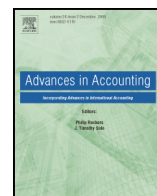




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### Why do firms disclose and not disclose structural intangibles?

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## ABSTRACT

This study conducts 22 interviews with the directors of 11 firms chosen from the top 30 listed firms by market capital on the Colombo Stock Exchange, with each firm representing an industry. The interviews explore senior executives' views about disclosing the structural intangibles in annual reports to attract financial investments. The study identifies 20 intangible resources in 10 intangible classes. It analyzes the interview data using latent thematic analysis and explores them as responses to social, political, and economic interest groups. Corroborating interview data with annual report data, this study identifies five broad reasons for disclosure and non-disclosure. Build empathy, show they are good corporate citizens, win government support, and build confidence are about disclosure, and divert attention from issues at hand is about non-disclosure. This study finds that disclosure results in managing legitimacy of the social and political interest groups, and also in managing impressions of the economic interest group. Non-disclosure results in managing impressions of the social and political interest groups. The findings contribute to building an evidence-led theoretical connection to understand the structural intangibles disclosed and not disclosed to attract financial investment to firms.

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## 1. Introduction

Previous studies have examined various sorts of intangible performance in firms, with differing objectives. Many studies have uncritically accepted that those who prepare reports containing disclosure of intangibles tell exactly about and all about firm performance. Deegan (2002) points out that people have a deep interest in understanding what motivates firms to disclose, and that one such motivation is that firms use disclosure to legitimize their activities. Deegan states that legitimacy theory as it is currently applied needs further theoretical refinement. Accepting that invitation, this study collected data by conducting interviews with senior executives whose information was included in annual report disclosures. Analyzed, the interview data were found to describe the role that separate intangibles play in the social, political, and economic context in which the firm conducts its activities. Undertaking the study in Sri Lanka during the truce period of its lengthy civil war, brings out the unique features influencing the social, political, and economic setting. Analyzing disclosure using the neo-classical strand of political economy theory as well as legitimacy theory, the study asks, "Why did firms disclose or not disclose structural intangibles to social, political, and economic interest groups, and what resulted from it?" The exploration contributes to refining the theoretical positions of legitimacy and the neo-classical strand of political economy in voluntary disclosure and non-disclosure.

One aspect of intangibles concerns the structure of a firm (structural intangibles), while the other aspect concerns the staff (human capital)

(Abeysekera, 2003, 2006; Edvinsson & Sullivan, 1996). Some studies on intellectual capital identify the firm structural intangibles as having two dimensions: internal capital and external capital (Bozzolan, Favotto, & Ricceri, 2003). This study does not make this distinction because intangibles on internal capital and external capital represent a "stable" form of capital and are bankable for financing. The human capital, by contrast, is "volatile" and not recognized as bankable for financing purposes. Structural intangibles include corporate philosophy, corporate culture, brands, and distribution channels (Edvinsson & Sullivan, 1996). This study looks into disclosure and non-disclosure of intangibles about the structure of the firm, which far outweighs disclosure of intangibles about staff in annual reports (Bozzolan et al., 2003).

This study chose Sri Lanka as the research setting because during the period of the study, four factors became worthy of notice to businesses in attracting financial investments. First, the truce that lasted from 2002 until 2005, during the prolonged period of civil war, created a politically unstable environment in which to continue business. Despite the political instability during the truce period, the market value and stock return of firms were associated with textual reporting of intellectual capital (Abeysekera, 2011a,b). Those studies along with previous ones looking at intellectual capital disclosure of firms in Sri Lanka noted that examining disclosure of each intangible separately can provide different insights. They point out that each intangible behaves differently and firms can disclose them for different reasons (Abeysekera & Guthrie, 2004a,b, 2005). Second, the government regulations imposed are different between industries. For instance, firms in tobacco and alcoholic beverage industries are subject to higher taxes, with various limits on how much they can make and sell (Ceylon Tobacco Company, 1999). Third, high literacy rate and strict labor policies characterized this social

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setting (Central Bank of Sri Lanka, 2009). Fourth, the firms listed on the stock exchange had much dependence on foreign capital (CSE, 2000). These reasons made Sri Lanka a unique context for this examination of firms, and one where firms may decide to disclose or not to disclose structural intangibles in annual reports to suit social, political, and economic interest groups in this particular setting.

In analyzing and presenting the results, this study aims to contribute to the literature in two broad ways. First, it helps those who use annual reports to gain insights into ways firms respond with structural intangibles disclosures and non-disclosures depending on the membership in the interest group. Second, using the neo-classical strand of political economy theory, this study identifies various responses used by firms in disclosure and non-disclosure to the three interest groups (social, political, and economic). It analyzes the reasons for disclosure and non-disclosure as motivations and agendas, and the effects of disclosure and non-disclosure as managing legitimacy and managing impressions. This analysis contributes to refining theories on disclosure practices.

## 2. Relevant literature

Using Suchman (1995, p. 574), legitimacy in this study is the “generalized view or assumption held by interest groups that a firm making disclosure or non-disclosure within their socially framed norms, values, beliefs are desirable, proper, or correct.” The firm can seek legitimacy from the interest groups through disclosure or non-disclosure, for various reasons.

Suchman (1995) identified two approaches to legitimacy. The strategic approach sees that managers exercise a great degree of control over the choice of disclosure. Managers can create symbols and rituals of disclosure in their wish to support tangible results such as profits. It is through the strategic approach that the firm manages impressions of the interest groups to gain legitimacy (Neu, Warsame, & Pedwell, 1998; Suchman, 1995). Later studies on disclosures have identified this effect as impression management (Aerts, 2005; Ogden & Clarke, 2005). The institutional approach sees legitimacy as a set of beliefs having the power to perform. These beliefs are part of the larger cultural setting in which the firm conducts business, and disclosures explain how the firm is made up and how it operates. Managers exercise a low degree of control over the disclosure process. It is through the institutional approach that the firm maintains and repairs legitimacy of the interest groups (DiMaggio & Powell, 1991; Meyer & Scott, 1983, p. 201; Suchman, 1995). Firms interviewed in this study had good financial health based on ratio analysis of financial statement data. They also had no remarkable unfavorable events raising questions about previous claims to disclosure. The repair of legitimacy became an irrelevant construct to this study. The effect of managing legitimacy in this study is restricted to maintaining legitimacy.

### 2.1. Managing legitimacy

O'Donovan (2002) interviewed six people involved in preparing annual reports in three firms, and found the firms used various tactics to legitimize their actions through annual report disclosure. Among these tactics, not making any disclosure was the most popular choice, and disclosing to divert the attention of interest groups was a very likely choice. Other disclosure tactics included altering views of society, altering values of society, and conforming to the values of society. These disclosure tactics presented firms in a positive light depending on whether the firms wanted to gain, repair, or preserve legitimacy.

Merkel-Davies and Brennan (2007) found that it is easier for firms to use legitimizing disclosure tactics when the marketplace is functioning inefficiently, such as in developing country settings, where interest groups may assign information deliberately provided by managers as mistaken information or may assume that it is due to inefficient capital markets.

Abeysekera (2008a) explored the human capital disclosures in annual reports and found that firms disclosed about becoming more efficient, in the context of replacing labor with technology. Abeysekera found that the directors had various motives to disclose, which had to do with reducing tensions arising between firms and interest groups because of certain actions. For instance, in the case of replacing labor with technology, the disclosures were aimed at showing the desirability and appropriateness of these actions (Abeysekera, 2008b).

### 2.2. Managing impressions

The way interest groups view the firm can shape their disclosure. Managing impressions to gain legitimacy occurs when a firm has a goal of creating and upholding a specific identity that causes the firm to manage legitimacy to stakeholders (Bozeman & Kacmar, 1997, p. 9; Merkl-Davies & Brennan, 2007; Osmo & Guillamon-Saorin, 2011).

Firms now have more opportunities for managing impressions through disclosure, with long and complicated textual information in annual reports. Aerts (2005) examined ways firms disclose information as text in annual reports, and found that firms used statements such as entitlements and enhancements to manage impressions formed by interest groups. Firms aimed to manage impressions to remind interest groups to consider that performance resulted from non-financial resources. They found that statements contributing to managing impressions promoted an optimistic view about the firm among the interest groups.

