Intellectual Capital Disclosures in Islami Bank Bangladesh: A Longitudinal Study (1983-2010)

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Acknowledgement

An earlier version of this paper has been presented at the 5th Asian Business Research Conference, Dhaka, Bangladesh 23 – 24 December, 2011, British Accounting and Finance Association Conference, 9-11 April, 2013 Newcastle, UK, European Accounting Association Conference 6-8 May, 2013, Paris and APIRA Conference 26-28 July, 2013, Kobe, Japan. Thanks to the participants for their comments and observations. The authors would like to acknowledge the research assistance provided by Sardar Sadek Nizami and Teng Li. Usual disclaimer applies.

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Abstract

In the context of significant erosion of trust in the conventional banking system caught in the last financial crisis Islamic banking and financing industry has emerged as an alternative form of banking and finance with strong growth potential in recent years. It can be argued that unique knowledge base in alternative banking is one of the competitive advantage of this type of institutions. Therefore, these banks are supposed to have significant intellectual capital. But how and why intellectual capital related information is disclosed in their corporate statements is not known to date. This is the first study which provides empirical evidence in this regard. For this purpose we have followed a longitudinal single case study design to examine the patterns and trends of Intellectual Capital Disclosures (ICD) over time in Islami Bank Bangladesh Limited (IBBL). We have undertaken a content analysis of ICD within the annual reports of IBBL from its inception (1983) to the current available year (2010). While most of the previous studies found external capital as the most popular category of ICD it has been found in this study that internal capital is the most dominant category of ICD in IBBL. We argue that this is due to the unique knowledge base (Sharia) and effective corporate governance regime in IBBL. We have also identified some interplay between ICD trend and changing political regimes.

Keywords

Islamic bank, Intellectual capital disclosure, Internal capital, External capital, Human capital, Bangladesh

1. Introduction

In the context of significant erosion of trust in the interest based conventional banking system caught in the last financial crisis Islamic banking and financing industry has emerged as an alternative form of interest free banking and finance with strong growth potential in recent years. The size of the industry is believed to exceed $2 trillion mark by 2014 and is currently experiencing an average annual growth rate of 17% (E&Y, 2012). Muslim majority countries (MMC) played a dominant role in the development of such banking system. Bangladesh is one such country where IBBL was established in 1983 and is now the largest Islamic bank in Bangladesh with significant growth. It can be argued that unique knowledge base in alternative banking, which is drawn from the principles of Islamic laws (Sharia), is one of the competitive advantages of this type of banking. Therefore, these banks are expected to have significant intellectual capital (IC). But how and why intellectual capital related information is being disseminated to the stakeholders is not known to date in the intellectual capital accounting literature. This paper is a first attempt to address this gap in the literature.

We believe this is significant for two reasons. First, given the emergence and sheer size of the Islamic banking and finance industry it is important to know the sources of its intellectual capital. It can be argued that the competitive advantage of Islamic banks is not based on its physical capital rather its strength lies in its distinct knowledge base which can be purposefully mobilized to serve the needs of its customer base in MMC around the world. Second, examination of ICD and its profile in Islamic banks might help to understand the various components of ICD and how it is different from a conventional bank. Development of such understanding has the potential to shed lights on why and how Islamic banks fared well in the recent financial crisis while the conventional banks appear to have been damaged badly. We argue that study of ICD in Islamic banks might offer important lessons for conventional interest based banks.

The main purpose of this study is to undertake a longitudinal investigation of Intellectual Capital Disclosures (ICD) in Islami Bank Bangladesh Limited (IBBL). Most of the previous ICD literature has focused on cross sectional or industry level data (Guthrie, Ricceri, & Dumay, 2012). There is no longitudinal study which considers the development of ICD in a single organization over an extended period of time with the exception of Campbell & Abdul Rahman (2010). Moreover, there is no research which examines evolution of ICD over its entire organizational life. There is a call by Campbell & Abdul Rahman (2010) for longitudinal studies as such studies help to understand the patterns and trends of ICD over time. Focus on a single case helps to scrutinize how the practice of ICD works within an organization (Guthrie et al., 2012) and how it 'is involved in organizational and social transformation' (Mouritsen, 2006,p.820).

The paper makes a number of contributions to the ICD literature. Firstly, it provides empirical evidence of ICD practices in an Islamic institution which claims to offer an alternative form of interest free banking based on Sharia. As far as we know this is the first study which does so. Secondly, it illuminates the development and patterns of ICD in an Islamic bank over an extended period. It does so over its entire organizational life spanning over nearly three decades.

The paper proceeds with a review of prior research on ICD in the next section. In this section we mainly concentrate on a sub set of ICD literature which examines ICD within the annual reports mainly using content analysis procedures with a particular focus on the banking sector. The third section examines the socio-political and regulatory context of Islamic banking and intellectual capital in Bangladesh within which IBBL operates and ICD is being made. The fourth section explains the research method adopted in this paper. The penultimate section presents the main results and analysis of this study in details. The final section provides a summary and conclusion of the study.

2. Prior Research on ICD

A significant number of previous studies (Abeysekera & Guthrie, 2005; Bozzolan, O'Regan, & Ricceri, 2006; Brennan, 2001; Campbell & Abdul Rahman, 2010; Guthrie & Petty, 2000; Guthrie, Petty, & Ricceri, 2007; Striukova, Unerman, & Guthrie, 2008) examined the corporate reporting of IC in various types of organizations and in different contexts. These studies classified ICDs into three broad categories – internal capital, external capital and human capital. An overwhelming majority of these studies noted that organizations mainly reported in the external capital category which captures the relational aspects of IC such as brands, customer relationships and business collaborations. Summary of findings from the previous studies is summarized in the following Table 1:

Table 1: Composition of ICD Categories in previous studies

ICD Categories	**Bozzolan et al. (2006)**	**Campbell and Abdul Rahman (2010)**	**Striukova et al. (2008)**	**Abeysekera and Guthrie (2005)**	**Guthrie, Petty, & Ricceri (2007)**
Country	Italy	UK	UK	Sri Lanka	Hong Kong
External Capital	52	61	61	44	37
Human Capital	29	27	22	36	35
Internal Capital	19	12	17	20	28
Total	**100**	**100**	**100**	**100**	**100**

Table 1 clearly shows the dominance of disclosures in the external capital category. The popularity of disclosures related to external capital in the previous studies could be related to nature of the sample examined in these studies. For example, Campbell and Abdul Rahman (2010) analyzed ICD in the UK retailer - Marks and Spencer over - a 31 years period and found that the overall proportion of external capital disclosures was 61%. They argued that the driver behind external capital disclosures could be related to the long term relationships with the customers, suppliers, franchisees and local authorities. Additionally, they noted the presence of strong brand identity in the organization.

