

VOLUNTARY DISCLOSURE OF INTANGIBLE ASSETS: DISCLOSURE PRACTICES OF SELECT PHARMA COMPANIES

Gugulothu Yakaiah*

ABSTRACT

In the current scenario of the financial reporting regime, investors are increasingly looking at the disclosure practices of companies. The companies also face capital market pressures and need to disclose more than the regulatory norms. There could be several motivations for the companies to disclose more information voluntarily. This article explores the factors that determine the voluntary disclosure choices of the Pharma companies listed in NSE Nifty Pharma Index. The study uses a Voluntary Disclosure Score constructed by the authors to analyze the voluntary disclosure practices of select pharma companies. The study is descriptive in nature. Pharma companies that are selected for the study. All the data relating to disclosure practices for intangible assets is gathered from the annual reports of the companies. Items such as software, brand & trademarks, licenses, and copyright, among others, are included to measure the disclosure score of each pharma companies. One way Anova is applied to test if there is any significant difference in disclosure practices of select pharma companies. The study period is from 2015–16 to 2020–21.

Keywords: *Intangible Assets, Voluntary Disclosure, Nifty Pharma Index.*

Introduction

Financial reporting represents the medium through which accounting information is communicated to users. Therefore, it is expected that the accounting information communicated to impact and shape the decisions made by the information users. However, the traditional accounting and financial reporting models from which financial statements are prepared do not capture the wide components of intangible assets, except for goodwill and very few other intangible assets, such as patents and copyrights. In addition, the Indian Accounting Standard No.38(Ind AS 38) (International Accounting Standard No. 38 and even the defunct Ind AS 38) provide little or no guidance on the financial reporting of intangible assets. Besides, prevailing traditional accounting model does not guarantee an in-depth understanding of accounting reporting for the 21st century accounting research and does not provide empirical insights to voluntary disclosure of intangible assets.

Voluntary disclosure is a part of corporate disclosure that is discretionary and transcends beyond legal or regulatory mandates (Guthrie & Petty, 2000; Li, Pike & Haniffa, 2015) which is not backed by laws, regulations, and standards. Companies are not statutorily obliged to abide by them but are motivated to embark on as a result of the inherent advantages thereon. Some of the advantages of voluntary disclosures are: lower cost of capital, gaining investors' confidence, improving marketability of shares (Bontis, 2013; Omoye, 2013), used as a device for reducing information gap between directors and other stakeholders and enhance the credibility of financial reports (Abeywardana et al., 2016). However, (Asogwa et al.,) highlighted that mandatory disclosures are those disclosures which are in line with applicable rules, laws, regulations and standards prevalent at such point in time. Deviation there from attracts stiff and laid down penalties.

* Research scholar, Department of Commerce, Osmania University, Hyderabad, India.

However, the disclosure that is pivotal to the overall efficiency and productivity of an organization are those of the intangible resources. The emergence of advancement in science and technology has paved way for the disclosure of intangible assets rather than those that appear on the face of the financial statements (Ngoc & Duke, 2020). This is consequent upon the prevalent era now which is driven by knowledge, experiences, skills, technological capabilities, talents, knows how, good customer and supplier relationships that seem to hold more values than tangible resources. (Ferreira et al., 2012; Onyekwelu, 2015) observed a drastic paradigm shift from the time of archaic dependence on physical resources or tangibles, manufacturing and processing outfits to an era that are fundamentally based on knowledge and other intangible resources (An et al., 2011). Within the past few decades, these ideas are uppermost in managers mindset as their belief are hinged on the fact that what controls or drives the organization to the next level are the reporting of intangible resources, (Omoye, 2013) and their disclosure controls the tangible resources for a quicker positive result. The disclosure of intangible assets (IAs) or resources in whole or in parts bridges the information gap between the principal and the agents (Singh, 2008). Previous literature exposes showed that a lot of studies abound on intangible assets (intellectual capital) dwelling on same variables but having divergent and conflicting empirical results. This could be attributable to the absence of a consensus benchmark for measuring the intangible assets (intellectual capital) (Ulum & Jati, 2016; Xu & Wang, 2018) and lack of extant standards, framework and regulations guiding their disclosure in financial reports. This paper contributes to knowledge on the voluntary disclosure of IAs in annual reports of listed companies in Nigeria. For instance, we explored the need for voluntary disclosure on the listed manufacturing firms. Again, we adapted the value chain scoreboard (VCSB) as developed by (Lev,2001) and subsequently modified by (Ibadin, 2013) to measure and comprehend the relationships between certain company characteristics and voluntary disclosure of IAs.