Ogden and Clarke (2005) examined corporate disclosures in the annual reports of 10 privatized water companies to find out how they gained legitimacy. They conducted the study at a time when the government was arguing that privatization of water utilities would introduce competition among water companies and have the benefit of making them focus on the needs of customers. They found the privatized water companies used annual report disclosures to manage impressions of customers and to say that they were conducting their businesses more efficiently than under public ownership of water services. Ogden and Clarke (2005) classified impression management techniques as aggressive and defensive. They interpreted as aggressive, such techniques as self-enhancing communication, self-promotion, entitlements, and enhancements. They interpreted as defensive, such techniques as making excuses, justification, and apologies for the shortfall in firm performance.

Morrow (2006) investigated accounting policies used by football clubs for intangibles. The football clubs amortized players' rights over an arbitrary 10 years, rather than over the football players' contract period, which the Italian government allowed. Although the accounting treatment had no cash flow effect, it improved clubs' reported financial performance as the period of amortization was longer than the football players' contract period. This resulted in recognizing a smaller expense in the statement of income, which increased the reported profits. In this way the clubs were able to manage impressions of interest groups by presenting themselves as more profitable.

Various researchers have used voluntary corporate disclosures to explain annual report disclosures as an exchange between firms and interest groups. The literature has mainly explored such disclosures for managing legitimacy. Most studies provide corroborating evidence (Cho & Patten, 2007; de Villiers & van Staden, 2006; O'Donovan, 2002; Tsang, 1998). A few other studies refute this conclusion (Cormier & Gordon, 2001; Deegan & Gordon, 1996) or provide limited support (Wilmshurst & Frost, 2000). Examining corporate disclosures as a way of managing impressions is a more recent approach. Some studies show that disclosures are used to gain legitimacy (King, 2008), although another study does not support such a conclusion (Lorraine, Collison, & Power, 2004). Studies so far have shown that firms exchange disclosures with interest groups either to manage legitimacy or to manage impressions, and have not considered the possibility of firms simultaneously using two approaches. Further, most studies have focused

mainly on analyzing annual report disclosures, with only a few examining the intent behind preparers' disclosure choices (Abeysekera, 2008a,b; O'Donovan, 2002). Although the Abeysekera (2008a,b) study examined firms' motives behind intangibles disclosures about staff, no study has yet explored motives behind intangibles on structure of the firm, to improve theory refinement. The present study sets out to fill this void by researching the structural intangibles disclosure responses as an exchange between the firm and the interest groups.

### 3. Theoretical perspective

"The political economy" is a term introduced in the 17th century, and describes what we know today as economics, but modern usage has taken on some different meanings. Two strands have become known as the post-structuralist (or cultural, or normative) political economy, and the neo-classical (or traditional, or descriptive) political economy (Arndt, 1983). The two strands have many differences. A striking difference is that the post-structuralist strand focuses on production (such as labor) while the neo-classical strand focuses on exchange (such as markets) (Sayer, 1995, pp. 1–17; Wamsley & Zald, 1976, pp. 16–23).

The post-structuralist political economy strand highlights the conflicts arising from the control exercised by those who invest capital to make products over those provide labor to serve in firms. It hints at exploitation of (powerless) labor to the benefit of the (powerful) owners (Cooper, 1980; Cooper & Sherer, 1984). This strand points out that people investing capital try to control the workers to increase their financial results, and controlling can result in conflicts (Hopper, Tsamenyi, Uddin, & Wickramasinghe, 2009). Armstrong (1998) applied post-structuralist political economy strand to interpret the history of international transfer pricing to demonstrate how the (powerful) capitalist interest groups exploit (powerless) labor to advance the interests of capitalist groups. It is a way of extracting surplus value towards the capitalist interest groups (Abeysekera, 2012). In a discussion paper using this strand, Boczeko (2000) says the principles in accounting support an ideology of wealth collection which help investors to oppress staff, so investors can increase their financial return. Wickramasinghe and Hopper (2005) show how managers used a budgeting technique called production-based pay at a textile mill in Sri Lanka, without responding to the expectations of the staff. Jayasinghe and Wickramasinghe (2011) show how traders used financial power to exploit fishermen, by deciding on a fishermen's cooperative society that in fact prolonged rather than relieved the fishermen's poverty.

This study chooses the neo-classical political economy strand as its theoretical position for three reasons. First, this strand is grounded in the present-day market-based social and political systems. The neo-classical strand says firms can use observable occurrences as an exchange behavior between firms and interest groups for a preferred outcome. Rather than analyzing the event as a way of controlling labor, this strand analyzes the event as a way of getting a result (Arndt, 1979). Second, this strand also lays the foundation for theory building (Arndt, 1983). Third, the focus of this study is disclosure and non-disclosure responses in annual reports. Annual reports are widely accepted to be a device for exchanging selective information. Annual reports can actively create disclosure to manage impressions of economic, social, and political interest groups. Annual report disclosure can also passively manage the legitimacy needs of those interest groups (Guthrie & Parker, 1990).

Williams (1999) investigated the voluntary environmental and social disclosure of firms as an exchange between the firm and its interest groups. Williams identified interest groups as social, political, and economic. Exploring the extent to which disclosures had an influence on interest groups, the researcher built one or more variables that represented each interest group to conduct analysis using a multiple regression technique. Uncertainty avoidance and masculinity represented the social interest group. Political and civil repression

and the Roman–Germanic legal system represented the political interest group. Economic development, size of equity market, and liquidity of equity market represented the economic interest group. Williams found that the expectations of all interest groups influenced firms' voluntary disclosures.

Defining each interest group is common practice in applying the political economy perspective. The neo-classical strand of political economy views that firms make disclosures, directing them to social (i.e., staff and the citizens of the country), economic (i.e., investors), and political (i.e., government) interest groups (O'Donovan, 2002; Williams, 1999). Using this view in the Sri Lankan setting can bring out the various connections between a firm and its interest groups in the context of the firm. This is because firms' contextual factors can discover how firms respond to interest groups with disclosure (Cooper, 1980; Williams, 1999). Disclosures in annual reports create, preserve, and repair views, norms, and values of the economic, social, and political interest groups as a result. This study explores attracting financial investments using disclosure and non-disclosure responses as a result.

Interest groups demand some disclosures as value-relevant to them, while firms supply other disclosures as value-relevant to the interest groups. The features of the firm and the context in which it conducts business also influence the supply and demand aspects of disclosure (Holland, 2004). Research has also investigated firms' deciding not to disclose any information. Holland (2005) shows that firms exercise deliberate secrecy to avoid compromising their competitiveness, or when warranted by the firm culture and other circumstances. Gibbins, Richardson, and Waterhouse (1990) show that firms can also manage their disclosures for opportunistic benefits from various interest groups. This is important in the context of a developing nation like Sri Lanka, where the government still exerts a strong influence on business policy and on deciding the extent of competition. In such situations, firms may wish to benefit from the unequal power of political interest groups such as the government (Mahendran, 2001, p. 4). However, to uncover firms' disclosure responses to interest groups requires acknowledging the influence of contextual causes, and shedding previously conceived assumptions (Boyatzis, 1998, p. 4).

### 4. Sri Lankan context

This section outlines the background of the three interest groups in the Sri Lankan setting. It focuses on the Sri Lankan government and its agencies as the political interest group. The social interest group is represented by staff working in firms and the remaining citizens of Sri Lanka. The investors (that is, current and future shareholders) and creditors in listed firms in Sri Lanka represent the economic interest group. These specific stakeholders emerged from interviews with the participants in this study.

#### 4.1. Political interest group

Sri Lanka has had an open-market policy since 1977. The continuing civil war during the study period between the government and rebel forces, and the attack by rebel forces on the international airport in July 2001 decreased foreign investment flows into the country. It heavily increased air and sea transportation insurance premiums because of continuing war, and increased firm spending. It also decreased the capacity of listed firms across all industries to attract investment (Dun & Bradstreet, 2001; Special Correspondent, 2001, pp. 108–110).

