

**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)

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Abstract: This study aims to examine the influence of corporate governance mechanism towards intellectual capital disclosure and the impact on firm value. The sample used in this study is high intellectual capital intensive company listed in the Indonesia Stock Exchange and Stock Exchange of Thailand. The independent variables in this research are board independence, board size, board gender, audit committee, foreign ownership, and intellectual capital disclosure. The dependent variables in this research are intellectual capital disclosure and firm value. The sampling technique used in this study is purposive sampling. The study use top high IC intensive companies in Indonesia and Thailand. This research found that board size have positive and significant effect towards intellectual capital disclosure in Indonesia and Thailand. Foreign ownership have positive and significant effect towards intellectual capital disclosure in Thailand. Intellectual capital disclosure have positive and significant effect towards firm value in Indonesia and Thailand.

Keywords : board independence, board size, board gender, audit committee, foreign ownership, intellectual capital disclosure, and firm value.

INTRODUCTION

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 it. 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.

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 that do not 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.

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.

Agency Theory

One form of voluntary disclosure that can be done is intellectual capital disclosure. In this disclosure, the principal can better understand the actual condition of the company. In addition, company with high agency costs will be more stringent in monitoring their governance mechanism and provide more voluntary information in its attempt to reduce the cost Jensen and Meckling (1976) Fama and Jensen (1983). Corporate governance mechanisms can supervise companies so they can act according to the principal's wishes when making information on intellectual capital. Companies can suppress fraud so that transparency and accountability can be created.

Signalling Theory

Spence (1973) states that in a market there is always asymmetric information. Furthermore, Spence makes a signal criterion to be able to strengthen decision making. Signal theory shows that every organization will try to give a positive signal. Company will disclose

information that attracts stakeholder intention and gives positive signal for the company (Suwardjono, 2014).

Stakeholder Theory

According to this theory, management in the company will consider the interests of stakeholders in managing the company. This happens because management strives to do its best in its performance to achieve the success of its business and minimize losses that will be borne by interested stakeholders in the company. Not only doing good performance, but conveying the result is also needed by stakeholder performance to make a broader disclosures. So, in addition to disclosures in financial statements, it is also necessary to make disclosures on intangible assets, namely intellectual capital.

Feminist Ethical Theory

Wicks *et al.*, (1994) convey that feminist ethical theory emphasizes relationships (socialist) in carrying out a task. The presence of board gender will provide a better work atmosphere. the presence of a woman is able to make a significant contribution to the company's performance. Board gender are said to be more participatory, more organized, more diligent, more critical, and can create a better working atmosphere (Huse and Solberg, 2006). Women carry out analysis more often so they can lead to better performance, which will encourage information disclosure in intellectual capital disclosure. The presence of board gender also indicates increasing diversity in the perspectives of board members so that it will influence corporate decision making (Rao *et al.*, 2012).

The Influence of Board Independence towards Intellectual Capital Disclosure

The board independence is the total of independent director that exist in the company (Haniffa and Cooke, 2005). Independent directors have an important role in monitoring and controlling opportunistic behavior of the executive director (Jensen and Meckling, 1976). The

mechanism of corporate governance can be strengthened by the presence of independent directors on the board.

According to Fama and Jensen (1983), argue that by monitoring and controlling the management, the board of directors can reduce agency conflicts between managers and owners. According to Hidalgo *et al.*, (2011), board independence has no effect on disclosure of intellectual capital. Cerbioni and Parbonetti (2007) obtain evidence that there is a positive relationship between independence and the extent of ICD. Recent study by Muttakin *et al.*, (2015) and Ishak and Ebel (2018) also finds that board independence is positively associated with the extent of ICD. It is because corporate governance mechanisms can be strengthened by the presence of independent boards. According to agency theory, board independence can reduce agency conflict by disclose more information.

Based on the above previous research, the existence of board independence is important. With board independence, intellectual capital disclosure is also increasing. Based on the description above, the hypotheses can be formulated as follows:

H_{1a}: Board independence has positive and significant effect towards intellectual capital disclosure in Indonesia.

H_{1b}: Board independence has positive and significant effect towards intellectual capital disclosure in Thailand.

The Influence of Board Size towards Intellectual Capital Disclosure

In a country or region, the size of the board size in a company has an impact on the performance produced. The first impact is that problems arise in terms of communication and coordination caused by the number of board of commissioners. Then, the second impact is the emergence of agency problems and the reduced ability of the board of commissioners to

oversee management (Cerbioni and Parbonetti, 2007). This is different from the research conducted by (Sembiring, 2005) and (Abeysekera, 2008). Their results prove that a large size of the board size will have an impact on greater disclosure.