It is also notable that all of these studies consistently reported internal capital as the least reported category. Again this can be related to the nature of the sample examined in the previous studies which mainly focused on companies other than banks. However, in a study of the knowledge intensive sectors, including banks, Li, Pike, & Haniffa (2008) found internal capital as the most popular category of disclosures in terms of disclosure scores. Another study (Cerbioni & Parbonetti, 2007) of European biotech companies (knowledge intensive sector) reports that 49.6%, 31.8% and 18.6% of disclosure contents were related to internal, external and human capital categories respectively. In their exploration of determinants for ICD both of the latter two studies found strong positive relationship between ICD and various corporate governance factors including the existence of audit committees (Li, Mangena, & Pike, 2012). Based on the findings of these two studies it can be argued that the incidence of internal capital and its disclosures will be higher in knowledge intensive companies, such as banks, with effective corporate governance structures (e.g. existence of audit committees) in place.

The banking sector can be considered as one of the most knowledge intensive sectors (Li et al., 2012; Mondal & Ghosh, 2012). Given the knowledge intensity of this sector we argue that banks would have less physical capital and more intellectual capital which can be made visible through disclosures aimed at various stakeholders necessary for the continued success of the organization (Beattie & Thomson, 2007). Organizations may also undertake ICD practices to be in line with the social norms and expectations and thereby gain and maintain legitimacy (Khan & Ali, 2010; Wagiciengo & Belal, 2012). This helps organizations to 'avoid imposition of costs arising from non-legitimacy' (Beattie & Smith, 2012, p.130). In a recent study of UK finance directors' views of ICD practices Beattie and Smith (2012) found support for legitimacy and stakeholder theories as potential explanations for ICD.

Most of the previous studies neglected this important sector as they mainly focused on non-financial services companies. However, in recent times we find a growing number of studies (See for example, Deol, 2009; Dumay, 2009; El-Bannany, 2008; Goh, 2005; Haji & Mubrarak, 2012; Kamath, 2007; Khan & Ali, 2010; Mavridis, 2004; Mondal & Ghosh, 2012; Murthy & Mouritsen, 2011; Shih, Chang, & Lin, 2010; Yalama & Coskun, 2007) which examined ICD in banks. This is perhaps not surprising given the attention drawn to this sector due to the recent financial crisis.

A large number of studies (Goh, 2005; Kamath, 2007; Mavridis, 2004; Mondal & Ghosh, 2012; Yalama & Coskun, 2007) on banks focused on links between IC efficiency and corporate performance. Goh (2005) measured the IC performance of commercial banks in Malaysia for the period 2001 to 2003. The study revealed that, as a whole, all banks had relatively higher HC efficiency than internal and external capital efficiencies. Another study by Yalama & Coskun (2007) on the Turkish banking industry shows that IC efficiency is to some extent related to bank's profitability. The latest study by Mondal & Ghosh (2012) on the Indian banks reveals that IC efficiency is significant for enhancing bank's productivity and profitability. An earlier study by Kamath (2007) measured the value-based performance of Indian banks for a period of five years from 2000 to 2004 and confirmed that there were vast differences in the intellectual capital, physical capital and value creation performance of the Indian banking sector. All of these studies used value added intellectual coefficient (VAIC) developed by Pulic (2000) to measure IC efficiency. However, VAIC has been heavily criticized in recent times and the study by Ståhle, Ståhle, and Aho (2011) questioned its validity. They concluded that VAIC is not a valid measure of IC as it only captures the 'efficiency of the company's labor and capital investments' and it 'has nothing to do with intellectual capital'.

Moving away from VAIC based IC efficiency studies Dumay (2009) argues that, to date, IC measurements have relied heavily on "accountingisation" (accounting for intellectual capital in a way similar to the accounting for tangible assets). He proposes alternative method of understanding IC based on a critical approach of IC measurement in a division of a large Australian financial institution. The method utilizes narrative, numbers and visualizations to make sense of IC at a particular point in time.

In a very recent study Haji and Mubrarak (2012) examines the ICD practices in the Nigerian banks. They found that while human and internal capital disclosures were dominant, internal capital disclosures revealed a significant upward trend over the study period of 2006-2009. The authors note that the study period was preceded by a reform initiative in the Nigerian banking sector which included introduction of a mandatory corporate governance code. In the line with the previous studies (Cerbioni & Parbonetti, 2007; Li et al., 2008) they argue that corporate governance factors had a positive influence on ICD practices in general and the rise of internal capital disclosures in particular.

Murthy and Mouritsen (2011) conducted a study which examines the dynamic relationship between intellectual capital categories and financial capital in an Australian bank. As part of their research they scrutinized in details the interplay between the ICD categories and their interactions with financial capital. Previous studies note that investments in human capital triggers internal and external capital which ultimately leads to enhanced financial capital (Martín de Castro & López Sáez, 2008). However, Murthy and Mouritsen (2011) argued that this was not the case in their case study bank. They found that the relationships were much more nuanced, complex and challenging. Often they are 'complementary rather than causal'. It was noted that 'financial capital is not only an effect but also an important input because the development of intellectual capital takes place through the firm's budgeting processes' (p.622). In the context of their case study organization they observed that 'organizational (internal) capital was favored over human capital'. But they also cautioned that internal and human capitals were often intertwined.

In the context of Islamic banking and finance it can be argued that the main strength of this kind specialized banks lies in its ability to tap on the shariah based expertise on Islamic finance which includes amongst other things interest free banking, risk sharing, prohibition of *haram* and speculative transactions (e.g. gambling and pornographic industries) (Askari, Iqbal, & Mirakhor, 2011). These banks need to develop systems, processes and culture to be in line with the Islamic laws. This unique knowledge base can be arguably manifested via building of internal capital and its disclosures.

In the context of Bangladesh Khan and Ali (2010) undertook a content analysis of ICD practices in the annual reports of 20 banks related to the year 2007-8 and a questionnaire survey of users' perceptions of current ICD practices. They revealed that in terms of word count 65.0% of the ICD were related to human capital, with 20.8% and 14.2% related to external and internal capital. The frequency count showed a similar pattern of 58.8%, 24.3% and 16.9% for human, external and internal capital. The dominance of human capital related disclosures was attributed to the management intention to provide additional information aimed at the stakeholders and to exhibit management priorities on human resources over their competitors. They also noted that the commercial banks in Bangladesh were not currently enthusiastic about voluntary ICD activities while the stakeholders were in favour of such reporting across a wider range of IC items than is currently disclosed.

We note that the data year for Khan and Ali (2010) was related to 2007-8 which is nearly half a decade old. Since 2007-8 the banking and other corporate sectors in Bangladesh have gone through various reforms including corporate governance. These reforms have implications for the subsequent development of ICD practices which might not have been reflected in their study. It can also be noted that nearly all of their sample of 20 banks are mainstream banks. Islamic banks possess many special features including interest free banking which is discussed in the next section. We argue that as IBBL is run based on Islamic ideology and culture, it might have unique internal capital features. We track the development of ICD practices in IBBL over its entire organizational life. Such studies are currently missing from the extant literature on ICD as the above review suggests.