Due to pressure from groups representing the citizens in Sri Lanka (e.g., the medical community) the government enforced regulatory measures to curb people's alcohol and tobacco consumption introducing tougher regulatory policies for the tobacco and alcoholic beverage industries. The two industries also came under political pressure from the Presidential Task Force that reviewed the production, marketing, and distribution of tobacco and alcoholic beverages. This resulted in

imposing marketing limits for these products in the country (Ceylon Tobacco Company, 1999, p. 26). Firms that produced alcoholic beverages came under a high duty regime aimed at curbing alcohol consumption (Distilleries Company of Sri Lanka Limited, 1999, pp. 8–9; The Ceylon Brewery Limited, 1999, p. 2; The Lion Brewery of Ceylon Limited, 1999, p. 1). The government policies influenced the tobacco and alcoholic beverage firms' production and sales of products and services, as well as their voluntary disclosure practices.

#### 4.2. Social interest group

Although Sri Lanka has lagged in economic development, it has performed well in the area of social development. The adult literacy rate in 1998 stood at 91.3%, which is among the highest in the developing world (Central Bank of Sri Lanka, 2009). The government's policy reforms included introducing strict labor laws that matched the needs of the International Labor Organization (ILO), but limited foreign direct investment. Firms could wind up full-time continuing staff only by common consent between the firm and the employee. Staff could decide on their own to leave the firm or if firm asked them to leave it must seek their consent and must offer monetary compensation (De Silva, 2004, pp. 262–291; Perera, 2001, p. 7). The government recognized that firms needed to ask staff to leave the firm, and did not challenge those decisions, as the government itself was making a move from welfare state to a state driven by market forces. However, such redundancies negatively influenced firms' short-run economic efficiency, because of the high costs of voluntary redundancies.

#### 4.3. Economic interest group

The Colombo Stock Exchange (CSE) was established under the *Companies Act No. 17 of 1982* as a company limited by guarantee and licensed by the Securities and Exchange Commission of Sri Lanka. During the late 1990s, firms' capacity to attract capital decreased with investors preferring investing in technology firms which allowed them to amass wealth more quickly (CSE, 2000, p. 13). During the study period, the Colombo Stock Exchange had no listed firms in the technology sector. The overall market-price-to-net-book value of firms listed on the CSE was 1.1 (CSE, 1998, p. 12). The LMD 50, Sri Lanka's version of the Fortune 500, reports that 24 of these 50 firms had a price-to-book value of less than one (LMD, 1999). During the same period, modern knowledge-intensive firms (such as Microsoft, Intel Corporation, and Amgen) had a price-to-book value of 9.6 (Flamholtz & Main, 1994). The stock market analysts attributed the lackluster performance of the stock market to the continuing civil war during the study period (CSE, 2002). The stiff competition to attract financial capital combined with the Colombo Stock market's heavy dependence on foreign investors encouraged firms to voluntarily disclose the future earnings potential in annual reports.

The social, political, and economic interest groups are interconnected in some aspects due to an interest group exercising influence over others. Some citizens in the social interest group are also the investing public in the economic interest group. The political interest group that enforces strict labor laws also formulate policies to encourage the social interest group to become an economic interest group by investing in listed firms. Therefore, the social, political, and economic interest groups are broad, overlapping labels with no mutually exclusive boundaries.

### 5. Research methods

Because the disclosure practices are subtle, the fitting method of analysis should uncover these subtleties (Merkl-Davies & Brennan, 2007). This study involved conducting semi-structured interviews, and analyzing interview content using thematic analyses. Semi-structured interviews are an effective research method in gaining insight into management practices. Details about the connection a

firm has with financiers and market share information are not publicly available in Sri Lanka, and these types of interviews helped to access such information specific to firms.

#### 5.1. Interview format

Before conducting semi-structured interviews, this study conducted two pilot interviews with a finance director and a marketing director from a listed firm that was not in the sample, using a semi-structured interview framework. The pilot interviews confirmed that finance directors and marketing directors could provide information about various structural intangibles included in annual reports. Analyses of the pilot interviews helped to reframe the final format of the interview questions. The sample was made up of the finance director and the marketing director, for each firm interviewed.

#### 5.2. Participants and conducting interviews

This study conducted 22 interviews with 11 firms which each represented an industry in the study sample. To represent each industry, the study selected firms using a stratified sampling technique, because disclosures could vary due to differences in industry characteristics (Cooke, 1992; Dye, 1985; Lev & Zarowin, 1999). To uphold anonymity, this study assigned generic names to firms based on their industry: Bank Ltd, Beverage Ltd, Diversified Ltd, Engineering Ltd, Finance Ltd, Food Ltd, Hotel Ltd, Property Ltd, Manufacturing Ltd, Toba Ltd, and Trading Ltd. Participants consisted of firm marketing directors and finance directors, or in the absence of a director, the senior executive responsible for roles involving structural intangible resources.

The study set up interviews as follows (Holland & Stoner, 1996). It sent a formal letter to the Chief Executive Officer of each firm taking part in the interview, identifying each participant by their name and title, and requesting that they be permitted to take part in the study. The letter explained the aim of the study, the duration of the interview, and the interview format. A week later, the interviewer contacted the Chief Executive Officer by telephone and confirmed their permission for the nominated staff members to take part in the study. This was followed by a formal invitation to each participant (i.e., the finance director and the marketing director). The interviewer contacted each participant one week following the receipt of the invitation letter to confirm their participation and to answer any questions about the study. The interviewer and participant agreed on the interview time and details, and the interviewer conducted all interviews at the participants' offices. One week before the interview, the interviewer contacted the participants. The interviewer told the participants the interview would be about reasons behind disclosures and non-disclosures in annual reports in 2001 and 2002. This was to give participants enough time to refresh their memory about disclosures and non-disclosures in the two annual reports. The interviewer conducted interviews within six months after release of 2002 annual reports.

Before making appointments for interviews, the study ensured that participants had an involvement in providing data to both 2001 and 2002 annual reports. When the interview started, the interviewer explained the meaning of each structural intangible resource to the participants. The interviewer then asked the participants to assume that all questions related to attracting investments to the firm. In each interview, the interviewer asked five questions framed to finance directors, or five questions framed to marketing directors. The interviewer asked all questions regardless of whether the firm had disclosed information relevant to a given question, to find out the reasons behind disclosure and non-disclosure in annual reports. Most interviews were tape recorded with the participants' permission. The interviewer also took notes during the interview. At the end, the interviewer summarized the interview back to the participant, asking the participant to correct any misunderstood notes. When the information provided by the marketing and finance directors interviewed was not enough, the

interviewer interviewed an extra person of similar ranking in the same area of work in the firm. The minimum interview time was 60 minutes for each director.

The purpose of conducting the semi-structured interviews was to find out the disclosure responses behind each structural intangible class disclosure of firms (see [Appendix A](#)). The interviewer presented those questions to the participants, one at a time. The interviewer remained passive during the interview process, allowing the participants to interpret and describe the reasons behind the disclosures in their own way. The interviewer directed the participants to explore the reasons behind disclosing and non-disclosing to the community (including staff), government, and investors. This study analyzed participants' responses about the structural intangibles.

The study identified 20 intangible resources from previous research ([Abeysekera, 2007](#)). Previous studies grouped these intangibles into 10 structural intangible classes.

To present the 10 classes in schematic diagrams and tables, this study assigned labels as follows.

- A. Brand-building class included brands, customer satisfaction, and quality standards.
- B. Corporate image building class included company name and favorable contracts.
- C. Business partnering class included business collaboration, franchising agreements and licensing agreements.
- D. Distribution channels class had distribution channels only.
- E. Market share class had market share only.
- F. Processes class including processes for management and technology.
- G. Systems class included systems for information and networks.
- H. Intellectual property class included patents, trademarks, and copyright.
- I. Philosophy and culture class included corporate philosophy and corporate culture.
- J. Financial relationships class included financial relationships only ([Abeysekera, 2007](#)).