This happens because the larger the board size is, the more control is exercised on management. Based on agency theory, the high pressure provided by the board size will make management present as detailed information as possible, including regarding ICD, especially the company's competitive strategy. Therefore, it can overcome the possibility of management fraud in reporting accountability and accountability related to the activities of the ICD that exist in the company and also expected to protect the interests of companies and stakeholders.

Research on board size towards ICD has been carried out by (Cerbioni and Parbonetti, 2007). It show that no influence between board size and ICD. Whereas, the research conducted by (Sembiring, 2005), (Abeysekera, 2008), and (Baldini and Liberatore, 2016) find the results of a positive influence between the board and ICD. Based on the description above, the hypotheses can be formulated as follows:

H_{2a}: Board size has positive and significant effect towards intellectual capital disclosure in Indonesia.

H_{2b}: Board size has positive and significant effect towards intellectual capital disclosure in Thailand.

The Influence of Board Gender (percentage of female director) towards Intellectual Capital Disclosure

Women's presence on the board of directors can make changes to the board of directors. Their presence of women on the board of directors will provide a separate pattern for the

composition of the board and provide more successful results than the composition of a homogeneous board of directors. 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.

On 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 and commissioners will be careful in making decisions and will limit the disclosure of information that is important to suppress or prevent corporate losses. Research conducted by Tejedo *et al.*, (2017) shows that female directors can influence intellectual capital.

In feminism theory, the presence of board gender will provide a better work atmosphere. Woman is able to make a significant contribution to the company's performance. Board gender are said to be more participatory, more organized, more diligent, more critical, and can create a better working atmosphere (Huse and Solberg 2006; Adams and Ferreira 2004). Based on the description above, the hypotheses can be formulated as follows:

H_{3a}: Board gender (percentage of female director) has positive and significant effect towards intellectual capital disclosure in Indonesia.

H_{3b}: Board gender (percentage of female director) has positive and significant effect towards intellectual capital disclosure in Thailand.

The Influence of Audit Committee towards Intellectual Capital Disclosure

The audit committee assists board independence in carrying out supervisory duties and reviews financial information issued by the company such as financial statements, projections, and other financial information. The audit committee serves as a management

control tool to prevent fraudulent actions such as presenting inaccurate and relevant information and as a means of controlling corporate governance mechanisms that have the power to increase disclosures related to company value. This is in accordance with stakeholder theory, related to the task of the audit committee that has responsibility to stakeholders to minimize the losses that will be borne by stakeholders. Managers will try to perform well, so that they can minimize losses and will also reveal wider intellectual capital for the interests of stakeholders.

The audit committee is authorized to access records or information about employees, funds, assets, and other resources related to the implementation of their duties. The audit committee in this case will have greater responsibility in overseeing the practice of intellectual capital disclosure. The audit committee will produce extensive and quality disclosure of intellectual capital information.

Li *et al.*, (2012) find a positive relationship between audit committee and the extent of ICD. According to Felo *et al.*, (2003), the positive influence of audit committees on 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) study also finds a positive relationship between audit committee and ICD. Based on the description above, the hypotheses can be formulated as follows:

H_{4a}: Audit committee has positive and significant effect towards intellectual capital disclosure in Indonesia.

H_{4b}: Audit committee has positive and significant effect towards intellectual capital disclosure in Thailand.

The Influence of Foreign Ownership towards Intellectual Capital Disclosure

Foreign ownership in a company can also be effective monitors for managers in emerging markets because foreign ownership demands high corporate governance standards (Putri, 2011). Moreover, foreign ownership also raises more frequent information asymmetry problems (Aisyah, 2014). Information asymmetry occurs because of geographical and language barriers. The standard used in each country is different. To reduce this problem, a company with high foreign ownership will be encouraged to disclose its information. So, foreign ownership will make management present as detailed information as possible. Based on signaling theory, company will give positive signal to the stakeholder to invest their money in the company. That is why the company will disclose complete information related with intellectual capital disclosure.

Previous study finds that foreign ownership influences the ICD due to language barriers, lack of local contextual knowledge, and geographical aspect (Haniffa and Cooke, 2005). Foreign investors will require a higher disclosure from company. According to Utama and Khafid, (2015) finds that foreign ownership does not influence the ICD. On the other hand, according to Aisyah, (2014) and Muttakin *et al.*, (2015), there is a positive association between foreign ownership and ICD because foreign ownership will demand a higher extent of disclosures from a company. So, foreign ownership will influence the corporate disclosure practices, including ICD. Based on the description above, the hypotheses can be formulated as follows:

H_{5a}: Foreign ownership has positive and significant effect towards intellectual capital disclosure in Indonesia.