Objective

- To analyze the voluntary disclosure practices of select pharma companies.

Data and Methodology

The study is descriptive in nature. Sources of Data has been collected from secondary sources i.e. from the annual reports of companies included in NSE Nifty Pharma Index companies. Sample of the study considered all the 10 companies listed in the NSE Nifty Pharma Index as of August 2019. Pharma Companies that are selected for the study. All the data relating to disclosure practices of intangible assets is gathered from the annual reports of the companies. Items such as software, brand & trademarks, licenses, copyright among others are included to measure disclosure score of each pharma companies. One way Anova is applied to test if there is any significant difference in disclosure practices of select pharma companies. The study period is from 2015-16 to 2020-21.

Analysis of Attribute-Wise and Company- Wise Disclosure of Intangible Assets

• Attribute-Wise Disclosure

Initially, we consider attribute-wise and company-wise disclosure of IA for the sample companies as found in their annual reports. In Section 1.1, an attempt has been made to analyse the attribute-wise disclosure of IA of the sample ten units in Nifty pharma index companies during the study period from 2015–16 to 2020–21. These disclosures have been summarized in the tables below. Section 1.1 describes the attribute-wise analysis for the quantitative category of the IA disclosure index. The IA disclosure index consists of one of the main categories, which relates to disclosure requirements as per Ind AS 38 on intangible assets.

The scoring scheme of various attributes of intangible asset disclosure practices of selected pharmaceutical companies is as follows:

Full Disclosure	2
Partially Disclosure	1
Non-Disclosure	0

Using this, we have computed the Disclosure Index for each company for each year of the study period. By dividing the total weighted disclosure score obtained for each attribute by the maximum weighted disclosure score, the attribute-wise disclosure score for each element included in the IA disclosure index has been determined. The maximum disclosure score for attributes in the quantitative requirement category is 20 (10 companies multiplied by a maximum score of 2). For example, the software for the year 2015–16 has a weighted disclosure score of 16 and a percentage disclosure of 80% (the score attained is 16 divided by the 20 maximum disclosure score).

The attribute-wise disclosure in the selected sample units is shown in Table 1.

Table 1: Disclosure of Intangible Assets for the Year 2015-16

Name of Company/ Attribute	Aurobindo Pharma	Biocon Ltd.	Cadila Healthcare	Cipla Ltd.	Divi's Lab.	Dr.Reddy's	Glenmark	Lupin Ltd.	Piramal	Sun Pharma
Software	0	2	2	2	2	0	2	2	2	2
Brands & Trademarks	2	0	2	2	0	0	0	0	2	2
Copyrights	0	0	0	0	0	2	0	0	2	0
Product Development Cost	2	0	0	0	0	2	2	0	0	0
Licenses & Patents	2	0	0	2	0	0	0	2	0	0
Commercial Rights	0	0	2	0	0	0	0	0	0	0
Marketing & Manufacturing Rights	0	2	0	2	0	0	0	2	0	0
Developed Technology Rights	0	0	0	0	0	0	0	0	0	0
Technical Know-How	0	0	2	2	0	2	0	0	0	0
Product Know-How	0	0	0	0	0	0	0	0	2	0
Favorable Lease	0	0	0	0	0	0	0	0	2	0
Customer Relation	0	0	0	0	0	0	0	0	2	0
IA Under Development	2	2	0	2	0	2	2	2	2	2

Source: Compiled from Annual Reports of Sample Companies

On the basis of Table 1, it can be observed that Software and IA under development were disclosed by eight out of ten sample units, whereas Brands and Trademarks were disclosed by five out of ten sample units. Three sample units out of ten have disclosed product development costs, licenses and patents, marketing and manufacturing rights, and technical know-how, while two sample units out of ten have disclosed copyrights. Only one out of ten sample units revealed Commercial Rights, Product Know-how, Favorable Lease, and Customer Relationship.