### 5.3. Validity and reliability of interviews

Five approaches increased the validity and reliability of the interviews ([Holland & Stoner, 2004](#); [McKinnon, 1988](#)). They are as follows.

- (1) Interviewer presented as a serious but friendly researcher.
- (2) The study selected participants who made decisions about structural intangibles disclosed in annual reports.
- (3) The interviewer used an interview format that allowed participants to become expressive while having a set of questions for guiding the participants to respond.
- (4) The interviewer ensured that participant information agreed with information in annual reports.
- (5) The interviewer took notes during the interview, and taped the interview whenever allowed by the participant, to capture interview responses of participants.

### 5.4. Thematic analysis

Thematic analysis identifies, analyzes, and reports patterns (themes) within data ([Braun & Clarke, 2006, p. 79](#)). The generic skills involved in arranging themes by meanings are shared across several qualitative analysis techniques ([Holloway & Todres, 2003, p. 207](#); [Ryan & Bernard, 2000](#)). This study used interview data to build themes over five stages. Analyzing of themes in interview data required searching for underlying ideas, meanings, and experience.

The first stage of latent thematic analysis involved coding the interview data by searching for meanings in the text that fell within structural capital classes. The interview responses guided the coding because the interviewer asked separate questions to relate to each

structural intangible class. Although the participants had freedom to answer questions the way they liked, analyzing the interview responses in terms of underlying meaning helped to code them to fit structural intangibles classes.

The second stage involved examining the interview responses coded into structural capital classes, and examining whether those responses were about social, political, and/or economic interest groups. This study assigned themes about society, and specifically those about social responsibility, justice, fairness, and staff to the social interest group. It assigned themes about legislative enactments such as taxation, Acts, and the government philosophy and actions about its knowledge-based economy to the political interest group. It assigned themes about investment banks and equity holders, retail banks and lenders, and business collaborations to the economic interest group.

The third stage analyzed that information coded into the three interest groups to find out detailed reasons why firms disclose or do not disclose structural intangibles. The analysis identified the firms' motivation behind disclosure responses in annual reports as revealed in interviews. This analysis led to developing fine strands of details, which became motivations behind disclosures.

The fourth stage developed broad reasons as to why firms disclose and do not disclose structural intangibles. This study clustered similar motivations behind the disclosures in structural intangibles classes, and these groupings became agendas behind disclosures.

The fifth stage involved developing disclosure patterns from agendas behind disclosures. Explaining these disclosure patterns from a theoretical viewpoint led to the search for theoretical constructs from the literature. The search resulted in two theoretical constructs: managing legitimacy and managing impressions.

The five stages of theme building using interview data needed several iterations. Repeating these iterations resulted in refining coding interview data to intangibles classes, interest groups, developing motivations behind disclosure, developing agendas behind disclosure, and searching for their conformity with appropriate theoretical constructs. The process also required the exercise of judgment, including going back and forth with interview data, aligning such judgments with determining disclosure responses in annual reports to attract financial investments to firms. The repetition of iterations was terminated when the refinements did not add anything substantial to the analysis.

## 6. Results

The first section presents an account of senior executives' views about structural intangibles disclosure and non-disclosure, presented as remarks relevant to interest groups. The second section outlines the motivations behind disclosure themes developed from the interview data. The third section outlines the agendas behind disclosure developed using motivations behind disclosure data. The fourth section outlines contextual factors found to influence disclosure and non-disclosure.

### 6.1. Structural intangibles disclosures and non-disclosures – narrative account

The narrative account outlines the ways firms responded to each interest group: social (Ref s), political (Ref p), and economic (Ref e), in disclosing structural intangibles. In presenting the schematic diagram, this study assigned letters shown in brackets for the 10 intangibles classes as follows:

- (A) processes;
- (B) brand-building;
- (C) corporate image building;
- (D) philosophy and culture;
- (E) distribution channels;

- (F) systems;
- (G) business partnering;
- (H) intellectual property;
- (I) market share; and
- (J) financial relationships.

The narrative accounts are outlined by intangibles class. A narrative pertaining to the political interest group (Ref p) of the corporate image building class (Ref C) is labeled Cp; one pertaining to the social interest group is labeled Cs; and one pertaining to the economic interest group is labeled Ce.

## 6.2. Processes

### 6.2.1. Social (As)

Finance directors of Toba Ltd and Diversified Ltd revealed that their firms have decided to take more steps to “control” labor. These included routine evaluations, meetings, and reviews for reducing fraud, maintaining consistency, and enhancing performance. They also revealed that their management and technology processes enabled them to reduce staff labor costs and minimize the role of labor (semi-skilled and unskilled) that hindered their attraction to financial investments. Finance manager of Engineering Ltd said:

Now with the competition gone up, you should have better “tools” to maximize the returns. The cost of our workers is high, but they were not feeling it. The minute or hour of manpower is too expensive because the cost of production is high.

Disclosing how management designed routines, meetings, and evaluations to help social interest group to increase firm productivity while diverting their attention from redundancy plans.

### 6.2.2. Political (Ap)

Sri Lanka had labor laws that made it hard and costly to terminate staff at the discretion of firms, and firms did not want to provoke enactment of those laws against them. Marketing directors of Toba Ltd and Trading Ltd referred to several instances of outsourcing services that reduced in-house labor commitments. Firms saw that replacing activities undertaken by staff with technology had a cost although those actions helped to support the government's aim to drive the country towards a knowledge-based economy. Firms adopting technology helped government to understand their appropriate actions and their positive influence in meeting national priorities.

## 6.3. Brand building

### 6.3.1. Economic (Be)

“Brand building” was treated as one of the firms' best assets for attracting financial investment. Studies show that branded products can fetch higher profit margins, making it possible to increase the firm's financial value (Daley, 2001). The marketing director of Food Ltd said:

I would think brands are the assets of this firm. Competition is marginal. We invest in brands - brand building activity, freshen the brands.

The marketing manager of Engineering Ltd and the marketing director of Hotel Ltd said little about brand building in annual reports because they lacked branded products or services to make them attractive to investors. The marketing manager of Engineering Ltd said:

We are not in mass production. In our case, we have to meet specific requirements of the customers. We don't have branded products.

The marketing director of Hotel Ltd said:

Once the refurbishments are done I think we should come in with our own brand. We should create our brand, which should enable us to go to other parts of the world as well... One day, maybe 50 years or 100 years hence, it will be a brand that people are talking about... We can't do what Hilton is doing right now. Their 12 to 15 percent revenue comes from worldwide booking systems, whereas ours is one percent. That is because of the brand name.

The disclosures about brand building aimed to build confidence about the firm as a desirable entity that has the capacity to increase wealth for the investors.

### 6.3.2. Political (Bp)

Brand building disclosures were mainly directed to the investors, except in politically sensitive industry sectors. The tobacco and alcohol industries had come under political pressure from the Presidential Task Force because of a review of their products, and the way they market and distribute tobacco and alcoholic beverages. This had led to imposing marketing limits on tobacco products in the country (Ceylon Tobacco Company, 1999, p. 26). The government imposed heavy duties on firms producing alcoholic beverages to decrease alcohol consumption in society (Distilleries Company of Sri Lanka Limited, 1999, pp. 8–9; The Ceylon Brewery Limited, 1999, p. 2; The Lion Brewery of Ceylon Limited, 1999, p. 1). The industries that came under such political scrutiny became less attractive to investors, especially the alcoholic beverage industry. Interview participants mentioned that these government regulations decreased their capacity to attract investment. The marketing directors of Beverage Ltd and Toba Ltd mentioned they tried to overcome this by associating their products with nationally renowned symbols and slogans, to build empathy between their firms and the government.

## 6.4. Corporate image building

### 6.4.1. Economic (Ce)

Corporate image building was an invaluable asset for firms to attract financial investment from investors.

The marketing manager of Bank Ltd said:

Last year we came up with corporate advertising for the bank, because of the financial performance as at the end of the year. We portrayed ourselves as a very steady and healthy bank, rather than going through peaks and coming down.

