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The Influence of Corporate Governance and Company Characteristics on Intellectual Capital Disclosures

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This study aimed to examine the effect of corporate governance and the characteristics of the company consisting of profitability, leverage, company size, and age of the company on disclosure of intellectual capital. This research used companies listed in Indonesia corporate governance forum and signed the application of corporate governance rankings conducted by the Indonesian Institute for Corporate Governance (IICG) during 2011–2014 as the population. Sampling technique was done by purposive sampling method which was obtained a sample of 66 companies with a total of as many as 136 observation data. Scores implementation of corporate governance (Corporate Governance perception index/CGPI) of each sample was used as a measurement of the company's corporate governance variables. Measurement of intellectual capital disclosure used the index overall intellectual capital disclosures (Intellectual Capital Disclosure Index/ICDI) by using 61 items of intellectual capital developed by Li et al. Meanwhile, multiple regression analysis was used to test five hypotheses developed in this study. The results showed that leverage significantly and positively affects the disclosure of intellectual capital. Meanwhile, the variables of CGPI, profitability, firm size, and firm age do not affect the disclosure of intellectual capital. The results of this study have implications that companies with higher leverage level will reveal wider intellectual capital to reduce agency costs and asymmetry information between management and creditors.

Keywords: Disclosure of Intellectual Capital, Corporate Governance, Profitability, Leverage, Firm's Size, Firm's Age.

1. INTRODUCTION

Intellectual Capital (IC) plays an increasingly important role in sustaining competitive advantages and creating corporate value.[1] As a consequence, companies have increased their investments in IC. There are several reasons why companies need to make disclosure of intellectual capital. The disclosure of intellectual capital can help companies reduce asymmetry information, increase the relevance of financial statements, and increase the confidence and loyalty of employees and other stakeholders. The company's intellectual capital disclosure can be giving evidence about the true value of the company and the ability of wealth creation of the companies.[2]

Given the importance of disclosure of intellectual capital for a business, the aim of this study was to examine the factors that influence the intellectual capital (IC) in the annual report. These factors include corporate governance practices and characteristics of the company consisting of profitability, leverage, company size, and age of the company.

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2. LITERATURE STUDY

Two theories used in this research were signaling theory and agency theory. The signaling theory is based on the problem of asymmetry information occurs in the market.[9] Asymmetry of information takes place between the company as having a lot of information about the company and stakeholders as having limited knowledge about the condition of the company. The signaling theory mainly focuses on delivering positive information in an attempt to obtain positive organizational attributes.[3] According to this theory, asymmetry information can be reduced by way of a signal by the party that has a lot of information to another party.[16] There is the content of information on the disclosure of any information that could be a signal for investors and other potential parties in decision making.[7] Voluntary disclosure of intellectual capital provide the possibility for investors and other stakeholders to better assess the ability of the company in the future, more precise assessment of the company, and reduces the risk perception of the company.[19]

Meanwhile, the agency theory explained the contractual relationship between principal and agent. According to Jensen

Adv. Sci. Lett. 23, 7059–7061, 2017

and Meckling,[6] the agency relationship occurs when an agent employed by one or more owners (principals) to provide services in accordance with their interests. Jensen and Meckling[6] also stated that firms with high agency costs will be harder to monitor their governance mechanisms and provide more information voluntarily, in an attempt to reduce agency costs. The agency theory believes that there is an added incentive for the manager to make additional disclosures (voluntary disclosure), including intellectual capital information.[11]

2.1. Corporate Governance, Company Characteristics, and Intellectual Capital Disclosures

Corporate governance was one of the instruments used to control agency costs. Companies that have good corporate governance will have a higher awareness of the intellectual capital disclosure practices, which means that the disclosure of intellectual capital that is done will be more extensive.[4,5,14,17] The Variations in the disclosure of intellectual capital is also influenced by the characteristics of the company, among others, profitability, leverage, firm size, and firm age. According to signaling theory, companies with high profitability will reveal more intellectual capital to distinguish the companies that are less profitable.[4] Likewise, the company's age was positively correlated with the disclosure of intellectual capital[17] (Ulum et al., 2012). On the other hand, companies with high leverage and or large, will face greater agency costs. Disclosure of intellectual capital can be used to reduce the agency costs.[17,18,20]

3. METHODOLOGY

The population in this study was a company registered in the Indonesia Corporate Governance Forum (FCGI) in the period of 2011–2014. Sampling was done by purposive sampling technique and obtained 136 observation data from 66 companies. Analysis of the data in this study used regression models Ordinary Least Square (OLS). The model used in this study as follows:

$$\mathrm{ICDI}_{it} = \beta_0 + \beta_1 \mathrm{CGPI}_{it} + \beta_2 \mathrm{PROF}_{it} + \beta_3 \mathrm{LEV}_{it} + \beta_4 \mathrm{SIZE}_{it} + \beta_5 \mathrm{AGE}_{it} + \varepsilon_{it}$$

where ICDI is Intellectual Capital Disclosure Index, CGPI is corporate governance perception index, PROF is profitability, LEV is leverage, SIZE is firm size, and AGE is firm age.

4. RESULTS AND DISCUSSION

The results showed that:

(1) corporate governance has no significant positive effect on the disclosure of intellectual capital,
(2) profitability has negative influence but not significant,
(3) leverage has significant positive effect on the disclosure of intellectual capital,
(4) size of the company has no significant negative effect on the disclosure of intellectual capital, and
(5) the age of the company has positive effect but not significant on the disclosure of intellectual capital.

Only one of the five findings was consistent with the hypothesis that the third hypothesis which stated that leverage positively affects the disclosure of intellectual capital. This empirical evidence was consistent with agency theory explaining that there is a potential transfer of wealth from the debt-holders to shareholders and managers at companies that have a high leverage resulting in high agency costs. Therefore, the company would conduct more extensive disclosures including the disclosure of intellectual capital to reduce agency costs and asymmetry information between managers and creditors.

The empirical evidence that the CGPI, profitability, size, and age of the company had no effect on disclosure of intellectual capital was not consistent with

(1) agency theory which explains that the asymmetry of information and potential conflicts of interest between the owners of the company (principal) and management (agent) to encourage management to provide information voluntarily in an effort to reduce agency costs,
(2) signal theory which states that companies that have a high profitability can use the disclosure of intellectual capital to differentiate itself from other companies that are less favorable.

5. CONCLUSION

By using 136 observation data of companies listed in Indonesia the corporate governance forum and sign the application of corporate governance rankings conducted by The Indonesian Institute for Corporate Governance (IICG) in the period of 2011–2014, selected using purposive sampling method, and using multiple regression analysis to test five hypotheses developed in this study, the results showed that leverage has significant positive effect on the disclosure of intellectual capital. Meanwhile, the variables of CGPI, profitability, firm size and firm age do not affect the disclosure of intellectual capital. The results of this study have implications that companies with higher leverage level will reveal wider intellectual capital to reduce agency costs and information asymmetry between management and creditors.

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