

CHAPTER I

INTRODUCTION

A. Background

In this era of globalization, the economy is growing rapidly. These economic developments will lead to an increasingly fierce business competition. The enactment of the Asean Economic Community (AEC) in 2015 made many companies do various ways to survive. AEC makes companies have to make the correct strategies in order to compete. This creates a motivation for business people to create new ideas and to make updates that aim to provide more value to a company. Companies that do not have competitive advantages will easily lose the market.

Companies that only rely on tangible assets are not strong enough to compete. Intangible assets also have an important role in supporting business success in a company. Business people are beginning to realize the importance of intangible assets. Companies that previously used tangible assets as a foundation are now starting to pay attention to how important and potential intangible assets are in increasing company value.

The importance of publishing intangible assets causes the development of intangible assets in Indonesia. This has happened after the existence of PSAK No. 19 (revised in 2017) which contains intangible assets. According to PSAK No. 19, intangible assets are Non-monetary assets that do

not have a physical form and is owned to generate income, to be leased to another party, or for administrative purposes.

The ability to manage intellectual capital owned is a way to add value to a company. Intellectual capital has an important role in increasing the value of a company. All information, experience, and knowledge used to create an added value are called intellectual capital. Intellectual capital can be interpreted as something that is beneficial and can produce prosperity if it can be managed properly.

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Intellectual capital is as one of the important supporting factors in the strategy of company development. Many companies in Indonesia are using a conventional basis for building a business. It makes the products produced are still lacking in technology. In addition, the company has not given more attention to human capital, structural capital, and customer capital even though all of them are the elements of development intellectual capital of the company.

Companies that do disclosure of intellectual capital have more value than that of not doing disclose intellectual capital (Sirojudin and Nazaruddin 2014). This happens because investors tend to be more interested in companies that provide complete information, so that the value of the company will increase. In the annual report, the company uses two disclosures, namely: mandatory disclosure and voluntary disclosure. Mandatory disclosure is a disclosure carried out by the company, regulated in the *Otoritas Jasa Keuangan* No.31/POJK.04/2015 about disclosure of information or material facts by issuers or public company. Whereas, voluntary disclosure is information disclosure that is not required by *Otoritas Jasa Keuangan*.

Pratama (2016) states that Intellectual Capital (IC) is included in the category of voluntary disclosure because IC provides added value for the company so that Intellectual Capital Disclosure (ICD) becomes necessary to be carried out in order to attract the interest of the investor in a company. IC disclosure that is carried out voluntarily by the company in addition to functioning as a tool of accountability can also benefit investors because investors become more protected with more detailed information. Aida and Rahmawati (2015) state that companies in Indonesia are considered as still minimal in disclosing IC information. In Q.S An-Nahl verse 90:

﴿ إِنَّ اللَّهَ يَأْمُرُ بِالْعَدْلِ وَالْإِحْسَانِ وَإِيتَايَ ذِي الْقُرْبَىٰ وَيَنْهَىٰ
عَنِ الْفَحْشَاءِ وَالْمُنْكَرِ وَالْبَغْيِ يَعِظُكُمْ لَعَلَّكُمْ
تَذَكَّرُونَ ﴾

“Indeed, Allah orders justice and good conduct and giving to relatives and forbids immorality and bad conduct and oppression. He admonishes you that perhaps you will be reminded”.

In this verse, Allah instructs to do justice and to do the truth. The fair and right attitude is very important for management in carrying out their duties. The justice that can be done is by providing as much detail as possible to the users of financial statements, and one of them is information about the ICD. So, the rights of financial statement users to obtain company information in detail can be fulfilled and the company does not make mistake in making decisions. It will be a loss for the company if the information about IC is not found in the annual report. This is because ICD can increase company value and minimize asymmetry information.

Intellectual Capital Disclosure has also been studied in Thailand. The change from an industrial economy to a knowledge economy caused companies to realize the importance of intellectual capital disclosure. That is why ICD is more disclosed in the annual report. The research comparing ICD between developing countries was also conducted by (Haji, 2015).