The vice president of Finance Ltd said:

In Sri Lanka it [corporate image building] is very important – it is about who we are, and what sort of business we are into... For a long time we have not concentrated on corporate image advertising, but last year we concentrated on corporate image advertising again, and we strengthened our position as an IT-resourced bank for local customers, as our customers are local customers.

These disclosures about firms adopting technology coordinated with the national priority of taking the country towards a knowledge-based economy.

Industries differed in disclosing about corporate image building in annual reports. Firms in the hotel and engineering industry made substantial disclosures on corporate image building. The finance director of Hotel Ltd stated that they made substantial investments in non-current assets that took longer to yield a return on capital. The huge capital investment in non-current assets made them more noticeable to investors. They needed to build and maintain their corporate image to persuade investors to keep investing in them.

Consistent with its annual report, the marketing director of Hotel Ltd explained:

Now that the market knows that conglomerates like [name of parent firm] are behind the hotel, it also gives us and the hotel much-needed stability and indicates that we are committed to developing and expanding.

Firms in industries that did not come under political scrutiny had strong brand building. Those firms had taken the novel strategic direction of merging brand names with corporate image building, believing that would make them more attractive to investors. In this respect, the marketing director of Food Ltd said:

We leverage [brand name] brand as the firm. The [firm name] brand – 10 to 15 years ago people did not know that that [brand name] etc. comes from [firm name]. Today we drive [firm name] as a brand which stands for quality, reliability. You have the [firm name] seal of guarantee on it.

The industries under political scrutiny were an exception. These industries kept their brand names different from the firm name. Firms' virtual dominance in the marketplace ensured society identified their corporate image building separately from the brands that were coming under increasing scrutiny. This was when the marketing director of Toba Ltd said:

You can buy illicit cigarettes [due to government regulation of the sale of tobacco products]; our firm name [name deleted] itself, guarantees the quality.

Toba Ltd and Beverage Ltd make and sell products that attract political scrutiny. Their marketing directors suggested they prefer to separate brand building from the corporate image building. They have a good corporate image but their brands are under political scrutiny. They believed separating them built confidence among investors.

#### 6.4.2. Social (Cs)

The top 30 firms used corporate image building disclosure in their annual reports to present themselves as responsible firms that take care of society and the environment. In annual reports and in interviews, firms disclosed about community projects they had carried out, their close ties with the local community, and the funding they provided for these projects as part of their corporate social responsibility (CSR). The participants interviewed stated that it was society that helped them to increase financial investment into their firms because it is society that provides labor and buys their products. For instance, the marketing director of Toba Ltd said:

We do many CSR activities to build our corporate image: giving a helping hand in IT in rural areas, art and craft, using wood fuel to generate electricity.

The marketing director of Hotel Ltd said:

It is more than a business... But it is mainly that you also have to give something back to society, as society gives so much to you to maintain your business.

As the literature suggests, corporate image building becomes paramount in withstanding damaging news. Reputed firms suffer the least from bad news about them, because interest groups may be reluctant to believe bad news (Davies, Chun, da Silva, & Roper, 2003, pp. 201–217). Some participants disagreed that firms make corporate image building disclosures to help increase their reputation. However, they all agreed that “benevolence” resulting from a good corporate

image made them desirable to society. This could make their firms more attractive to investors.

#### 6.4.3. Political (Cp)

Most industries designed their corporate image building to attract financial investment to their firms. However, for those industries under political scrutiny, it became a more thoughtful and encompassing exercise to mediate with their investors. As already mentioned, the alcoholic beverage and tobacco firms were subject to regulatory pressure. Corporate image building disclosure for these firms entailed meeting regulatory controls of the government. The marketing director of Toba Ltd explained:

For corporate image, we have identified government as a whole, and two ministries as key decision makers: government (pricing is controlled by state); health ministry, and agriculture ministry.

The finance manager of Beverage Ltd said of corporate image building:

We lie low in that area. It is a fairly sensitive issue because of the type of business we are in. We are very much in focus [from the community and government].

Participants noted that these disclosures tried to reflect the dominant social values imposed on them through legislation.

#### 6.5. Philosophy and culture

##### 6.5.1. Social (Ds)

Many firms in the sample had a social accountability section in their vision and mission statements, but industries under government scrutiny made more disclosures about social accountability in their annual reports. As participants noted, displaying them in a public document was necessary to explain “benevolence,” building harmony between the firm and society, and was helpful for attracting financial investment from investors. Many participants stated that most staff were unaware of the firm's philosophy. On the other hand, disclosing about corporate culture was intended to attract staff, but they preferred candidates recommended by existing staff members, who could help them increase the financial performance. These disclosures helped firms to decrease costly voluntary redundancies imposed by the Sri Lankan labor legislation.

#### 6.6. Distribution channels

##### 6.6.1. Economic (Ee)

All participants considered distribution channels supported better functioning of other classes of structural intangibles. The Hotel Ltd marketing director said:

Your distribution channels and market share are really vital to give you profitability.

The vice president marketing of Finance Ltd said:

Without distribution channels you can't have market share.

The marketing director of Beverage Ltd mentioned the firm was reviewing its business model to beat competitors and allow another party to manage their retail distribution. The distribution channels were important for attracting financial investment for firms, through their helpful role in promoting brand building, corporate image building, and market share. Participants from several firms noted that disclosures about distribution channels aimed to build confidence

among the investors about the future capital build-up, explaining how this can increase brand building and corporate image building.

## 6.7. Systems

### 6.7.1. Social (Fs)

The finance directors of Toba Ltd and Trading Ltd said that their firms were gradually replacing work activities handled by unskilled and semi-skilled staff with technological systems, to make their firms more attractive to investors. For instance, the finance director from Toba Ltd said that their firm offered little vocational training to non-executive staff because they have decided to replace them with technology. These findings are consistent with the annual report disclosure that made a few remarks about vocational qualifications of staff. Annual reports did not mention about future staff redundancy plans. However, participants acknowledged that staff and society can become restless after firms disclose about introducing technologies to replace staff to increase financial wealth for investors. However, the participants highlighted the benefits for the interest groups of firms' adopting technology and disclosing about it, such as providing efficient services and making products with more consistent quality.

## 6.8. Business partnering

### 6.8.1. Economic (Ge)

The beverage, food, tobacco, and trading industries in particular disclosed less about business partnering in annual reports. Some firms interviewed in this study were multinationals. The multinational firms did not seek business partnerships to attract financial capital or to make them more attractive to investors. The marketing director of Food Ltd said:

There are products such as ice cream [for which] we don't have a distribution network. As and when we go in, we will use a network. We will tie up with [firm name]. It will be purely on a needs basis thing.

The marketing director of Toba Ltd said:

Franchising - you have to register your brands. We use our international brands, and you have to pay franchising [technical and advisory fees]. We don't sign any other.

On the other hand, in the diversified industry comprising mainly domestic firms, Diversified Ltd actively sought business partnerships with international firms. The participant said that one of the keys to its business success was collaborating with reputable international firms. These disclosures intended to build confidence in investors about the existing strengths and relationships, to attract financial investments.

The few disclosures about business partnering coordinate with a few franchising and licensing agreements between Sri Lankan and international firms. A previous study explains that firms in developed countries earn lower returns from international ventures with firms in developing countries (Ueng, Kim, & Lee, 2000). The civil war around the time of these interviews also contributed to an uncertain business environment, unfavorably influencing business collaborations with foreign firms (McSheehy, 2001).

## 6.9. Intellectual property

### 6.9.1. Political (Hp)

Trademarks became the commonest intellectual property for many firms. Firms that had patents were reluctant to disclose them in their annual reports. For instance, Manufacturing Ltd was making products that use chemicals, but did not register its trade secrets and industrial

designs with the National Intellectual Property Office of Sri Lanka. Instead, this firm maintained restrictive covenants with staff holding knowledge about the design of the formulae. Intellectual property is protected by the *Sri Lankan Code of Intellectual Property Act No.52 1979* as amended by the *Code of Intellectual Property Act No.40 2000*. However, USAID (1998, pp. 7–8) found some lack of respect for the enforcing of intellectual property rights. Interviews also revealed that firms designed their own protection for their intellectual property, rather than relying on the law.

