and maintain competitive advantage for their company(Rahmani, Arefmanesh, & Farshi, 2014; Salvi, Vitolla, Giakoumelou, Raimo, & Rubino, 2020). As a result, these assets may not be disclosed, and the book value of the company may differ significantly from its real market value, leading to information asymmetry between companies and financial statement users, ultimately increasing ethical breaches, reverse selection, and other opportunistic behaviors(Costa, 2012). Managers who are aware of confidential information about intangible assets may misuse their position and use this information in confidential transactions(Malekian kale basti, Fakhari, Kamyabi, & pakdelan, 2019; Mehralian, Rasekh, Akhavan, & Ghatari, 2013).

Therefore, intellectual capital is an efficient tool for managers to engage in opportunistic behavior and provide high organizational value, and the success of each organization depends on the ability to manage these assets(Akpinar & Akdemir, 1999; Bounfour & Edvinsson, 2012). Individual managerial traits may also play a role in presenting and disclosing intellectual capital, which is examined in this scientific study.

METHODOLOGY

The aim of this research is to examine the relationship between Managerial Features and intellectual capital disclosure in companies listed on the Tehran Stock Exchange, using the descriptive-analytical research method. The theoretical information was collected from library sources such as books, journals, and specialized scientific websites. Additionally, data collection tools were obtained through published information from companies listed on the Tehran Stock Exchange, using the Rahnaward Novin software and the official website of the Tehran Stock Exchange for the years 2015-2019.

The statistical population of this study consisted of classified statistical data and auditing reports in accepted companies on the Tehran Stock Exchange. The reason for selecting this statistical population is that the Tehran Stock Exchange has relatively comprehensive information about the status of companies and their financial and economic performance, making it the only source of financial information that can be used to test research models. Furthermore, a systematic exclusion sampling method was used to select the research sample. In this method, conditions for selecting the sample are defined first, and samples that do not meet these conditions are excluded. These conditions are determined based on testing hypotheses and research variables. The reason for using this method and defining these conditions is to make the statistical sample homogeneous with the entire statistical population and to be able to generalize the results of the tests to the statistical population. The research population was limited due to the following considerations and a statistical sample was extracted:

1. They were present on the stock exchange during the fiscal years 2015-2019 (companies must have been accepted on the Tehran Stock Exchange before the year 2015, and their shares had to be traded on the stock exchange since the beginning of 2015).
2. They are not among investment and financial intermediary companies, banks, and insurance companies (the financial structure and reporting of these companies are different from other stock exchange companies).
3. Their fiscal year ends at the end of each year in 20 March, and they have not made any changes during the aforementioned period (homogeneity of the statistical sample in terms of reporting period).
4. Their financial information is available for all years of research (to select active companies, the trades of these companies on the stock exchange should not have been interrupted for more than four months during the years 2015-2019).

In this study, management characteristics were considered as independent variables and intellectual capital disclosure as the dependent variable. To examine the role of individual management characteristics, some intervention features must be controlled. Therefore, variables such as board size, board independence, board financial knowledge, separation of CEO and chairman roles, and control variables were present in this study.

The relationship between the two independent and dependent variables is measured according to the following model, without considering intervention variables:

$ICI_{it} = a + \beta_1 Management_{it} + V_{it}$

The general research model with the control of intervening variables:

$ICI_{it} = a + \beta_1 Management_{it} + \beta_2 Z_{it} + V_{it}$

ICI_{it} = is the intellectual capital disclosure level of company i in year t.

Manager Features = management features; Such as age, gender, education and work experience.

Z_{it} = Removal of control variables such as the size of the board of directors, the independence of the board of directors, the financial knowledge of the board of directors, the separation of the role of the CEO from the chairman of the board of directors.

BS = Board size: equal to the number of board members

BI = Board independence: the number of non-executive members in the board of directors

BCOMP = Financial knowledge of the board of directors: If there are members with a doctorate degree or a finance degree in the company, this artificial variable is given a value of one and zero otherwise.

CEOdu = Separation of the role of the CEO from the chairman of the board of directors: if the CEO and the chairman of the board of directors are the same person, the artificial variable takes the number one and otherwise zero).

V_{it} *= The error value is equal to* $V_{it} = \mu_i + \beta_t + \varepsilon_{it}$

In the present study, the intervening variables have been controlled. Therefore, the first hypothesis model in the investigation of "manager's gender and disclosure of intellectual capital" are:

$$ICI_{it} = a + \beta_1 Gender_{it} + \beta_2 BoardSize_{it} + \beta_3 BoardIndependent_{it} + \beta_4 BCOMP_{it} + \beta_5 CEOdu_{it} + V_{it}$$

The second hypothesis model in the investigation of "manager's age and disclosure of intellectual capital" are:

$$ICI_{it} = a + \beta_1 Manager\ Age_{it} + \beta_2 BoardSize_{it} + \beta_3 BoardIndependent_{it} + \beta_4 BCOMP_{it} + \beta_5 CEOdu_{it} + V_{it}$$