H_{5b}: Foreign ownership has positive and significant effect towards intellectual capital disclosure in Thailand.

The Influence of Intellectual Capital Disclosure towards Firm Value

Firm value can be created and improved by providing various information in the form of detailed and comprehensive annual reports. Reports can provide information in the form of company resources and one of which is intellectual capital. In connection with signaling theory, a company conducts intellectual capital disclosure in the hope that it can send signals of good news to external companies.

This shows that the company today is investing in intellectual capital which is expected to provide economic benefits for it in the future so that it ultimately increases its value of the company (Aida and Rahmawati, 2015). Research on ICD on firm value has been carried out by Orens *et al.*, (2009), Jihene and Robert, (2013), and Aida and Rahmawati, (2015). The results of the study find that there is a positive influence of ICD on firm value. Based on the description above, the hypothesis can be formulated as follows:

H_{6a} : Intellectual capital disclosure has positive and significant effect towards firm value in Indonesia.

H_{6b} : Intellectual capital disclosure has positive and significant effect towards firm value in Thailand.

RESEARCH METHOD

Sampling Technique

The sampling method used was purposive sampling, which was the selection of samples using consideration and certain criteria determined by the researcher.

The company's sampling technique in the study was conducted based on the following criteria:

- a. Companies that had a financial year ending in December 31 and published a complete annual report for 2018.

- b. Companies that had complete data related to research variable.

Data Collection Technique

Data were collected using secondary data search through documentation method. Documentation was done using documentary data sources such as financial reports and annual reports during the observation period in the study.

Variables Measurement

Dependent variable in this study is the level of intellectual capital disclosure in annual reports stated by Intellectual Capital Disclosure Index. This study used an index disclosure of 60 items developed by Meca and Martinez (2007). The percentage of the disclosure index is as a total calculation according to the formula as follows:

$$\text{Score} = (\sum di/M) \times 100\%$$

Index:

Score = dependent variable intellectual capital disclosure index (ICD Index)

di = given with number 1 if it is disclosed in a report, and given with number 0 if it is not expressed in annual report

M = total number of items measured (60 items).

Firm value is the value of an entity that is considered important by certain parties. This value is a reflection of all company activities. Investors prefer when the company's value gets higher. The firm value in this study is measured using ratio price to book value (Rahayu and Sari, 2018). The formula to measure PBV is:

$$\mathbf{FVA = PBV = \frac{\text{Share price per share}}{\text{Book value per share}}}$$

The board independence is proportion of independent directors to the total number of directors (Haniffa and Cooke, 2002). The board independence is measured by the ratio of the total number of independent directors divided the total number of directors.

Board size is the number of members that exist on the organization's board of directors. Board size in the companies is proxied by the total number of members of the board of directors (Baldini and Liberatore, 2016).

Board Gender (percentage of female director) used a proxy with the percentage of the total female directors over total directors in the company (Tejedo *et al.*, 2017).

Audit committee in this research was proxied by the number of members of the audit committee owned by the company (Haji, 2015).

Foreign ownership is the number of shares owned by foreign parties which can mean individuals or institutions to the company's shares in Indonesia. Foreign ownership in this research was proxied by percentage of shares owned by the foreign investors (Muttakin *et al.*, 2015).

Profitability is the company's ability to earn profits. The measurement of profitability in this research is Return on Asset (ROA), which is a ratio that measures the level of profit of a company by showing the rate of return generated by management for the capital invested in the company (Dewi and Sudiarta, 2017). The formula to measure profitability is:

$$\mathbf{ROA = \frac{\text{Net Profit}}{\text{Total Assets}}}$$

Firm size is a description of the company that shows the success of the company which can be reflected in the total assets of the company (Dewi and Sudiartha, 2017). The formula to measure firm size is:

$$\text{SIZE} = \text{Ln (total asset)}$$

DATA ANALYSIS

The method of data analysis is a technique or procedure to test the research hypothesis. This method uses the tests namely descriptive statistical analysis, the classic assumption test, and hypothesis testing.