## 6.10. Market share

### 6.10.1. Social (Is)

Although all firms disclosed little about their market share, the interviews revealed that all firms focused strongly on managing their market share. Firms considered the market share as private and sensitive information that they should not disclose in the public domain. The interviews identified that a business strategy used by firms to increase earnings was through increasing their volume of sales. For instance, the marketing director of Food Ltd said that the firm checked its volume of sales every day, and explored opportunities with other firms to increase its market share. This reduced the visibility of increasing the firm's market share in society.

Some firms that were market leaders assumed that their dominant presence in the marketplace was common knowledge, and thought disclosing about that would have little effect in making their firms attractive to investors. The marketing director of Beverage Ltd said:

We have increased to 85 percent by about two percent over a period of two years. Mainly we have squeezed the competition.

Greater disclosure about high market share could also draw the attention of society, encouraging them to lobby for greater accountability from such firms for the benefit of society and the environment. Instead, such firms disclosed their responsible corporate citizenship through community projects they funded, as caring for society and the environment.

## 6.11. Financial relationships

### 6.11.1. Social (Js)

The finance director of Beverage Ltd and the finance manager of Manufacturing Ltd confirmed that firms with high market capital enjoy favorable financial relationships with lending institutions. Corroborating interview findings with the annual report disclosures showed that all firms deliberately under-disclosed about favorable financial relationships they enjoyed with lending institutions. The favorable financial relationships with lending institutions could decrease cost of funds, giving such firms an added advantage over others. The directors said that their favorable relationships with financial institutions is a private matter, and is not relevant to others outside the firm.

## 6.12. Motivations behind disclosure and non-disclosure themes

Table 1 provides a summary of motivations behind disclosure and non-disclosure themes developed from narrative accounts. The table outlines an abstract of senior executives' comments of structural intangibles disclosure directed to interest groups, and the motivations behind disclosures.

The interview data were coded using latent thematic analysis to develop motivations behind disclosure for each structural intangibles class within an interest group. This resulted in identifying 14 motivations. These motivations are identified with the three interest groups and are summarized in Table 1. For instance, the corporate image building structural capital class, comprising "comply with



**Table 1**  
Motivations behind structural intangibles disclosure and non-disclosure.

Structural intangibles class (Ref)	Interest group (Ref)	Motivations (Ref)	Industry-specific or all industries
Processes (A)	Political (p)	Avoid inviting imposition of stricter labor laws	All industries
	Social (s)	Adopting technology to imply support to government-backed knowledge-based economy (A <sub>p</sub> )	
Brand building (B)	Economic (e)	Divert the attention of interest group by disclosing more about processes (A <sub>s</sub> )	All industries
	Political (p)	Focus on most profitable value-adding segment of products and services (B <sub>e</sub> )	Industry-specific
		Acknowledge restrictive consumption in promotion as required by legislation (B <sub>p1</sub> )	Industry-specific
Corporate image building (C)	Economic (e)	Associating products with nationally renowned symbols and slogans (B <sub>p2</sub> )	Industry-specific
	Social (s)	Build confidence among capital providers (C <sub>e</sub> )	All industries
	Political (p)	Portray firm as a visible corporate citizen taking care of society (C <sub>s</sub> )	Industry-specific
Philosophy and culture (D)	Social (s)	Comply with government regulations (C <sub>p</sub> )	Industry-specific
Distribution channels (E)	Economic (e)	Build empathy with society (D <sub>s</sub> )	Industry-specific
Systems (F)	Social (s)	Take advantage of relationships with wholesale and retail outlets to become more profitable (E <sub>e</sub> )	Industry-specific
Business partnering (G)	Economic (e)	Benefits to society from technologies (F <sub>s</sub> )	Industry-specific
Intellectual property (H)		Display positive business attitude	All industries
	Political (p)	Work together with internationally reputed brands and firms (G <sub>e</sub> )	
Market share (I)	Social (s)	Avoid divulging information about ability to maximize capital and commodify labor (H <sub>p</sub> )	Industry-specific
Financial relationships (J)	Social (s)	Maintain lower visibility of dominance or near-monopoly status in the marketplace (I <sub>s</sub> )	Industry-specific
		Avoid revealing access to low-cost funds that can lead to unfair competition (J <sub>s</sub> )	Industry-specific

government regulations” as a motivation to disclose to the political interest group, was labeled as Cp, where C is for corporate image building and p is for political interest group.

To gain further insights, this study further analyzed the motivations behind the disclosures and non-disclosures in each structural intangibles class by industry membership. This was to uncover whether those motivations were common to all industries or were specific to one or more industries, and are also summarized in Table 1. Results suggest that the motivations behind disclosing the structural intangibles classes (A) processes, (H) intellectual property, and (C) corporate image building were common to all industry sectors. However, motivations behind disclosing and not disclosing other structural intangibles classes were largely specific to a given industry. These were brand building (B), philosophy and culture (D), distribution channels (E), systems (F), business partnering (G), market share (I), and financial relations (J).

6.13. Agendas behind disclosure and non-disclosure themes

Table 2 outlines a summary of agendas behind disclosures and non-disclosures. The results found five agendas behind disclosures and non-disclosures: divert attention (DA), build empathy (BE), good corporate citizen (GCC), build confidence (BC), and win government support (WGS). The following definitions were offered for the five agendas. Divert attention (DA) was defined as deflecting disclosures that may create a conflict between the firm and the interest groups, or not disclosing at all. Build empathy (BE) was defined as disclosure

that empathizes with the existing cultural norms, values, and beliefs of society in which the firm conducts its operations. Good corporate citizen (GCC) was defined as disclosure meeting the citizenship requirements of a responsible firm based on the existing norms, values, and beliefs of society. Build confidence (BC) was defined as disclosure appealing to building confidence in the future conduct of the firm based on past evidence. Win government support (WGS) was defined as disclosure about meeting regulatory requirements.

The strategies used for managing impressions and managing legitimacy were identified from the literature. Firms use three strategies for managing impressions. First, firms educate and inform the interest groups about recent actions they have undertaken to override previously perceived deficiencies. Second, firms make an effort to change the perceptions of the interest groups. Third, firms divert attention from the perceived problems by changing the focus of the interest groups (Chatterjee, 2007; Neu et al., 1998). Firms use two strategies to manage legitimacy. First, they inform now about perceived changes to the future outlook. Second, they report on past accomplishments (Suchman, 1995). Using the strategies attributed to managing legitimacy and managing impressions, the strands of agenda behind disclosure were then assigned to the two theoretical constructs. Based on these definitions, build empathy (BE), good corporate citizen (GCC), and win government support (WGS) were associated with managing legitimacy; and build confidence (BC), and divert attention (DA) were associated with managing impressions. These agendas were developed from thematically analyzing the motivations behind disclosures outlined in Table 1.

**Table 2**  
Agendas behind structural intangibles disclosure and non-disclosure.

Intangible class (Ref)	Social interest group – agenda (Ref)	Political interest group – agenda (Ref)	Economic interest group – agenda (Ref)	Construct
Processes (A)	Divert attention (DA)	Divert attention (DA)		Managing impressions
Brand building (B)		Win government support (WGS)		Managing legitimacy
		Divert attention (DA)	Build confidence (BC)	Managing impressions
Corporate image building (C)		Win government support (WGS)		Managing legitimacy
	Good corporate citizen (GCS)	Win government support (WGS)	Build confidence (BC)	Managing impressions
	Good corporate citizen (GCS)	Win government support (WGS)		Managing legitimacy
Philosophy and culture (D)	Build empathy (BE)			Managing legitimacy
Distribution channels (E)			Build confidence (BC)	Managing impressions
Systems (F)	Good corporate citizen (GCC)			Managing legitimacy
Business partnering (G)			Build confidence (BC)	Managing impressions
Intellectual property (H)		Divert attention (DA)		Managing impressions
Market share (I)	Divert attention (DA)			Managing impressions
Financial relationships (J)	Divert attention (DA)			Managing impressions

## 6.14. Contextual factors

### 6.14.1. Firm-specific factors (service firms compared to manufacturing firms)

The approach to agendas behind the disclosures and non-disclosures in manufacturing firms was different from that in service firms. For instance, the manufacturing firm in our survey designed unique chemical formulae and, instead of protecting these through intellectual property rights, the firm opted to maintain restrictive covenants with staff to avoid divulging information to anyone else. The bank in our survey was driven to design and disclose its advertising campaign to portray itself to the investors as a stable bank.