Table 2: Disclosure of Intangible Assets for the Year 2016-17

Name of Company/ Attribute	Aurobindo Pharma	Biocon Ltd.	Cadila Healthcare	Cipla Ltd.	Divi's Lab.	Dr.Reddy's	Glenmark	Lupin Ltd.	Piramal	Sun Pharma
Software	0	2	2	2	2	0	2	2	2	2
Brands & Trademarks	2	0	2	2	0	2	0	0	2	2
Copyrights	0	0	0	0	0	2	0	0	2	0
Product Development Cost	2	0	0	0	0	2	2	0	0	0
Licenses & Patents	2	0	0	2	0	0	0	2	0	0
Commercial Rights	0	0	2	0	0	0	0	0	0	0
Marketing & Manufacturing Rights	0	2	0	2	0	0	0	2	0	0
Developed Technology Rights	0	0	0	0	0	0	0	0	0	0
Technical Know-How	0	0	2	2	0	2	0	0	0	0
Product Know-How	0	0	0	0	0	0	0	0	2	0
Favorable Lease	0	0	0	0	0	0	0	0	2	0
Customer Relation	0	0	0	0	0	0	0	0	2	0
IA Under Development	2	2	0	2	0	2	2	2	2	2

Source: Compiled from Annual Reports of Sample Companies

Table 2, shows that eight out of ten sample units disclosed software and IA under development, whereas brands and trademarks were disclosed by six out of ten sample units. Three out of ten sample units revealed product development costs, licenses and patents, marketing and manufacturing rights, and technical know-how, while two out of ten sample units revealed copyrights and customer interactions. Only one out of ten sample units has declared Commercial Rights, Product Know-how, and Favorable Lease.

Table 3: Disclosure of Intangible Assets for the Year 2017-18

Name of Company/ Attribute	Aurobindo Pharma	Biocon Ltd.	Cadila Healthcare	Cipla Ltd.	Divi's Lab.	Dr.Reddy's	Glenmark	Lupin Ltd.	Piramal	Sun Pharma
Software	0	2	2	2	2	0	2	2	2	2
Brands & Trademarks	2	0	2	2	0	2	0	0	2	2
Copyrights	0	0	0	0	0	2	0	0	2	0
Product Development Cost	2	0	0	0	0	2	2	0	0	0
Licenses & Patents	2	0	0	2	0	0	0	2	0	0
Commercial Rights	0	0	2	0	0	0	0	0	0	0
Marketing & Manufacturing Rights	0	2	0	2	0	0	0	2	0	0
Developed Technology Rights	0	0	0	0	0	0	0	0	0	0
Technical Know-How	0	0	2	2	0	2	0	0	0	0
Product Know-How	0	0	0	0	0	0	0	0	2	0
Favorable Lease	0	0	0	0	0	0	0	0	2	0
Customer Relation	0	2	0	0	0	0	0	0	2	0
IA Under Development	2	2	0	2	0	2	2	2	2	2

Source: Compiled from Annual Reports of Sample Companies

On the basis of Table 1.3, it can be determined that software and IA under development were disclosed by eight out of ten sample units, whereas brands and trademarks were disclosed by six out of ten sample units. Three sample units out of ten have disclosed product development costs, Licenses and patents, marketing and manufacturing rights, and technical know-how, while copyrights and customer relations have been revealed by two sample units out of ten. Only one out of ten sample units disclosed Commercial Rights, Product Know-how, and Favorable Lease.