Intellectual capital disclosure is a consequence of the execution of Good Corporate Governance (GCG) which must pay attention to the interests of stakeholders to establish cooperative relations between parties in accordance with regulations (Fitriani, 2012). Corporate governance mechanisms are useful for supervision in anticipating fraud committed by company managers. Therefore, the board in the company plays an important

role in carrying out supervisory actions in implementing internal controls, so that they can detect threats that will occur.

This research was conducted in Indonesia and Thailand. Indonesia is one of the developing countries in the world and has abundant resources. The phenomenon of intellectual capital began to develop in Indonesia after the Statement of Financial Accounting Standards (PSAK) No. 19 concerning intangible assets (IAI, 2017). Besides Indonesia, Thailand is also one of the developing countries located in the Southeast Asian region. Thai Accounting Standards (TAS) No. 51 regulates intangible assets in general, so intellectual capital is only regulated implicitly. TAS No. 51 refers to the International Accounting Standards (IAS) and No. 38 regarding intangible assets. Thailand Accounting Standard issued by Federation of Accounting Profession (FAP).

Indonesia and Thailand are both in the Southeast Asia region. Observed from the legal system adopted, Indonesia adheres to the civil law system. Civil law is a legal system originating in Europe, intellectualized within the framework of Roman law, the main feature of which is that its core principles are codified into a referable system which serves as the primary source of law. While, the legal system in Thailand is civil law system but have been influenced by common law system. Common law system is the system of jurisprudence that is based on the doctrine of judicial precedent, the principle under which the lower courts must follow the decisions of the higher courts, rather than on statutory laws.

This research examines the effect of corporate governance mechanisms towards intellectual capital disclosure. Corporate governance mechanism variables used by researchers are board independence, board size, board gender, audit committee, and foreign ownership. The first corporate governance mechanism is board independence. The task of the board independence is to monitor and to manage behavior of executive directors. A recent study by Muttakin *et al.*, (2015) also finds that board independence is positively associated with the extent of ICD. It is because the existence of board independence makes corporate governance mechanisms stronger.

The second corporate governance mechanism is board size. Board size is a number of members that exist in the board of directors of the organization. Arifah (2012) obtains evidence that the board size does not affect intellectual capital disclosure. These results indicate that the greater number of members of the board of commissioners does not guarantee that supervision will run effectively, which is indicated by the increasing extent of disclosure. Different from the research of Baldini and Liberatore (2016), he proves that the number of board members will be greater and also makes greater disclosures due to a large number of pressures from the management. The results of Uzliawati (2015) also find positive results between board size and ICD.

The third corporate governance mechanism is board gender (percentage of female director). The presence of women on the board of

directors can make changes to the board of directors. The collaborative female leadership style will bring benefits because it can listen to innovations and complaints from employees, social support, and a win-win solution strategy. In the board of directors, women usually carry out analysis more often so that they can lead to better performance, which will encourage information disclosure in intellectual capital disclosure (Wahyuni and Rasmini, 2016). After reaching the point of success, female directors will be careful in making decisions and will limit the disclosure of information that is important to suppress or to prevent corporate loss. The research conducted by Tejedo *et al.*, (2017) shows that female directors can influence intellectual capital disclosure.

The fourth corporate governance mechanism is audit committee. An audit committee is an effective corporate governance mechanism. The audit committee has responsibility to the board of commissioners in helping carry out the task of the board of commissioners. Based on the legal framework in Indonesia, public companies are required to have audit committees. According to Arifah (2012), the positive influence between audit committee and intellectual capital disclosure can occur because the audit committee has a large responsibility in overseeing the practice of intellectual capital disclosure. Muttakin *et al.*, (2015) also finds that there is a positive influence between the audit committee and intellectual capital disclosure. The differences found in several previous studies are related to the influence of the corporate governance mechanism making it interesting to be tested again.