### 6.14.2. Firm-specific factors (ownership structure)

Multinational and domestic firms were distinctly different in ownership structure. Multinational firms interviewed in this study had an overseas parent firm with a controlling interest in the Sri Lankan firm. The overseas parent firm had voting share ownership which ranged from 77% to 91% in the Sri Lankan subsidiary firm through which they exercised control over financial and operating policies. The multinational firms were less dependent on attracting financial investments to their firms from the public at large, with funds received from the parent multinational firm. Due to their foreign ownership, these firms were exposed to greater scrutiny by the government and society. Although not always clear-cut, some differences were evident in the approaches to managing impressions and legitimacy between these two types of firms. The multinational firms focused on brand building disclosure in order to manage impressions, primarily using multinational brands. They also had a well-developed corporate philosophy and culture, conducted regular workshops to impart this to staff, evaluated their level of understanding through staff surveys, and used such disclosures as resources to manage legitimacy with staff and society. They were reluctant to disclose the favorable funding received from their multinational network. Because most multinational firms paid large amounts of tax to the government on their goods and services, their negotiation power with the government agencies was greater than was the case for domestic firms. However, the negotiation power of multinational firms diminished if they were in a politically unfavorable industry such as tobacco and alcoholic beverages. For instance, the marketing director of Toba Ltd said:

We bring a lot of revenue to the government. We have asked them to review the sales tax imposed on our products because illicit cigarette producers don't pay any tax. Increasing our sales tax means encouraging illicit cigarette producers.

The domestic institutional investors held the majority of voting shares in domestic firms with no one shareholder having the sole controlling interest. Domestic firms focused on corporate image building and business partnering disclosures to manage impressions, and focused on disclosures about processes to manage legitimacy. Multinational firms enjoyed an oligopoly market share, which they were loath to disclose, instead disclosing about being a good corporate citizen to manage legitimacy with society. By contrast, the domestic firms used disclosures about processes to win government support as contributors to the knowledge-based economy.

### 6.14.3. Industry differences (politically sensitive compared to other)

Firms in politically sensitive industries (such as alcoholic beverages and tobacco) set agendas behind disclosures and non-disclosures to manage legitimacy of firms' actions as perceived by interest groups. For instance, Trading Ltd, a firm with a majority multinational ownership but not in a politically sensitive industry sector, indicated it had found that disclosing profusely about brands enabled it to attract investments to the firm. In contrast, Toba Ltd was a manufacturing firm with a majority multinational ownership, in a politically sensitive

industry, and had been modestly disclosing about its brands to manage legitimacy with the government and with society. Similarly, larger firms could command lower funding costs through greater market capital, but responded by disclosing less or nothing about market share to society because their disclosure might increase conflicts between them and society.

## 6.15. Location-specific factors

Location-specific factors also influenced the way firms responded to interest groups with disclosures and non-disclosures in annual reports. As noted earlier, the civil war that bracketed the study period increased the risk of bodily harm to firms' staff, but was accepted as the status-quo, and firms avoided raising the fairness of the status-quo, to reduce misunderstandings with the government. Another location-specific factor was that social and political interest groups were primarily domestic, and the economic interest group was a combination of domestic and international. The exposure of firms to global competition provided opportunities to explore markets overseas, but it also invited stiff competition when trying to attract financial investment. The absence of technology firms on the stock market, and the prevailing civil war in the country, were additional obstacles to firms' attractiveness for financial investments, particularly from overseas investors. The overdependence on overseas investors to attract investments may have contributed to making disclosures to investors more important than disclosures and non-disclosures to society and the government, so that firms directed much of their structural intangibles disclosures and towards investors.

## 7. Discussion

Based on the results, Fig. 1 is schematic of the structural intangibles disclosures for managing impressions or legitimacy. The relative importance of intangibles is contextual, in that they were influenced by firm-specific characteristics (e.g., manufacturing compared to service firm, and ownership structure), industry-specific characteristics (political sensitivity), and the firm's locational environment (e.g., the civil war). As noted earlier in outlining the three interest groups in the Sri Lankan context, cross-interactions occurred among the three interest groups.

The five stages of latent thematic analysis demonstrate interview responses in this study being coded to 10 structural intangibles classes (A to J), and structural intangibles class interview data coded to interest groups (e, p, and s). Data on each structural intangibles class in interest groups were analyzed to form 14 motivations behind disclosures (outlined in Table 1).

In Fig. 1, for instance, the Philosophy and culture structural intangibles class, labeled D, was disclosed with a motivation to the social interest group (Ds). The motivations behind each structural intangibles class disclosure directed at the three interest groups were analyzed to form five agendas behind disclosure. These are shown in Fig. 1 by combining the structural intangibles class with the subscript for the interest group (Ae, p, or s through Je, p, or s). For instance, the results found that the motivation to disclose about philosophy and culture to social interest group (Ds) contributed to "build empathy" (BE).

The agendas behind structural intangibles disclosures emerged with two broad disclosure patterns that conformed to two theoretical constructs: legitimacy and impression management, from the literature. The agendas of build empathy (BE), good corporate citizen (GCC), and win government support (WGS) resulted in managing legitimacy. The agendas of divert attention (DA), and build confidence (BC) resulted in managing impressions.

The actions taken to manage legitimacy and impressions differed among industries. Firms' contexts determined specific features defining desirability, and specific explanations likely to obtain

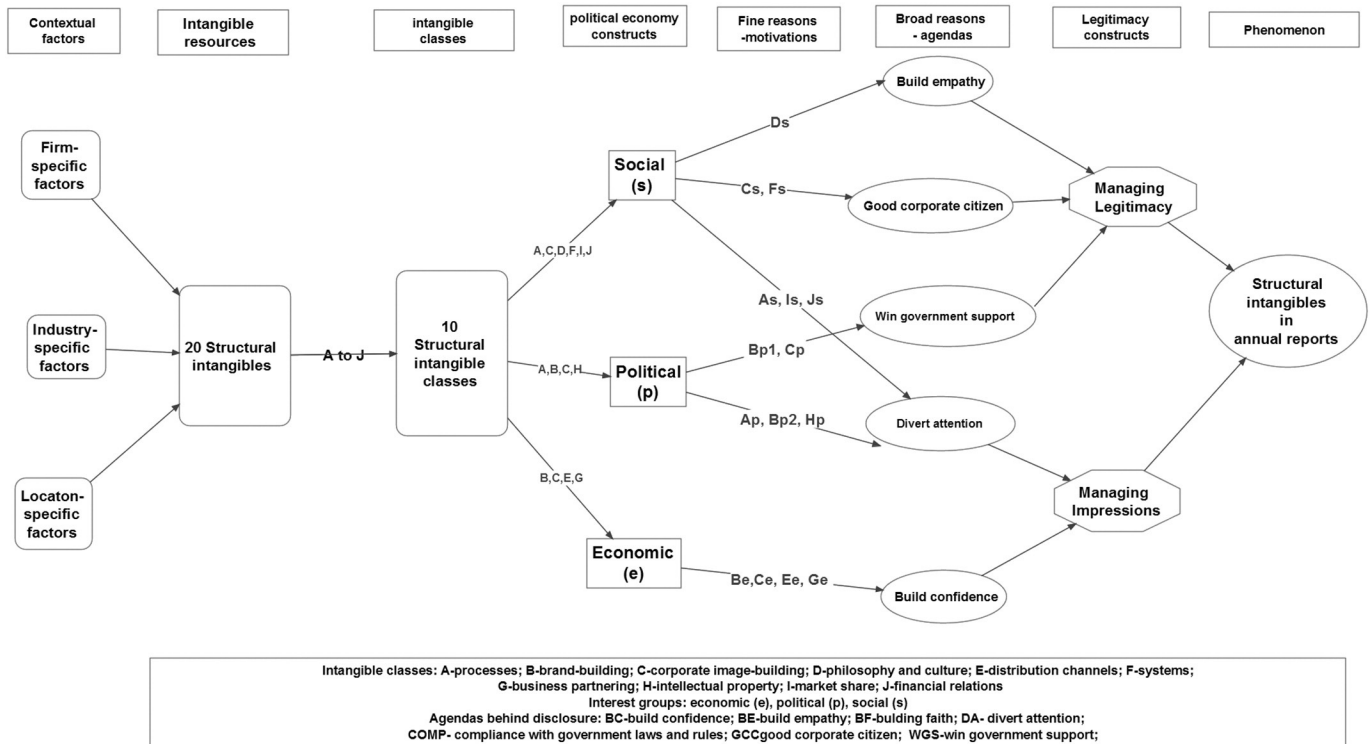


Fig. 1. Structural intangibles disclosure and non-disclosure phenomena.

cultural support from interest groups. For instance, acknowledgment of regulatory action was prominent in industries under political scrutiny (that is, alcoholic beverages and tobacco), and these industries countered any further such action (e.g., new and stricter laws) by indicating empathy with the government and society.