3. The Context of Intellectual Capital and Islamic Banking in Bangladesh

Bangladesh is a Muslim majority (89.5%) country which is currently enjoying an annual economic growth rate of 6.5% and has strong economic prospects. In 2011 service sector occupied 53% (only 36% in 1970) in the current composition of GDP in Bangladesh (https://www.cia.gov/library/publications/the-world-factbook/geos/bg.html, accessed, 28th November, 2012). Transformations in the GDP composition over the last four decades shows that Bangladesh is moving towards a more knowledge based service sector economy from a predominant agrarian base. The driving forces for such transformations include a thriving financial sector (which showed resilience during the recent financial crisis), national emphasis on the widespread use of information and communication technology (ICT) (Digital Bangladesh[1]), proliferation of digital media and expanding capital market. In line with aims of Digital Bangladesh to promote transparency and accountability in organizations Securities and Exchange Commission of Bangladesh issued a Corporate Governance Guideline in 2006. All listed companies, including banks, are expected to comply or declare reasons for non-compliance with this Guideline.

The concept of intellectual capital is relatively new in Bangladesh and the current awareness in this area is relatively low. With a view to increase awareness in this area Intellectual Property Association of Bangladesh has been established in 2009. The current institutional framework includes Department of Patents, Designs and Trademarks, Ministry of Industries and Copyright Registrar's Office, Ministry of Cultural Affairs. Intellectual property related current legislative framework includes Patents and Design Act, 1911, Trademarks Act, 2009 and the Copyright Act, 2000.

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[1] This project was spearheaded by the current Prime Minister of the country as part of her election manifesto. "The philosophy of "Digital Bangladesh" comprises ensuring people's democracy and rights, transparency, accountability, establishing justice and ensuring delivery of government services in each door through maximum use of technology-with the ultimate goal to improve the daily lifestyle of general people" (http://boi.gov.bd/about-bangladesh/government-and-policies/digital-bangladesh-overview, accessed, 28th November, 2012).

The current corporate reporting laws and stock exchange listing rules does not require ICD. However, a number of previous studies (Khan & Ali, 2010; Khan & Khan, 2010; Nurunnabi, Hossain, & Hossain, 2011) show that organizations voluntarily disclose intellectual capital information. The current practice of ICD appears to be at its nascent stage but showing signs of improvement in recent times as the institutional and legislative frameworks are being transformed in recent times.

Within the service sector banks and other financial institutions play a significant role in the development of the economy. As compared to only 6 banks in 1971 currently there are 48 banks in Bangladesh. 30 of them are currently listed on the Dhaka Stock Exchange. According to Akkas (2012) there are 7 full-fledged Islamic banks, 9 mainstream banks with Islamic banking (IB) branches and 9 other mainstream banks with Islamic banking windows. The IB sector in Bangladesh has grown at an average rate of 29.3% over the last decade and currently has a market share of 19% deposits. The rise of Islamic banking is reflective of the demands of Muslim community for Sharia compliant banking services in Bangladesh. It is observed that because of the strong performance of the Islamic banks in Bangladesh, conventional commercial banks are providing Islamic banking services by opening separate branches/windows. Moreover, several conventional banks have been converted into Islamic banks. For example, First Security Islamic Bank (former First Security Bank Limited) and ICB Islamic Bank Limited (former Oriental Bank Limited). While the mainstream banking sector is tainted by the allegations of corruption, default culture and undue political influence the Islamic banking sector remained unscathed. The rise and continued success of the IBs can be attributed to honesty and integrity of the executives, customer loyalty and disciplined management system (Mia, 2012).

The Bangladesh Bank (BB) is the central bank of the country with regulatory power over the banks. In order to bring more efficiency and transparency in the banking sector of the country since 2009 BB introduced a number of initiatives which include, inter alias, regulatory reforms on corporate governance and risk management, digitization of the banking services, wide connectivity infrastructure, corporate social responsibility (CSR) and green banking (BangladeshBank, 2012).

Islami Bank Bangladesh Limited (IBBL), established in 1983, is the first Islamic bank in the country. It is listed on the Dhaka Stock Exchange and is considered as one of the largest listed companies in terms of market capitalization. IBBL is the only bank from Bangladesh that has been included in the prestigious list of ‘Top 1000 World Banks List’ published by the famous magazine ‘The Banker’. In 2011 it received awards for best corporate reporting practices in the banking sector. The award scheme was established by the Institute of Chartered Accountants of Bangladesh (ICAB). In 2010 the IBBL had 10,349 employees (127 in 1983), 251 branches (4 in 1983), and a total asset of Taka 330,586 million (2,258 in 1983). Profits before tax (Million Taka) (1 US$=70 Taka app.) has increased to 8,849 in 2010 from a loss figure of 2.6 in 1983. In terms of Return on Assets it was ranked 70th in the ‘Top 1000 World Banks List’. Over the last decade the IBBL invested heavily in improving in technology infrastructure. Due to its global reputation as a successful Islamic bank it has been asked to offer expertise and help in establishing Islamic banks in other countries.

As an alternative banking system, based on the principles of Sharia, IBBL has been consistently performing CSR activities since its inception. The mission of IBBL is “to establish Islamic Banking through the introduction of a welfare oriented banking system and also ensure equity and justice in the field of all economic activities, achieve balanced growth and equitable development through diversified investment operations particularly in the priority sectors and less developed areas of the country” (http://www.islamibankbd.com/abtIBBL/abtIBBLAtaGlance.php, accessed, 28th November, 2012). It promotes socio-economic upliftment and financial services to the less-income community particularly in the rural areas. As an Islamic bank it promotes interest free banking and avoids all other activities which are not in compliance with sharia, for example, speculative activities such as gambling. According to IBBL, it has a robust sharia compliance mechanism which is overseen by a 12 member sharia supervisory committee. The corporate governance structure of IBBL is characterized by a 14 member board of directors including one independent director and two directors to represent the depositors. The current governance structure also includes management committee, executive committee and an audit committee.

Several previous studies revealed that ICD might be affected by the economic, social, and political factors of a country where the organisations are operating (Abeysekera, 2008a; Haji & Ghazali, 2012). Since its birth in 1971 Bangladesh went through various political regimes which is mainly characterised by military regimes until 1990 and then the emergence of a so called parliamentary democracy in the post 1990s. The democratic era began with Bangladesh Nationalist Party in power which traditionally appears to be pro-Islamic. However, a new government (led by political party called Awami League) was sworn in power in 1996 having more secular ideology/ philosophy. IBBL which is allegedly linked with an Islamic political party in opposition might have implicit pressure for more disclosure, transparency and good corporate governance practice. It is possible that to operate its banking in an adverse regime, IBBL might have focused on more IC generation and disclosure. This argument is consistent with the findings of Haji & Mubarak (2012) that the internal capital disclosures could be influenced policy changes (e.g. corporate governance) in the Nigerian banking sector and also due to the nature of the industry under investigation.

From the above discussion it appears that IBBL has some unique features which include operation in a knowledge intensive sector, core expertise in sharia compliant banking operations, 12 members sharia supervisory committee and a comprehensive corporate governance structure characterized by audit committee, inclusion of independent director in the board and separation of the responsibilities of the Chairman and Managing Director (CEO). All these factors indicate that IBBL is likely to have significant intellectual capital in general and internal capital in particular. It is also likely that IBBL would want to make this intellectual capital visible via disclosure of intellectual capital information in the public domain which would earn them more reputation and legitimacy within the different stakeholder groups such as customers, shareholders, regulators and the community in general.