The third hypothesis model in the study of "manager's education level and disclosure of intellectual capital" are:

$$ICI_{it} = a + \beta_1 Manager\ Degree_{it} + \beta_2 BoardSize_{it} + \beta_3 BoardIndependent_{it} + \beta_4 BCOMP_{it} + \beta_5 CEOdu_{it} + V_{it}$$

The fourth hypothesis model in the investigation of "manager's work experience and disclosure of intellectual capital" are:

$$ICI_{it} = a + \beta_1 Manager\ Duration_{it} + \beta_2 BoardSize_{it} + \beta_3 BoardIndependent_{it} + \beta_4 BCOMP_{it} + \beta_5 CEOdu_{it} + V_{it}$$

The nature of the information in this research was quantitative and of the type of mixed data, whose validity was evaluated; Based on this, Limer's F test and unit root were used. Also, the models and in fact each of the research hypotheses were analyzed based on linear regression.

RESULTS

Based on what is obtained from the standard data presented in the following tables. These results are in the form of descriptive hypotheses and findings from research evaluations.

Table 1. Statistics and descriptive information of the studied study variables

Variables		Mean	Std. Deviation	skewness	kurtosis
Manager Features	Age	54.8	11.231	0.62	4.13
	Gender	0.7	0.582	-0.65	2.6
	Education	0.582	0.493	0.4	2.49
	Experience	0.39	0.456	2.47	3.12
ICI		0.253	0.428	1.08	3.27
Z		0.12	0.083	2.06	1.83
BS		5.18	0.184	0.17	2.28
BI		0.28	0.55	2.15	1.39
BCOMP		0.294	0.422	1.28	2.66
CEOdu		0.73	0.218	-1.18	3.42
V		0.42	1.58	-2.21	5.38

According to what was obtained in this table 1 and from the descriptive information, the research data met the necessary conditions to perform the regression.

Table 2. The results of the regression test of the role of Managerial Features on the Intellectual Capital Disclosure

$ICI_{it} = a + \beta_1 Gender_{it} + \beta_2 BoardSize_{it} + \beta_3 BoardIndependent_{it} + \beta_4 BCOMP_{it} + \beta_5 CEOdu_{it} + V_{it}$	
Results of the regression model of the first research hypothesis	
R^2	0.86
Adj. R^2	0.8
F	9.65
p	0.001
Durbin Watson	2.00

The results in the regression of the first hypothesis of the research showed that the Managerial Features at the level of 86% had an effect on the disclosure of intellectual capital in companies.

Table 3. The results of the regression test of the role of management age on the Intellectual Capital Disclosure

$ICI_{it} = a + \beta_1 Manager\ Age_{it} + \beta_2 BoardSize_{it} + \beta_3 BoardIndependent_{it} + \beta_4 BCOMP_{it} + \beta_5 CEOdu_{it} + V_{it}$	
Results of the regression model of the second research hypothesis	
R^2	0.82
Adj. R^2	0.8
F	8.91
p	0.001
Durbin Watson	2.07

According to the results in the table above, the effect of managers' age on the disclosure of intellectual capital was significant at the level of 82%.

Table 4. Regression test results of the role of management education level on the Intellectual Capital Disclosure

$ICI_{it} = a + \beta_1 Manager\ Age_{it} + \beta_2 BoardSize_{it} + \beta_3 BoardIndependent_{it} + \beta_4 BCOMP_{it} + \beta_5 CEOdu_{it} + V_{it}$	
Results of the regression model of the third research hypothesis	
R^2	0.82
Adj. R^2	0.8
F	8.69
p	0.001
Durbin Watson	2.02

Based on the results in the third hypothesis of the research, the level of management education has an effect of 82% on the disclosure of intellectual capital in companies.

Table 5. The results of the regression test of the role of management work experience on the Intellectual Capital Disclosure

$ICI_{it} = a + \beta_1 Manager\ Duration_{it} + \beta_2 BoardSize_{it} + \beta_3 BoardIndependent_{it} + \beta_4 BCOMP_{it} + \beta_5 CEOdu_{it} + V_{it}$	
Results of the regression model of the fourth research hypothesis	
Yv nAdj. R^2	0.65
F	7.829
p	0.001
Durbin Watson	1.718

Examining the effect of management work experience on the disclosure of intellectual capital showed that the effect of the model is equal to 75%, and in other words, the work experience of management has a significant effect on the disclosure of intellectual capital.

CONCLUSION

Transparency in financial reporting and adopting full disclosure approaches can create a safe environment, ensuring that investors' interests are protected. Management is a crucial aspect of accounting, and it is essential to focus on their characteristics to improve the financial

situation of a business unit. Research suggests that owners should employ managers who ensure fair distribution and create an atmosphere for improving intellectual capital disclosure. Investors are recommended to prioritize investment targets based on the level of fair distribution in the board of directors' composition and invest in units that utilize skilled managers.

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