Table 4: Disclosure of Intangible Assets for the Year 2018-2019

Name of Company/ Attribute	Aurobindo Pharma	Biocon Ltd.	Cadila Healthcare	Cipla Ltd.	Divi's Lab.	Dr.Reddy's	Glenmark	Lupin Ltd.	Piramal	Sun Pharma
Software	0	2	2	2	2	0	2	2	2	2
Brands & Trademarks	2	0	2	2	0	0	0	0	2	2
Copyrights	0	0	0	0	0	0	0	0	2	0
Product Development Cost	2	0	0	0	0	2	2	0	0	0
Licenses & Patents	2	0	0	2	0	0	0	2	0	0
Commercial Rights	0	0	2	0	0	0	0	0	0	0
Marketing & Manufacturing Rights	0	2	0	2	0	0	0	2	0	0
Developed Technology Rights	0	2	0	0	0	0	0	0	0	0
Technical Know-How	0	0	2	2	0	2	0	0	0	0
Product Know-How	0	0	0	0	0	0	0	0	2	0
Favorable Lease	0	0	0	0	0	0	0	0	2	0
Customer Relation	0	2	0	0	0	0	0	0	2	0
IA Under Development	2	2	0	2	0	2	2	2	2	2

Source: Compiled from Annual Reports of Sample Companies

On the basis of Table 4, it can be determined that Software and IA under development have been disclosed by eight out of ten sample units, however Brands and Trademarks got disclosed by five out of ten sample units. Three sample units out of ten had disclosed product development costs, Licenses and patents, marketing and manufacturing rights, and technical know-how, whereas two sample units out of ten have disclosed customer relationships. Only one out of ten sample units disclosed Copyrights, Commercial Rights, Developed Technology Rights, Product Know-How, and Favorable Lease.

Table 5: Disclosure of Intangible Assets for the Year 2019-20

Name of Company/Attribute	Aurobindo Pharma	Biocon Ltd.	Cadila Healthcare	Cipla Ltd.	Divi's Lab.	Dr.Reddy's	Glenmark	Lupin Ltd.	Piramal	Sun Pharma
Software	0	2	2	2	2	0	2	2	2	2
Brands & Trademarks	2	0	2	2	0	0	0	0	2	2
Copyrights	0	0	0	0	0	0	0	0	2	0
Product Development Cost	2	0	0	0	0	2	2	0	0	0
Licenses & Patents	2	0	0	2	0	0	0	2	0	0
Commercial Rights	0	0	2	0	0	0	0	0	0	0
Marketing & Manufacturing Rights	0	2	0	2	0	0	0	2	0	0
Developed Technology Rights	0	2	0	0	0	0	0	0	0	0
Technical Know-How	0	0	2	2	0	2	0	0	0	0
Product Know-How	0	0	0	0	0	0	0	0	2	0
Favorable Lease	0	0	0	0	0	0	0	0	0	0
Customer Relation	0	2	0	0	0	0	0	0	2	0
IA Under development	2	2	0	2	0	2	2	2	2	2

Source: Compiled from Annual Reports of Sample Companies

According to Table 5, it can be determined that Software and IA under development have been disclosed by eight out of ten sample units, whereas Brands and Trademarks have been disclosed by five out of ten sample units. Three out of ten sample units disclosed product development costs, Licenses and patents, marketing and manufacturing rights, and technical know-how, while two out of ten sample units disclosed customer relationships. Only one out of ten sample units disclosed copyrights, commercial rights, developed technological rights, and product know-how.

Table 6: Disclosure of Intangible Assets for the Year 2020-21

Name of Company/Attribute	Aurobindo Pharma	Biocon Ltd.	Cadila Healthcare	Cipla Ltd.	Divi's Lab.	Dr.Reddy's	Glenmark	Lupin Ltd.	Piramal	Sun Pharma
Software	0	2	2	2	2	0	2	2	2	2
Brands & Trademarks	2	0	2	2	0	0	0	0	2	2
Copyrights	0	0	0	0	0	0	0	0	2	0
Product Development Cost	2	0	0	0	0	2	2	0	0	0
Licenses & Patents	2	0	0	2	0	0	0	2	0	0
Commercial Rights	0	0	2	0	0	0	0	0	0	0
Marketing & Manufacturing Rights	0	2	0	2	0	0	0	2	0	0
Developed Technology Rights	0	2	0	0	0	0	0	0	0	0
Technical Know-How	0	0	2	0	0	2	0	0	0	0
Product Know-How	0	0	0	0	0	0	0	0	2	0
Favorable Lease	0	0	0	0	0	0	0	0	0	0
Customer Relation	0	0	0	0	0	0	0	0	2	0
IA Under Development	2	2	0	2	0	2	2	2	2	2