4. Research Method

For the purpose of this paper we have followed a longitudinal single case study design. The context of the case study organization is provided in the previous section. The justifications for choosing this organization include a number of factors. First, given the current study's objective of longitudinal analysis we had access to IBBL's all annual reports for its entire organizational life – from the inception of the bank in 1983 to latest available year of study, 2010. Second, IBBL operates in a knowledge intensive sector of Islamic banking which is an emerging field of alternative finance and can be considered to possess significant intellectual capital such as technology, systems and processes related to sharia. As a pioneering Islamic bank in Bangladesh IBBL would have some best practices in the area of Islamic finance. Finally, we are not aware of any significant changes in the ownership patterns of IBBL which could have influenced the ICD practices in the study period.

Previous ICD studies (see for example, Abeysekera, 2008b; Abeysekera & Guthrie, 2005; Brennan, 2001; Campbell & Abdul Rahman, 2010; Guthrie & Petty, 2000; Striukova et al., 2008;

Wagiciengo & Belal, 2012) predominantly used annual reports for the examination of ICD practices in different countries. In terms of disclosure of information, it is generally agreed that published annual reports remain the most important sources of information for many stakeholders. They comprehensively and compactly represent the views and concerns of individual firms (Bontis, 2003). Guthrie et al (2004) explain that annual reports also have the advantage of being regularly produced and offer the opportunity for a comparative analysis of management attitudes and policies across reporting periods. They are also required by legislation in many countries and produced on a regular basis by all companies (Guthrie et al., 2004).

The data has been analyzed using content analysis procedures. We have analyzed the ICD made within the annual reports of IBBL. IBBL does not publish any separate social or intellectual capital reports. Use of content analysis procedures is consistent with the objective of this study. The content analysis is an established method in ICD research because it seeks to analyze IC information systematically and objectively. It is considered a reliable approach to determine the content of written publications and to make replicable and valid inferences (Guthrie et al., 2004). Its extensive use in intellectual capital disclosure research, as Abeysekera & Guthrie (2005) suggest, demonstrate that it is a very popular research procedure in ICD studies.

For content analysis we have used a framework which include 28 items in total divided into three broad categories of internal capital (5 items) and external capital (5 items) and human capital (18 items). A copy of this research instrument (framework) is shown in Appendix A. It has been developed from the previous studies (Abeysekera & Guthrie, 2005; Campbell & Abdul Rahman, 2010; Guthrie & Petty, 2000; Striukova et al., 2008; Wagiciengo & Belal, 2012) and modified appropriately to suit the case context of Islamic banking. These previous studies were mainly influenced by the pioneering work of Guthrie and Petty (2000).

Using the above content analysis framework data were recorded and analyzed in a large spreadsheet. Coding was mainly carried out by a research assistant under the supervision of the lead author of this paper. The assistant was adequately trained in this regard as part of his Master's degree dissertation project on CSR reporting. Initially, a sample of annual reports was coded independently by two persons. Differences were then reconciled before proceeding with the full blown coding. In addition to this, sufficient breaks were taken at regular intervals to avoid the danger of 'coder fatigue' (Neuendorf, 2002) which might affect high level of attention required in this type work involving large amount of longitudinal data over 28 years. This process was done to increase the reliability of the content analysis method.

For analytical purposes, we have used two measures: frequency count (number of times a particular item was disclosed) and sentence count (volume of disclosure). The reason for choosing both frequency and volume is the desire to cover both the breadth (occurrence) and depth (abundance) of disclosures (Joseph & Taplin, 2011). Frequency count was carried using a scale of 0 and 1. 0 was recorded for no disclosure and 1 for disclosure of a particular item. As three broad categories do not have same number of items, we have taken proportionate value of the number of times one specific item disclosed and proportionate volume to make rational comparisons. This was done by dividing absolute frequencies and sentences in each category by the maximum number of items in each of the three categories. For measurement of disclosure volumes words, pages and sentences were used as unit of analysis in the previous content analysis studies (Adams & Harte, 1998; Gray, Kouhy, & Lavers, 1995a; Gray, Kouhy, & Lavers, 1995b; Hackston & Milne, 1996). Sentence count has been used in the current study for reasons of its widespread use in the previous studies, ease of identification and ability to draw inference (Ingram & Frazier, 1980). Use of sentence also overcomes the difficulty of determining proportions of pages and standardization of number of words (Hackston & Milne, 1996). For analyzing the quality of ICD, we have categorized disclosure into three groups - monetary (described in monetary terms), non-monetary (described in other quantitative terms) and descriptive (not quantified).

5. ICD in IBBL (1983-2010): Results and Analysis

5.1 Overall patterns and trends of ICD

Figure 1 depicts overall and year-wise longitudinal patterns of ICD based on proportionate sentences. Figure 1 shows the ICD volumes measured by proportionate sentences in total and by three broad categories (Internal, External and Human). It is evident from the figure that total ICD has been increasing over the study period predominantly because of internal capital. It also shows that from the beginning of the study period up to year 1995, the trend was increasing but at a slower rate. From 1996, the rate of growth both in total and internal capital disclosure were at a faster rate except in 2010 where human capital has got a sudden increase. The increase in volumes of disclosures in human capital category in 2010 can be attributable to the requirement of compliance with CSR guidelines issued by Bangladesh Bank in recent times. The guidelines include, inter alia, items related to various employee related issues which are categorised under human capital in this study.