This study also revealed that firms sometimes decided not to disclose about one structural intangible item, or to choose to disclose about another structural intangible item instead (for example, not disclosing about market share: disclosing benefits from automated systems, rather than disclosing about planned staff retrenchments). This was to divert social and political interest groups' attention in situations where transparent disclosures could make firms less legitimated to the government, and staff, and society.

### 8. Concluding remarks

Guided by the literature, this study grouped 20 structural intangible resources into 10 intangibles classes. Using 22 semi-structured interviews, it analyzed senior executives' views about disclosure and non-disclosure responses in annual reports to attract financial investments. The disclosure and non-disclosure responses were identified as those made for the economic interest group, political interest group, and social interest group. Building themes from the interview data assigned to each interest group resulted in 14 themes of motivations behind disclosures and non-disclosures. Those narrow themes clustered into broad themes based on similarity of disclosure motivations, resulted in uncovering five agendas of disclosures. Four

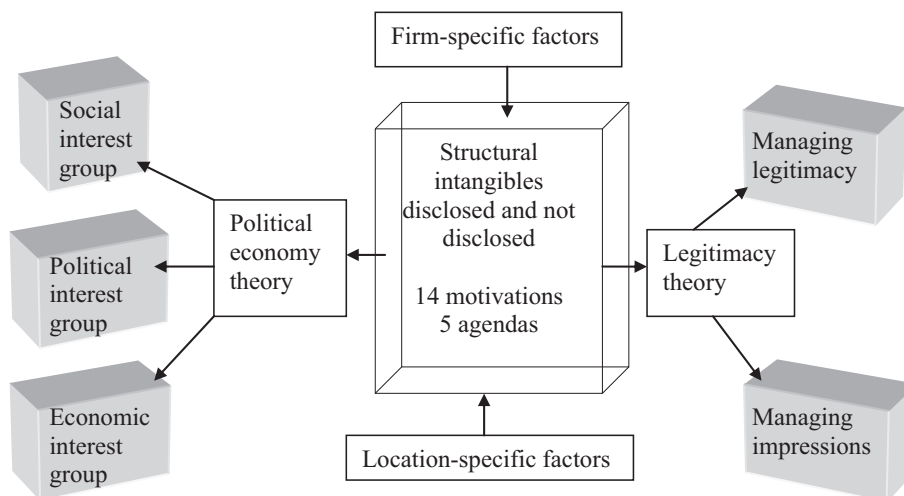


Fig. 2. Theoretical connections of structural intangibles disclosure and non-disclosure.

of them were about disclosure (that is, build empathy (BE), good corporate citizen (GCC), win government support (WGS) and build confidence (BC)), and one of them about non-disclosure (that is, divert attention (DA)). Analyzing the agendas behind disclosure and non-disclosure resulted in two constructs as managing disclosures for legitimacy, and managing disclosures for impressions (Fig. 2).

This study contributes to the theoretical advancement by unraveling the theoretical relationship between legitimacy and the neo-classical strand of political economy in firms responding with agendas behind structural intangibles disclosure and non-disclosure. It uses the three interest groups as constructs in the political economy. Interest groups are the objects for disclosure and non-disclosure. This study uses two disclosure effects as constructs in legitimacy theory. The disclosure effects are the subjects of disclosure and non-disclosure. The motivations and agendas behind disclosure and non-disclosure, are the reasons for disclosure and non-disclosure. The study establishes the theoretical connections between the political economy perspective and legitimacy theory, with 14 motivations and five agendas, as reasons for disclosing or not disclosing structural intangibles in annual reports. The results indicated that disclosures resulted in managing legitimacy of social and political interest groups. Disclosures also resulted in managing impressions of the economic interest group. Non-disclosures resulted in managing impressions of the social and political interest groups.

The findings point to two policy implications. Intangibles are becoming increasingly important invisible assets for businesses that can contribute to explaining the past and future value of the firm. This study confirms that voluntary disclosure is not a neutral activity; there are various reasons for disclosing or not disclosing certain items. From an accounting perspective, guidelines or minimum narrative disclosure requirements about intangibles can assist interest groups in making informed decisions. From a legal perspective, a legal environment that duly protects firms for honest forecasts about intangibles can encourage firms to make honest disclosure that enables interest groups to more accurately evaluate future value of firms from the present.

As per the functionalist tenet, this study predetermined the intangibles classes and interest groups. An absolute inductive approach (such as grounded theory) to interview data may have provided different facets and richness in the findings, but at a reduced level of replication of such findings. This study could not find disclosure agendas that conformed to motives outside managing legitimacy and impressions, but this could be due to the disclosure approaches undertaken by the firms interviewed and the agendas underpinning the disclosures and non-disclosures. Also, the disclosure and non-disclosure decisions are influenced not only by attracting financial investments into firms but also other related objectives. These other related objectives were not considered here.

Several future research propositions arise from this study. A future study can investigate the role and power of finance directors and marketing directors, as gatekeepers of structural intangibles disclosures in annual reports. Another study can investigate the details of the interaction between specific interest groups, and the implications arising thereof in attracting financial investments in firms. Further, a study can examine a change of government accompanied by changes in government policies (e.g., labor policies relating to wage determination, retrenchment) can affect agendas behind structural, human, and intellectual capital disclosure. Such an examination requires a detailed investigation of the factors influencing the behavior of interest groups, and could be analyzed using a post-structuralist political economy strand. A fourth study can build empirical variables to represent five agendas behind disclosure to examine intangibles disclosure in different settings. Such studies can help to quantitatively test the theoretical connections identified from this qualitative analysis. These are four of several possibilities of focus for future research.

## Acknowledgements

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## Appendix A. Semi-structured interview questions

Questions to finance directors:

1. What motivated your firm to disclose or not to disclose information about management processes and technological processes in the annual reports of 2001 and 2002 years?
2. What motivated your firm to disclose or not to disclose information about management philosophy and corporate culture in the annual reports of 2001 and 2002 years?
3. What motivated your firm to disclose or not to disclose information about information systems and technological systems in the annual reports of 2001 and 2002 years?
4. What motivated your firm to disclose or not to disclose information about patents, copyrights, and trademarks in the annual reports of 2001 and 2002 years?
5. What motivated your firm to disclose or not to disclose information about financial relationships in the annual reports of 2001 and 2002 years?

Questions to marketing directors:

1. What motivated your firm to disclose or not to disclose information about brands, customer satisfaction, and quality standards in the annual reports of 2001 and 2002 years?
2. What motivated your firm to disclose or not to disclose information about company name and favorable contracts to the firm in the annual reports of 2001 and 2002 years?
3. What motivated your firm to disclose or not to disclose information about distribution channels in the annual reports of 2001 and 2002 years?
4. What motivated your firm to disclose or not to disclose information about business collaborations, licensing agreements, and franchising agreements in the annual reports of 2001 and 2002 years?
5. What motivated your firm to disclose or not to disclose information about market share in the annual reports of 2001 and 2002 years?

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