In the research model 1, multiple regression can be formulated as follows:

$$\text{ICD} = \alpha_0 + \alpha_1 \text{ BIND} + \alpha_2 \text{ BSIZE} + \alpha_3 \text{ BGEN} + \alpha_4 \text{ ACOMM} + \alpha_5 \text{ FOWN} + e$$

Index:

ICD = Intellectual Capital Disclosure

α_0 = Constant

$\alpha_1 \alpha_2 \alpha_3 \alpha_4 \alpha_5$ = Regression Coefficient

BIND = Board Independence

BSIZE = Board Size

BGEN = Board Gender

ACCOM = Audit Committee

FOWN = Foreign Ownership

e = Error

The second regression model used was simple regression analysis. The second model was to examine the effect of ICD levels on firm value. The equation model used is:

$$\mathbf{FVA} = \alpha_0 + \alpha_1\mathbf{ICD} + \alpha_2\mathbf{PROF} + \alpha_3\mathbf{FSIZE} + \mathbf{e}$$

Index:

FVA = Firm Value

α_0 = Constant

$\alpha_1 \alpha_2 \alpha_3$ = Regression Coefficient

PROF = Profitability

FSIZE = Firm Size

RESULTS AND ANALYSIS

The sample used is high intellectual capital (IC) intensive companies which is listed on Indonesia Stock Exchange (IDX) and Stock Exchange of Thailand (SET). High IC intensive are groups that are able to utilize their intellectual assets well so as to create a competitive advantage of the company and to improve company performance. The data used in this research are secondary data, namely the annual report of high intellectual capital intensive companies listed on the Indonesia Stock Exchange. The samples consist of 40 companies in Indonesia and 52 companies in Thailand. The results of descriptive statistics test can be seen in Table 1 for Indonesian data and Table 2 for Thailand data. In this research the data is fulfill all the requirements of classical assumption test. For hypothesis one until six is use T-test.

Board independence in Indonesia and Thailand companies has no effect towards Intellectual Capital Disclosure (ICD). The results from previous studies also prove that there is no influence between board independence and ICD (Hidalgo *et al.*, 2011). It can happen because "independent" directors are not truly independent and often fail to make disclosures. Research conducted by Ilhamdi and Arianti (2017) also proves that there is no influence between board independence and ICD. This can happen because board independence is not

run effective in High IC companies. Low proficiency of board independence can result in ICD items not being widely revealed.

Board size in Indonesia and Thailand companies positively significant effect towards Intellectual Capital Disclosure (ICD). The research conducted by Sembiring (2005), Abeysekera (2008), and Baldini and Liberatore (2016) find a positive influence between board size and ICD. Board size in a company has an impact on the performance. This happen because the larger of board size, the more control is exercised in management. In addition, the high pressure provided by the board size will make management present as detailed information as possible.

Board gender in Indonesia and Thailand companies has no effect towards Intellectual Capital Disclosure (ICD). The presence of women has no effect in the company because women are less likely to risk than men. So, women have a lower percentage in some positions than men (Charness and Gneezy, 2005). The number of board gender that are minorities will be defeated by a greater number or majority. The small number of board gender will get difficulties when dealing with the majority. The research conducted by Swartz (2005) also finds that there is no influence between board gender and ICD.

Audit committee in Indonesia and Thailand companies has no effect towards Intellectual Capital Disclosure (ICD). The large number of audit committee has no impact on greater disclosure. This happens because the existence of the audit committee in the company has not been able to carry out the task of overseeing the disclosure practices related to ICD. So the large number of audit committees does not ensure that the company has made disclosures in accordance with existing rules. In addition, the dual position can make the resulting performance less than the maximum. The results of this research are consistent with

the results of previous research conducted by Li *et al.*, (2012) which prove that the number of audit committee has no effect on ICD.

Foreign Ownership in Indonesia shows that there is no influence between foreign ownership and ICD. The amount of foreign ownership in a company is not guarantee that a company does ICD broader. This is because the majority of the companies used as the sample in this research its shares are owned by foreign parties. So, the number of ICD carried out by companies with foreign ownership do not have influence towards ICD. Moreover, company management in Indonesia do not have an effort to do a broader IC. They only rely on luck and cooperation that has been braided before. Previous study by Utama and Khafid (2015) also finds that there is no influence between foreign ownership and ICD.

