

Is There an Effective Approach to Measure Capital Via Integrating Thinking for Companies?

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Abstract

Companies are in a competition and power of their capital provide them to survive in their sector. The measurement of capital, which has many different types, is important. In this study effectiveness of measurement capital types issue evaluated in the framework of integrated thinking for companies.

Keywords: SMEs, sustainability

1. Introduction

Integrated thinking is a vision of integrated reporting. It examines at the whole company in a wide view. There are types of capital according to integrated reporting which are named financial, manufactured, intellectual, human, natural, social and relationship capitals. Integrated thinking includes these capitals. All of them have their unique aspects. Companies should measure both capital and performance metrics for sustainable development. This paper presents a vision about measuring of types of capital. This study also aimed at raising awareness using types of capital and their indicators for decision makers. Each capital asset should have their key performance indicator sets. Hypothetically, types of capital can be interrelated. This relationship can be output and input relationship. The importance of capital categories and relationship can vary from company to company (International Integrated Reporting Framework 2021), (Integrated Thinking Principles 2022) (Capitals Background Paper for Integrated Reporting 2012).

Integrated reporting helps shareholders evaluate the organization's ability to create and sustain value in the short, medium and long term. Integrated reporting considers not only financial capital, but also all other types of capital. Integrated reporting has many benefits. (Topçu and Korkmaz G. 2015)

Not only reporting situation of types of capital but also the performance of KPI's that are derivate as a part of capital type is important. This study highlights the importance of identifying KPI's as a part of capital type in order to measure and control whole capital of company

2. Literature Review

In the literature, human capital usually includes indicators such as years of education, the expenditure-based cost approach, or the income approach, which measures expected future earnings growth; It is envisaged that the income approach, often giving higher values than the cost approach, can be harmonized with human capital by changing various assumptions. (Abraham and Mallatt, 2022). In another study, while aiming to evaluate the concept of social capital, which is stated to be difficult to measure, and to make it easier to choose between various measures, a typology groups addresses the five main social capital structures (Engbers

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et. al., 2017). Another study aimed to develop reliable, valid and meaningful methods for measuring social capital by using different approaches such as creating a single measure of social capital and developing a cluster-based typology of social capital (Stone and Hughes, 2002). It is stated that managerial trends and intellectual capital based on financial performance measures are often difficult due to the intangible nature, but the measurement of certain measures and flows can help determine the amount and strength of capital (William, 1999).

Scrivens and Smith (2013) aimed to identify the different elements within the broad framework of the concept of social capital and the areas in which statistical research and development should advance in order to lay the groundwork for better comparative measurements in the future (Scrivens and Smith, 2013).

In response to contemporary challenges such as globalization, the knowledge-based economy, and technological evolution, it demonstrates the notion that people with higher levels of individual talent are today becoming more valuable assets and can be recognized within the framework of human capital (Kwon, 2009). The difficulty of measuring the impact of human capital and investments in this field is discussed in the literature (Bassi, and McMurrer, 2008).

International practices in measuring investments by organizations in intangible capital are examined and it is stated that there is a need for a standardized framework to measure intangible capital (Hunter et. al., 2005). In another study it is stated that traditional accounting systems do not fully reflect the value creation processes and draw attention to the intangible nature of many resources and aimed to design an effective measurement model for businesses to manage their intellectual capital and create competitive advantage (Gogan, 2014).

In an era where tangible assets lose their importance and information-based assets increase in importance, accounting issues that are important in the management of assets such as brand names, trade secrets, production processes are addressed, while at the same time a framework is created to define and classify the various components of intellectual capital, and both individual and corporate (Luthy, 1998). The concept of innovation capital and its measurements are studied in depth in another study (Kijek, 2012). It is reviewed by examining important theoretical and empirical contributions to the measurement and reporting of intellectual capital while analysing its impact on corporate value and national economic performance, which is involved in developments in economics, management, technology and sociology in largely unpredictable ways within the framework of knowledge-based economics and innovation in the literature (Petty and Guthrie, 2000).

In another study, the integrated reporting and intellectual added values of the enterprises in the BIST Corporate Governance Index were examined, the value created by the enterprises was measured quantitatively with the data obtained from here, and a positive relationship was found between the integrated reporting scores and the intellectual added value coefficient (Yüksel, 2018). In another study the relationship between the financial performance of enterprises and integrated reporting is examined, and the role of non-financial information in the decision-making processes of stakeholders is emphasized (Akyüz and Yangibayev, 2020).

In the information age, intellectual capital, and especially human capital, has become more valuable than tangible assets, the efforts of businesses to create value and expand their markets by investing in these assets, and the measurement of intellectual capital and reporting through the accounting system are examined in detail (Sarigül, 2020). Various methods for measuring intellectual capital, including human, structural and customer capital, and transforming it into financial gain are examined in detail, and it is stated how this valuable information asset contributes to the productivity and value of businesses (Çetin, A. 2005). The effect of human capital on innovation has been investigated (Suriçi, 2019).

The efforts of institutions to increase their competitive advantage and market value by improving their financial and non-financial performances are examined, and by determining indicators representing multiple capital elements for integrated reporting, comparable and highly representative indicators that serve as a guide for sound evaluation and transparent measurement are presented. Integrated corporate performance was evaluated in the banking sector through a multi-equity-based model. In addition, a performance evaluation based on both financial and non-financial indicators is presented with an analytical approach, and it is stated that this approach aims to support the decisions of investors and other stakeholders. (Aras and Mutlu, 2019). In another study, integrated reporting practices are examined in the context of multiple capitals and guidelines. It is stated that integrated reporting scores have increased over time, but banks still need to improve in the implementation of capital disclosures and guidelines. (Berberoğlu, 2019).

3. Conclusion

In many studies in the literature, the importance of measuring capital types is expressed. Indicators of types of capitals can be determined one by one. The effect of the indicators on each other or on a performance output such as profit of the company can be measured. Here, models such as multiple regression can be established. Decision makers can make decisions according to results of these effects.

As a conclusion companies should determine their own indicator sets according to each type of capital. They should measure them periodically and track their performance metrics. These KPI sets can be analysed with statistical methods and multi criteria decision making methods. Indicators that can be changeable sector by sector can be determined and analysis for performance for further research.

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