Source: Compiled from Annual Reports of Sample Companies

On the basis of Table 6, these can be concluded that eight out of ten sample units disclosed Software and IA under development, whereas Brands and Trademarks were disclosed by five out of ten sample units. Three out of ten sample units disclosed product development costs, Licenses and patents, and marketing and manufacturing rights, while two samples out of ten sample units disclosed technical know-how. Only one out of ten sample units disclosed copyrights, commercial rights, developed technological rights, product know-how, and customer relationships.

Table 7: Company wise Analysis of Disclosure Score for the years 2015-16 to 2020-21

S. N	Name of the Company	Disclosure Score (%) and Ranks												Avg (%)	Overall Rank
		2015-16		2016-17		2017-18		2018-19		2019-20		2020-21			
		Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank		
1	Aurobindo Pharma	30.76	3	30.76	4	30.76	4	30.76	4	30.76	4	30.76	3	30.76	4
2	Biocon Ltd.	23.07	7	30.76	4	30.76	4	38.46	3	38.46	3	30.76	3	32.05	3
3	Cadila Healthcare	30.76	3	30.76	4	30.76	4	30.76	4	30.76	4	30.76	3	30.76	4
4	Cipla Ltd.	46.15	2	46.15	2	46.15	2	46.15	2	46.15	1	38.46	2	44.87	2
5	Divi's Lab.	7.69	10	7.69	10	7.69	10	7.69	10	7.69	10	7.69	10	7.69	10
6	Dr.Reddy's Lab	30.76	3	38.46	3	38.46	3	23.07	7	23.07	7	23.07	7	29.48	7
7	Glenmark	23.07	7	23.07	8	23.07	8	23.07	7	23.07	7	23.07	7	23.07	8
8	Lupin Ltd.	30.76	3	30.76	4	30.76	4	30.76	4	30.76	4	30.76	3	30.76	4
9	Piramal	53.84	1	53.84	1	53.84	1	53.84	1	46.15	1	46.15	1	51.28	1
10	Sun Pharma	23.07	7	23.07	8	23.07	8	23.07	7	23.07	7	23.07	7	23.07	8

Source: Compiled from Annual Reports of Sample Companies

The above Table 7, shows that the ranks of individual companies based on their disclosure score of intangible assets are calculated for each year, and Piramal Enterprises Ltd. retained the first rank for all the years while Cipla Ltd. followed the second rank throughout the whole period, with an exemption in 2019-20 where both Piramal Enterprises Ltd and Cipla Ltd shared the first rank. Four companies shared the third rank during 2015–16 and 2020–21. In between, Dr. Reddy's Laboratories held the third rank in 2016–17 and 2017–18, whereas Biocon Ltd. held the position in the following three financial years. In terms of the overall ranking calculated by averaging the yearly ranks, Piramal Enterprises, Cipla Ltd., and Biocon Ltd. hold the 1st, 2nd and 3rd ranks respectively. Divi's Laboratories was ranked 10th for the entire year and in the overall ranking.

One – Way ANOVA Test

The test is voluntary disclosure score to verify whether the mean value of intangible assets among the Nifty Pharma Index companies. The results of the test are presented below.

ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	7633.819	9	848.202	72.855	.000
Within Groups	582.120	50	11.642		
Total	8215.939	59			

Source: Compiled from Annual Reports of Sample Companies

One-way ANOVA according to the results, there is a significant difference in the mean value of the voluntary disclosure score among the disclosure practices of the nifty pharma index companies, as the F value is (9, 50) 72.855, which is higher than the critical value (2.53), and a P value of 0.000.