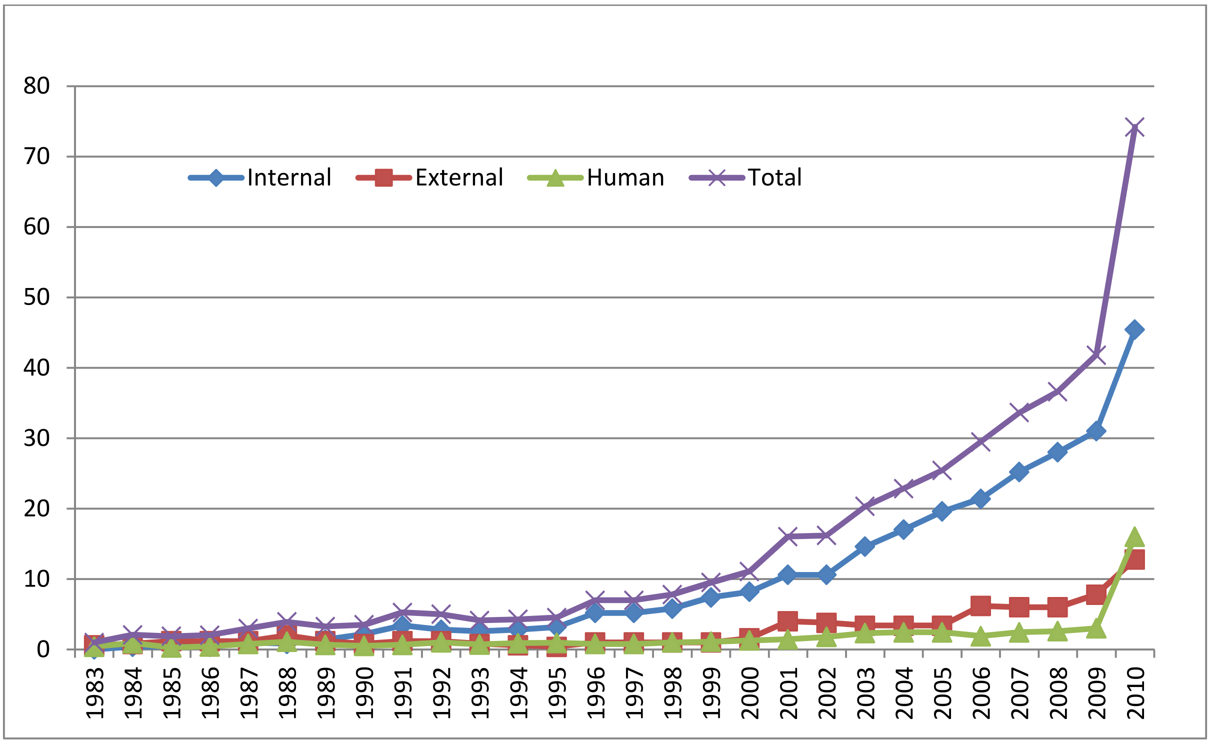

Figure 1. Trend of ICD from 1983 to 2010 (Sentences)

5.2 Broad category wise comparison

Table 2 displays category-wise ICD in IBBL's annual reports from 1983 to 2010. Both proportionate frequency and proportionate number of sentences for each of the three broad categories are shown in the table. In terms of number of times a particular category was disclosed, the proportionate frequency is 0.67 for internal capital over the 28 years period while this number is 0.40 and 0.30 respectively for external and human capital categories. Since 1996 internal capital has been consistently scoring 1 (maximum possible score) which means all items of internal capital category are disclosed but items under external and human capital are not always reported as much as internal capital. On the basis of proportionate volume (sentences) internal capital items are disclosed with an average of 9.88 sentences over the study period while other two categories disclosing 2.70 and 1.81 sentences respectively.

Table 2: Year wise Comparison of Three Broad ICD Categories

Year	Internal Capital		External Capital		Human Capital		Total	
	Proportionate Frequency	Proportionate Volume (sentences)	Proportionate Frequency	Proportionate Volume (sentences)	Proportionate Frequency	Proportionate Volume (sentences)	Proportionate Frequency	Proportionate Volume (sentences)
1983	0	0	0.20	0.60	0.17	0.39	0.37	0.99
1984	0.20	0.40	0.40	0.80	0.17	0.89	0.77	2.09
1985	0.20	0.40	0.40	1.20	0.17	0.28	0.77	1.88
1986	0.20	0.40	0.40	1.20	0.17	0.44	0.77	2.04
1987	0.20	1.00	0.40	1.20	0.22	0.78	0.82	2.98
1988	0.20	0.80	0.60	2.00	0.28	1.11	1.08	3.91
1989	0.40	1.40	0.40	1.20	0.17	0.67	0.97	3.27
1990	0.40	2.20	0.20	0.80	0.17	0.50	0.77	3.50
1991	0.40	3.40	0.40	1.20	0.17	0.67	0.97	5.27
1992	0.40	2.80	0.40	1.20	0.17	1.00	0.97	5.00
1993	0.40	2.60	0.40	0.80	0.17	0.72	0.97	4.12
1994	0.40	2.80	0.40	0.60	0.17	0.89	0.97	4.29
1995	0.40	3.20	0.20	0.40	0.22	0.94	0.82	4.54
1996	1.00	5.20	0.20	1.00	0.22	0.78	1.42	6.98
1997	1.00	5.20	0.20	1.00	0.22	0.78	1.42	6.98
1998	1.00	5.80	0.20	1.00	0.22	1.00	1.42	7.80
1999	1.00	7.40	0.20	1.00	0.22	1.11	1.42	9.51
2000	1.00	8.20	0.40	1.60	0.22	1.28	1.62	11.08
2001	1.00	10.60	0.40	4.00	0.28	1.44	1.68	16.04
2002	1.00	10.60	0.40	3.80	0.39	1.78	1.79	16.18
2003	1.00	14.60	0.40	3.40	0.39	2.33	1.79	20.33
2004	1.00	17.00	0.40	3.40	0.44	2.44	1.84	22.84
2005	1.00	19.60	0.40	3.40	0.44	2.44	1.84	25.44
2006	1.00	21.40	0.60	6.20	0.44	1.89	2.04	29.49
2007	1.00	25.20	0.60	6.00	0.50	2.44	2.10	33.64
2008	1.00	28.00	0.60	6.00	0.56	2.61	2.16	36.61
2009	1.00	31.00	0.60	7.80	0.61	3.00	2.21	41.80
2010	1.00	45.40	1.00	12.80	0.89	16.00	2.89	74.20
Total	18.80	276.60	11.40	75.60	8.44	50.61	38.64	402.81
Average	0.67	9.88	0.40	2.70	0.30	1.81	1.38	14.39
Percentage	49	69	29	19	22	12	100	100

Figure 2 reveals the composition of total ICD over the study period in percentage terms. It shows the total ICD in percentage based on proportionate frequency and proportionate volume. On both counts it clearly demonstrates that internal capital is the most dominating ICD category having 49% of total ICD on the basis of proportionate frequency and 69% of total ICD on the basis of proportionate volume. The least popular category is human capital both in terms of frequency (22%) and sentences (12%).

These results indicate that there is a significant emphasis on internal capital in IBBL. Both the breadth and depth of disclosures in this category bears testimony to this revealing finding. As noted earlier, since 1996 IBBL is disclosing all five internal capital items achieving a maximum possible score of 1 in this category. In addition, the volume of disclosures in this category also saw a steep rise from 0 sentences in 1983 to 45.4 sentences in 2010.

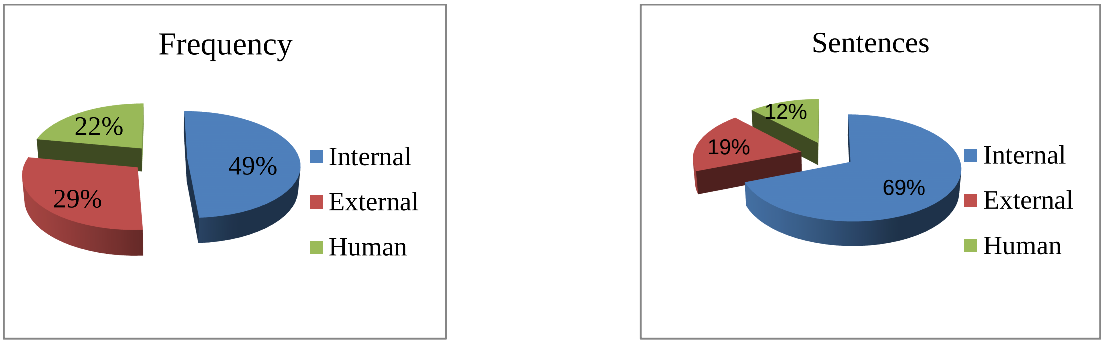

Figure 2: Composition of Total ICD in percentage

For further analysis we have also traced the composition and ranking of three broad categories over three decades of disclosures in IBBL – 1983-1990, 1991-2000 and 2001-2010. The results are shown in Table 3.