The fifth corporate governance mechanism is foreign ownership. Foreign ownership in a company can also be effective monitor for managers in emerging markets, because foreign ownership demands high corporate governance standards. However, foreign ownership also raises the problem of information asymmetry more frequently (Aisyah, 2014). Information asymmetry occurs because of geographical and language barriers. It is also because the standard used in each country is different. To reduce this problem, companies with high foreign ownership will be encouraged to disclose their information more broadly and in detail, including information about capital intellectual.

The main focus in this research is to look at the effect of corporate governance mechanism towards intellectual capital disclosure and the impact on firm value. Previous research only examined intellectual capital disclosures and corporate governance. On mechanism corporate governance, researcher adds board gender and board size variables towards intellectual capital disclosure. Moreover, this study also adds intellectual capital disclosure and two control variables, namely profitability and firm size that have an impact on firm value. The sample used in previous studies was a company in Bangladesh. Meanwhile, this research uses a sample of high intellectual capital intensive company.

This research replicates previous research and develops research models from Muttakin *et al.*, (2015), Aida and Rahmawati (2015), Baldini

and Liberatore (2016), and Tejedo *et al.*, (2017). Furthermore, this research tries to combine them with the title of "The Influence of Corporate Governance Mechanism towards Intellectual Capital Disclosure and The Impact on Firm Value" (Empirical Study on High Intellectual Capital Intensive Company listed in the Indonesia Stock Exchange and Stock Exchange of Thailand Year 2018).

B. Research Scope

The limitation of the problem in this research is to focus on the influence of corporate governance mechanism, including: board independence, board size, board gender, audit committee, and foreign ownership towards intellectual capital disclosure. In addition, researcher also measures the influence of intellectual capital disclosure towards firm value. The empirical study of this research is high intellectual capital intensive company listed in the Indonesia Stock Exchange and Stock Exchange of Thailand Year 2018.

C. Research Questions

1. Does the board independence have positive and significant effect towards intellectual capital disclosure in Indonesia and Thailand?
2. Does the board size have positive and significant effect towards intellectual capital disclosure in Indonesia and Thailand?

3. Does the board gender (female percentage of director) have positive and significant effect towards intellectual capital disclosure in Indonesia and Thailand?
4. Does the audit committee have positive and significant effect towards intellectual capital disclosure in Indonesia and Thailand?
5. Does the foreign ownership have positive and significant effect towards intellectual capital disclosure in Indonesia and Thailand?
6. Does the intellectual capital disclosure have positive and significant effect towards firm value in Indonesia and Thailand?

D. Objectives of the Study

The objectives of the study are as follows:

1. To examine whether board independence have positive and significant effect towards intellectual capital disclosure in Indonesia and Thailand.
2. To examine whether board size have positive and significant effect towards intellectual capital disclosure in Indonesia and Thailand.
3. To examine whether board gender have positive and significant effect towards intellectual capital disclosure in Indonesia and Thailand.
4. To examine whether audit committee have positive and significant effect towards intellectual capital disclosure in Indonesia and Thailand.
5. To examine whether foreign ownership have positive and significant effect towards intellectual capital disclosure in Indonesia and Thailand.

6. To examine whether intellectual capital disclosure have positive and significant effect towards firm value in Indonesia and Thailand.

E. Significance of the Study

1. Theoretically

This research is expected to provide benefits in developing knowledge and insight into the influence of corporate governance mechanisms towards intellectual capital disclosure and the impact on firm value. This research can contribute to science and can be a reference in future research.

2. Practically

This study is expected to provide benefits for companies to know the intellectual capital disclosure presented in the financial statement in the company. So, it can increase the firm value. Moreover, the users of financial statements can consider factors to predict compliance companies in providing voluntary disclosures.

3. Decision Making

This research is expected to be a consideration for companies to disclose information about intellectual capital. So, it can provide information for decision-making reference materials and can suppress asymmetry in terms of information.