However, high IC company in Thailand show that there is positive influence between foreign ownership and ICD. Foreign ownership also can raises more frequent asymmetry information problems (Aisyah, 2014). Asymmetry information occurs because of geographical and language barriers. The standard used in each country is different. To reduce this problem, companies with high foreign ownership will be encouraged to disclose their information. So, foreign ownership will make management present as detailed information as possible. The company management in Thailand also have an effort to do a broader IC to attract stakeholder to invest the money in the company. Previous study finds that foreign ownership influences the ICD due to language barriers, lack of local contextual knowledge, and geographical (Haniffa and Cooke, 2005). According to Aisyah (2014) and Muttakin *et al.*, (2015) have positive association between foreign ownership and ICD because foreign ownership will demand a higher extent of disclosures from companies.

Intellectual Capital Disclosure in Indonesia and in Thailand, shows that ICD has a positive significant effect on firm value. This means that the greater the ICD carried out, the

greater the value of the company. With the disclosure of intellectual capital, investors will find out the company superiority.

Moreover, this voluntary disclosure will give a good signal and can attract potential investors to contribute to the company. Then the ICD will also give a positive signal to the stakeholders relating to firm value (Aida and Rahmawati, 2015). This result shows the influence of Intellectual Capital Disclosure towards firm value based on signal theory. The results of this research are in line with research conducted by Aida and Rahmawati, (2015) which states that ICD has a positive effect on firm value.

Profitability has no effect towards firm value in Indonesia. The results from the previous research Nofrita (2013) also show the same result. This can happen because companies that have high profitability will provide dividends in small amounts to stakeholders. However, companies that have low profitability tend to provide large amounts of dividends to stakeholders. It is because to protect the company reputation and attract stakeholders.

However, profitability has a positive significant effect towards firm value in Thailand. High profitability tends to be sought by investors. Because high profits reflect the company's ability to make a profit. This profit attracts investors to invest in the company. This resulting stock demand level improves followed by share price. High stock prices increase the firm value. The results of this research are also in line with research conducted by Dewi and Sudiarta (2017) which states that profitability has a significant positive effect on firm value. There is no influence between firm size and firm value in Indonesia and Thailand. The results of this research are consistent with research conducted by Stacia and Juniarti (2013) and Suffah and Ridwan (2016). The large size of the company will make operational costs such as salary costs, machine costs, and asset maintenance costs greater. This will cause the company

to be inefficient in carrying out operations. Companies have a tendency to reduce profitability. Stakeholders will see a negative effect on the company performance. In addition, firm size is in line with its business risks. The greater the size of the company, the greater the business risk.

CONCLUSIONS, SUGGESTIONS AND LIMITATIONS

Board size have positive and significant effect towards ICD in Indonesia and Thailand. The high pressure provided by the board size will make management present as detailed information as possible, including ICD. Foreign Ownership have positive and significant effect towards ICD in Thailand. Asymmetry information occurs because of geographical and language barriers. The standard used in each country is different. To reduce this problem, companies with high foreign ownership will be encouraged to disclose their information. ICD have positive and significant effect towards firm value. the greater the ICD carried out, the greater the value of the company. With the disclosure of intellectual capital, investors will find out the company superiority. Profitability have positive and significant effect towards firm value in Thailand. It is because high profits reflect the company's ability to make a profit. This profit attracts investors to invest in the company.

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ATTACHMENT

Table 1 Descriptive Statistics Indonesia

	N	Minimum	Maximum	Mean	Std. Deviation
Board Independence	40	1.00000	2.00000	1.02500	.15811
Board Size	40	3.00000	11.00000	5.92500	2.04297
Board Gender	40	.11000	.75000	.29400	.12653
Audit Committee	40	3.00000	5.00000	3.30000	.60764
Foreign Ownership	40	.01000	.95000	.34850	.28427
Intellectual Capital Disclosure	40	.60000	.88000	.71350	.08310
Profitability	40	-.06000	.26000	.04400	.06842
Firm Size	40	25.42000	34.35000	30.51580	1.96697
Firm Value	40	.12000	5.38000	1.42820	1.17128
Valid N (listwise)	40				

Table 2 Descriptive Statistics Thailand

	N	Minimum	Maximum	Mean	Std. Deviation
Board Independence	52	3.00000	9	4.19000	1.22100
Board Size	52	5.00000	17	10.56000	2.62300
Board Gender	52	.00000	.57	.18770	.11509
Audit Committee	52	3.00000	5.00000	3.13000	.39700
Foreign Ownership	52	.01000	.97000	.30440	.24700
Intellectual Capital Disclosure	52	.42000	.87000	.70480	.10491
Profitability	52	-.06000	.16000	.04680	.04487
Firm Size	52	26.83000	34.88000	29.51270	2.11418
Firm Value	52	.41000	2.95000	1.17560	.55234
Valid N (listwise)	52				