Table 3: Ranking of ICD categories over three time periods	
Periods	Ranking based on Proportion of Disclosure
1983 - 1990	External, Internal, Human
1991 - 2000	Internal, External, Human
2001- 2010	Internal, External, Human

Table 3 shows that although internal capital was second ranked category in the first decade it was the first ranked category in the latter two decades indicating IBBL's significant emphasis on internal capital.

These findings stand in sharp contrast with the findings of Khan and Ali (2010) which studied ICD practices in Bangladeshi banks. The comparison is shown in Table 4.

Table 4: Comparison with Khan and Ali (2010) (based on frequency)[2]		
ICD Categories	**This Study**	**Khan and Ali (2010)**
Country	Bangladesh	Bangladesh
Internal Capital	49	17
Human Capital	22	59
External Capital	29	24
Total	**100**	**100**

[2] Meaningful comparison on the basis of volume is not possible as Khan and Ali (2010) used word count as opposed to this study which has used sentence count.

Table 4 indicates that while internal capital is the most popular category in this study it was least popular in Khan and Ali (2010). On the hand, while human capital was the most popular category in Khan and Ali (2010) it was least popular in our study. We explain these differences later in this paper.

5.3 Item-wise comparison

Figure 3 represents the proportionate frequency of intellectual capital disclosure by items over the study period from 1983 to 2010. It shows that training programs and employees thanked have been consistently scoring 1 over the period followed by financial relationships and employee numbers. Figure 3 also shows that there are some items like disability (item 16) and employees featured (item 20) that are not disclosed at all in the annual reports and other items like quality standards, education/vocational qualifications, race, gender, health and safety and age are being disclosed very negligibly.

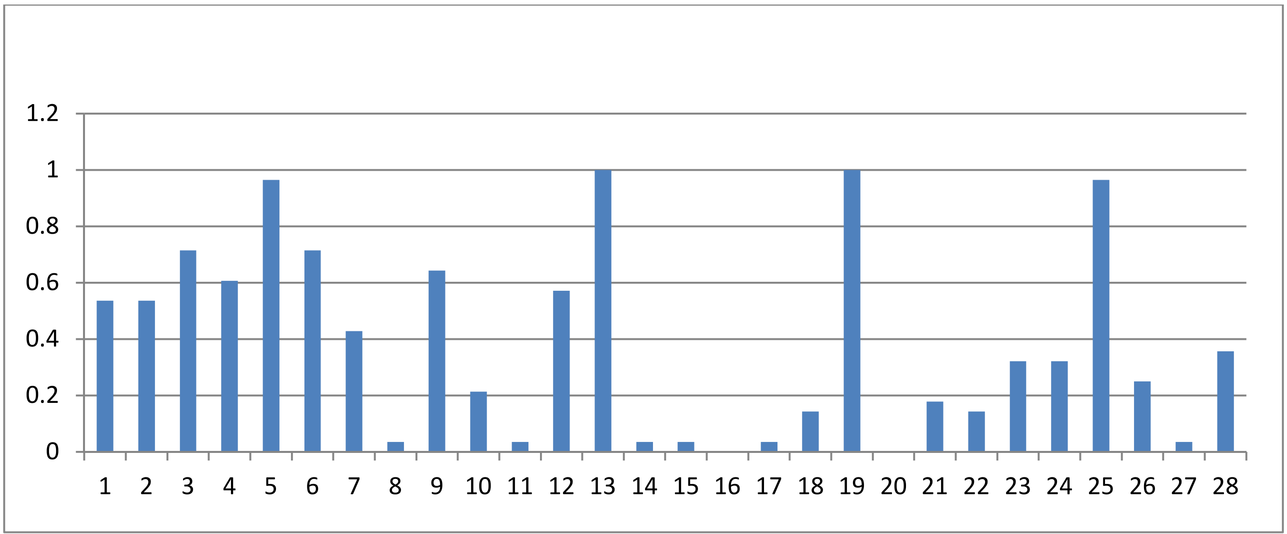

Figure 3. Item-wise ICD by proportionate frequency from 1983-2010

On the other hand, Figure 4 exhibits the proportionate disclosure volume. It reveals that most internal capital items are fairly and uniformly disclosed over the study period particularly philosophy & culture, financial relationship and intellectual property are three predominant items which dedicate about 12-13 sentences for relevant information followed by one human capital item ‘training programs’. Considering both item wise proportionate frequency and volume of the ICD, disclosure of internal capital items appears to be fairly consistent and substantial.