Findings

On examining the extent of Item wise voluntary disclosure of IA in annual reports of selected sample units in 2015-16 to 2020-21, it may be concluded that Software and IA under development has been consistently disclosed by eight pharma companies out of ten for the entire study period.

The ranks of individual companies based on their Voluntary disclosure score of intangible asset is calculated for each year. Piramal Enterprises Ltd. retained the first rank for all the years while Cipla Ltd followed the second rank throughout the whole period, with an exemption in 2019-20 where both Piramal Enterprises and Cipla Ltd. shared the first rank. Four companies shared the third rank during 2015-16 and 2020-21. In between, Dr. Reddy's Laboratories held the third rank in 2016-17 and 2017-18, whereas Biocon Ltd. Held the position in the following three financial years. Coming to the overall ranking calculated by averaging the yearly ranks, Piramal Enterprises, Cipla Ltd., and Biocon Ltd. holds the 1st, 2nd and 3rd ranks respectively. Divi's Laboratories was placed at 10th rank in all year as well as in overall ranking.

Conclusion

Piramal Enterprises Ltd. disclosed a higher number of items, both mandatory and voluntary, as per the disclosure practices laid down in the accounting standards. On the other hand, Cadila Healthcare and Sun Pharma Ltd. reported a lower number of items and had the lowest disclosure score.

Suggestions

Cadila Healthcare Ltd. is suggested to follow the disclosure guidelines as given in the standards to improve its disclosure score. It gives more accurate picture of disclosure practices to the users. Similarly, Sun Pharma Ltd. also has the lowest disclosure score; hence, the company should take appropriate steps to improve its disclosure practices.

References

1. Abhayawansa, S., & Guthrie, J. (2016). Importance of Intellectual Capital Information: A study of Australian Analyst Reports. *Australian Accounting Review*, 24 (1), 66–83.
2. Bontis, N. (2013). Assessing knowledge assets: A review of the model used to measure intellectual capital. *International Journal of Management Review*, 3(1), 41–60. <https://doi.org/10.1111/1468-2370.00053>.
3. Ferreira, A. L., Branco, M. C., & Moreira, J. A. (2012). Factors influencing IC disclosures by portuguese companies. *International Journal of Accountancy and Financial Reporting*, 2(20), 278–298. <https://doi.org/10.5296/ijaf.v2i2.2844>.
4. Guthrie, J. Petty R., (2000). Intellectual capital, Australian annual reporting practices. *Journal of Intellectual Capital*, 12(3), 241–251.
5. Li, J., Pike, R., & Haniffa, R. (2015). Intellectual capital disclosure and corporate governance structure in UK firms. *Accounting and Business Research*. 38, (2), 137– 159.
6. Ngoc, P. N., & Duke, H. C. (2020). Human capital efficiency and firm performance across sectors in an emerging market. *Cogent Business & Management*, 7(1), 1738832. <https://doi.org/10.1080/23311975.2020.1738832>.
7. Omye. (2013). Characteristics of IAs disclosures in annual reports of quoted companies in Nigeria. *International Journal of Asia Social Science*, 1152–1165. <https://doi.org/10.18844/prosoc.v4i10.3091>
8. Onyekwelu, L. U. (2015), Effect of intellectual capital on corporate valuation of firms in Nigeria: A Thesis presented to the department of Accountancy, Enugu State University of Science & Technology.
9. Singh, I., Van der Zahn, J. (2008). Determinants of Intellectual capital disclosure in prospectuses of initial public offerings. *Accounting and Business Research*, 38(5) 409 431.
10. Ulum, I., Rizqiyah, R., & Jati, A. W. (2016). Intellectual capital performance: A comparative study between financial and non-financial industry of Indonesian biggest companies. *International Journal of Economics and Financial Issues*, 6(4), 1436–1439.
11. Xu, J., & Wang, B. (2018). Intellectual capital, financial performance and companies' sustainable growth: Evidence from the Korean manufacturing industry. *Journal of Finance & Accounts*, 10(12), 46–51. <https://doi.org/10.3390/su10124651>.