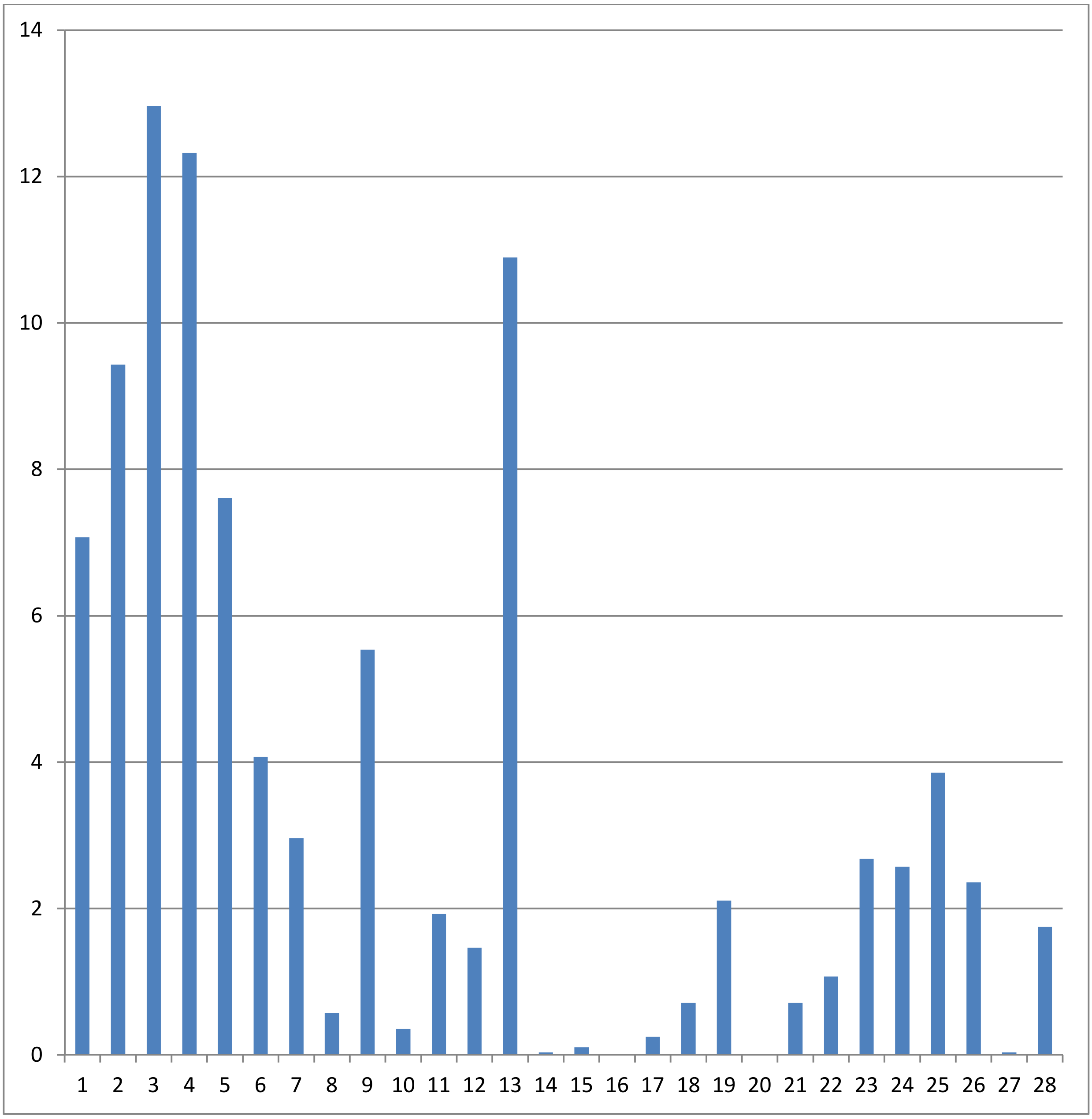

Figure 4. Item-wise ICD by proportionate sentences from 1983 - 2010

5.4 Quality of ICD

Figure 5 exhibits the quality of ICD over the study period. It shows that from 1983 to 1990 non-monetary disclosures was the most popular category and from 1991 to 2010 most of the disclosures were of descriptive nature. It is clear that the descriptive disclosures were increasing at a significant rate from 1991. On the other hand, monetary disclosures were comparatively less popular in most of the study period.

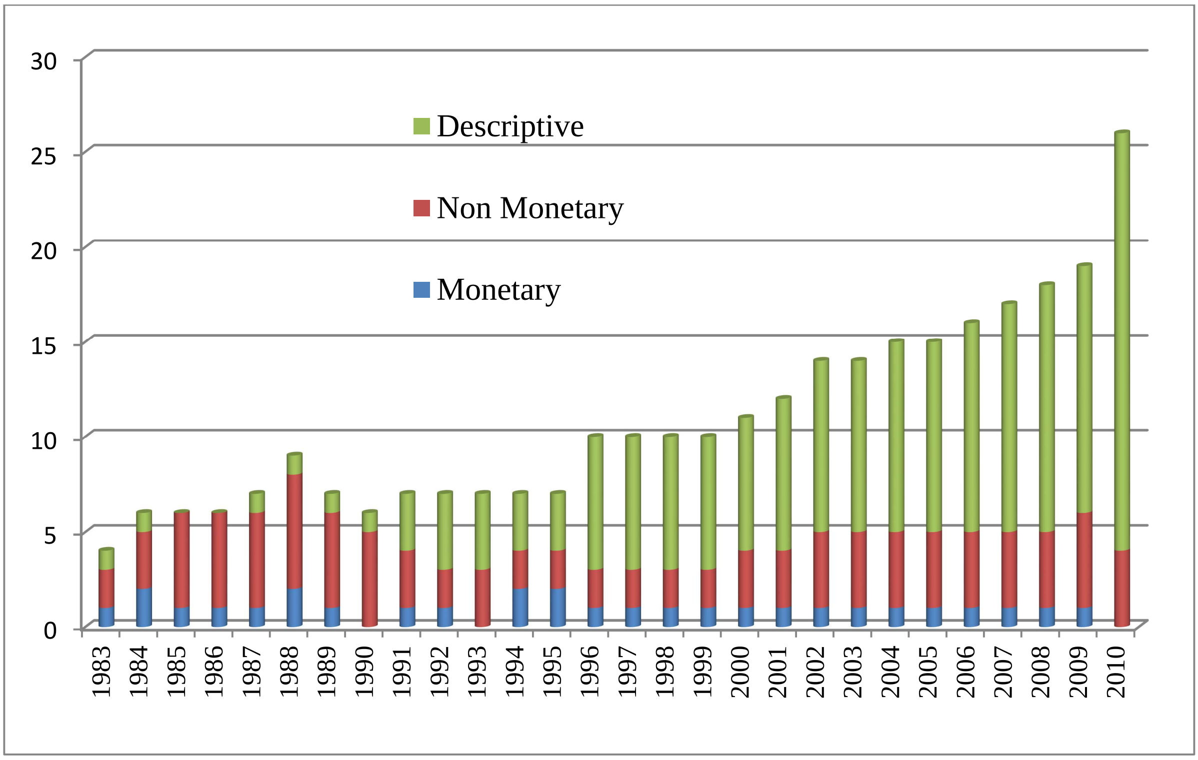

Figure 5: Quality of IC disclosure 1983-2010 (frequency)

6. Discussion and conclusions

The aim of this study is to undertake a longitudinal examination of ICD practices in IBBL over an extended period of 1983-2010 and thereby illuminate the trends and patterns of ICD in the organization. As far as we know this is the first study of its kind in the ICD literature which examines the ICD practices in an Islamic bank. While Islamic banks are gaining prominence in recent times, not only in terms of size but also in terms of significance and stature, why and how their intellectual capital is disclosed is not known to date. It indicates an important knowledge gap in the ICD literature. Our study is aimed at bridging that gap in the ICD literature. In doing so we have designed a longitudinal case study of ICD practices in IBBL. This type of longitudinal study (over an extended period) focusing on a single organization is rare to date in the ICD literature. Previous studies in this area were mainly of cross sectional nature and focused on industry level data rather than in depth examination of a single case (Guthrie et al., 2012).

The results and analysis presented in the previous section show that IBBL is engaged in ICD practices throughout the study period of 28 years (1983-2010). Overall, the incidence of ICD shows an increasing trend. This is likely to be a response to the increasing demand for IC information from the stakeholders with a view to minimize the information asymmetry (Holland & Johanson, 2003; Petty, Ricceri, & Guthrie, 2008). It can be expected from a listed company like IBBL with significant shareholder base. It is also observed that since 1996 total ICD, mainly because of internal capital disclosures, has increased significantly. This can be attributed to the changing political regimes as highlighted in section 3 of this paper. IBBL might have increased its ICD to legitimise its continuing activities under a secular government. It is said to be linked to an Islamic political party in opposition. This link and its Islamic ideologies might have placed IBBL in a position of adversaries with the ruling power. We argue that this might have led it to tackle the situation with increased ICD.

The composition of ICD in terms of three broad categories shows a different pattern in IBBL. While most of the previous studies (Abeysekera & Guthrie, 2005; Bozzolan et al., 2006; Campbell & Abdul Rahman, 2010; Guthrie et al., 2007; Striukova et al., 2008) showed that disclosure related to external capital was the most popular category our study indicates that disclosure related to internal capital is the most reported category both in terms of frequency (49%) and sentence counts (69%).

Our findings stand in sharp contrast to the previous studies due to the unique nature of our case study organization and its ICD practices. As we have shown earlier in the context section IBBL is the pioneering Islamic bank in Bangladesh and one of the earliest Islamic bank in the world. It is considered as a leader in the field of Islamic banking and its recognition is acknowledged by its inclusion in the prestigious list of 'Top 1000 World Banks List' published by the famous magazine 'The Banker'. Moreover, the attempt to draw on its expertise in the development of Islamic banking elsewhere also bears testimony to the fact that it possesses significant expertise in this area. The unique knowledge base it holds enshrined in the principles of Sharia (interest free banking) differentiates itself from other conventional interest based banks. There are fundamental differences in the way these two types of banks operate. We argue that the incidence of highest disclosures in the internal capital category is indicative of its unique internal processes, systems, principles, culture and philosophy that it promotes. This is also evident from highest amount of ICD related to the internal capital item philosophy and culture (item 3).

Previous studies (Cerbioni & Parbonetti, 2007; Haji & Mubrarak, 2012; Li et al., 2008) suggest that organizations operating in the knowledge intensive sectors and having effective corporate governance structure are likely to make ICD in general and higher disclosure related to internal capital in particular.

IBBL operates in the banking industry which is considered as one of the most knowledge intensive sectors (Li et al., 2012; Mondal & Ghosh, 2012). In addition, it is noteworthy that IBBL operates in a niche sector of Islamic finance within the banking industry which we have argued above as having unique expertise and knowledge base. As discussed earlier it appears to have a comprehensive corporate governance structure as evidenced by the presence of an audit committee, sharia supervisory committee, inclusion of independent director in the board and separation of the responsibilities of the Chairman and Managing Director (CEO). We argued that an organization having these features are likely to have significant IC in general and higher internal capital in particular. IBBL appears to have these features and it is no surprise that it would want to make appropriate disclosure in this regard to make these capitals visible in the public domain which in turn would help it to earn more reputation and legitimacy from the relevant stakeholders like customers, regulators and the community in general.

We are not first to find higher incidence of internal capital in banks. In their case study of NSW bank Murthy and Mouritsen (2011) found that NSW bank favored internal capital over human capital. Moreover, in a recent study of Nigerian banks Haji and Mubrarak (2012) reported higher incidence of internal capital disclosures which were attributed to the imposition of corporate governance code in the pre study period. In line with these previous studies we could argue that faster rate of increase in internal capital disclosures in IBBL could have been influenced by the corporate governance guidelines issued by the Securities and Exchange Commission of Bangladesh and recent reform initiatives introduced by the Bangladesh Bank.

The key findings of this study related to higher internal capital disclosures in IBBL is dissimilar to the previous ICD study on Bangladeshi banks by Khan and Ali (2010). They found human capital as the most reported category in their study of 20 banks (see Table 4). The differences between the two studies can be attributed to their nature. While Khan and Ali (2010) mainly concentrated on ICD practices in mainstream banks for the year 2007-8 this study undertook a longitudinal examination of an Islamic bank which is fundamentally different from the mainstream banks as it offers the promise of interest free banking and sharia compliant banking services in all other aspects. We argue that this unique nature of IBBL might have an impact on its overall ICD composition with the resultant pattern different from the sample covered by Khan and Ali (2010).

Finally, it is notable that the descriptive ICD is predominantly higher than monetary and non-monetary disclosures in IBBL. This is in line with the findings of the previous studies (Haji & Mubrarak, 2012; Khan & Ali, 2010). In IBBL while descriptive ICD were increasing at a faster rate monetary ICD were decreasing over the study period. This changing pattern is likely to be reflective of the complexity of the messages being conveyed. "The need for the use of descriptive is, however, linked to the need to adequately report on complex themes using the range of expressions provided for in the narrative that numerical conveyance is less able to do" (Campbell & Abdul Rahman, 2010, p.66).

As this is the first study on ICD practices in Islamic banking our research is more exploratory in nature. While our research does provide some interesting explanations for the trends and patterns of ICD practices in IBBL further field work based studies utilizing interviews with the managers and stakeholders of IBBL hold promise for bringing in additional insights. Future researchers should be encouraged to move in this research direction for further exploration of ICD in Islamic banking. This type of studies appears to be missing from the current ICD literature.

Our study has a number of wider implications. First, in line with the previous research we argued that dominance of internal capital disclosures could be indicative of effective corporate governance regimes in Islamic banks which might have helped them to survive through the difficulties of financial crisis. Policy makers might device tools of effective corporate governance which might help to prevent future bank failures. It might also assist in strengthening the internal capital structures in these organisations. We argue that effective corporate governance regime and prevalence of internal capital in Islamic banks might offer lessons for conventional interest based banks and might help them to reflect on their experience in the recent financial crisis.

Second, while previous research on ICD consistently reported the dominance of external capital this research shows the implications of different findings in different context (in this case Islamic finance – a significant industry of comparatively recent origin). Future researchers can examine whether the conclusions of this exploratory study hold in other contexts (including non-Islamic contexts).

Finally, for corporate decision makers our research underscores the need for effective corporate governance and enhanced internal capital. Given the intertwined nature of internal and human capital it can be argued that their enhanced performance might lead to better external capital and improved financial capital (Murthy & Mouritsen, 2011).

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Appendix A: Content Analysis Instrument

Categories	Decision Rules
Internal Capital	
1. Systems	Information on systems or networking
2. Processes	Reference to management or technical processes
3. Philosophy & culture	Specific reference to working culture, principles and philosophy of Sharia
4. Intellectual property (IP)	Any mention of IP particulars
5. Financial relationships	Relationships with various fund suppliers including shareholders and depositors
External Capital	
6. Brands	Description of brands owned/bought by the bank
7. Customer satisfaction	Reference to overall satisfaction of customers
8. Quality standards	Includes ISO accreditations, reference to quality initiatives
9. Business collaboration	Reference to collaborations with business partners which did not lead to formal agreement
10. Licensing agreements/favorable contracts	Reference to licensing/franchise agreements and other contracts
Human Capital	
11. Educational/vocational qualifications	Educational/vocational qualifications held by employees & directors
12. Career development	Any management initiatives that encourage career development amongst employees
13. Training programs	Any mention of training programs
14. Race	Any steps mentioned or confirmation of the position on race
15. Gender	Any steps mentioned or confirmation of the position on gender
16. Disability	Any steps mentioned or confirmation of the position on disability
17. Health and safety	Health and safety standards
18. Employee relations	Reference to employee relations with the bank
19. Employees thanked	Thanks given to the employees
20. Employees Featured	Any 'named' employees in report, employees that have won awards earned, this excludes directors
21. Employee S&O Scheme	Share & Option Schemes
22. Compensation (executives and employees)	Reference to remuneration
23. Other employee benefits	Additional non-financial benefits such as health insurance
24. Expert seniority	Technical & management skills
25. Employee numbers	Clear detail of total number of employees
26. Professional experience	Number of years worked and previous experience - Particularly for directors
27. Age	Includes directors whose age is identified also look out for average age of employees.
28. Value added statements	Clear discussion of employees usually in terms of remuneration (wages & salaries)