

CHAPTER I

INTRODUCTION

A. Background

Nowadays, traditional system which is emphasis on tangible asset of financial measurements is not adequate for today's businesses. It's because companies around the world have been facing intense competition, globalization and innovation in technology. They realize the ability of companies are not only about machines and infrastructures but more important to develop or create innovation, information and also manage their human resource (Prasetyanto & Chariri, 2013). This condition has effects on the companies in operating their business and decision making to make the companies able to survive. It's forced the companies to shifting towards the management of business. They will changed the traditional business system which is labor-based business into knowledge-based business (Sawarjuwono, 2003).

Traditional system is focused in the labor, whereas more employees owned by companies will raise production, and will increase revenue. Meanwhile, companies which applied knowledge-based business to obtain revenue, focused on the abilities of human resource to create innovation. Generally, intangible assets are more dominate than tangible assets. Moreover, companies which is applies knowledge based business have different view in

value creation. Value creation for companies is when companies produce something that more than the resources invested. When they can operate and utilizing resources to create value-added it is called value creation. The value creation of knowledge based business is based on how management can manage their resources to achieve sustainability of competitive advantage and will have impact in development of companies. In other word, value creation can be used as indicator to measure the successful of business.

Furthermore, traditional system is not able to present intangible assets due to traditional accounting reports do not have enough potential to show the true value established by intangible asset in firm to uncover the gap between market and book value in many of today's companies (Madinios et al., 2011). That gap between market and book value is called intellectual capital. The limitations of financial statements in explaining the hidden value of the company, resulting in financial reporting are often considered inadequate as reporting financial performance, especially for companies that are mostly assets in the form of intangible assets, the absence of this information will be misleading, as it may affect company policy. The greater difference between market value and reported value which cannot be explained by company will make financial statements cannot be the basis for making decisions, investing and credit (Canibano et al., 2000).

Although not explicitly stated as intellectual capital, intellectual capital has received attention. In PSAK No. 19 (revised 2010), intangible assets are non-monetary assets that can be identified and do not have physical form and are owned for use in producing or delivering goods or services, leased to other parties, or for administrative purposes (Indonesian Accountants Association, 2010).

PSAK 19 (revised 2010) states that intangible assets are recognized if and only if (Indonesian Accountants Association, 2010): 1) most likely the company will obtain future economic benefits from the asset, and 2) the cost of acquiring the asset can be measured reliably. This requirement is difficult to fulfill, so until now intellectual capital has not been reported in the company's financial statements. This condition certainly makes it difficult for prospective investors to be able to analyze and evaluate the company's prospects in the future based on the potential of intellectual capital owned.

In the Qur'an, it is stated that we must measure fairly, don't overdo it and don't reduce it. Al Qur'an surah Asy-Syu'ara verses 181-184 is written: Give full measure and be not of those who give short. And weigh with even and balance scales. And do not defraud people of their things. Do not go about acting corruptly, creating disorder in the country. And fear Him Who created you and (who created) the generations before (you). Truth and fairness in measuring it, according to (Chapra, 2000) also concerns the measurement of

wealth, debt, capital income, costs, and corporate profits. Therefore, the financial statements must be prepared correctly, fairly and completely.

The awareness of the importance of information encourages investors to better know the condition of the company not only from the perspective of financial statements but also non-financial reports on the overall condition of the company as outlined in the annual report. Canibano et al. (2000), states that the quality of financial statements can be improved by increasing intellectual capital information. Therefore, disclosure of intellectual capital information in the company's annual report plays a very important role. Intellectual capital is believed to be a driving factor and creator of corporate value (Ulum, 2011).

According to Abidin, 2000 stated companies in Indonesia tend to use conventional based in build their business, so the products they produce are low in technological content. Besides that, those companies haven't given more attention to the builder elements of intellectual capital which consist of human capital, structural capital, and customer capital. Whereas according to Abidin, 2000 stated that companies in Indonesia will be able to compete when using competitive advantages. It is obtained through creative innovations produced by intellectual capital. It will encourage the increase of profitable product creation..

This research is compilation research uses Ferreira et al. (2012) and Shella & Wedari (2016) as main references. Ferreira et al. (2012) examine factors influencing intellectual capital disclosure in Portuguese company. The factors include firm size, ownership concentration, leverage, profitability, type of auditor and level of intellectual capital. The result found there is positive influence between size, and type of auditor. However, ownership concentration leverage, profitability, and level of intellectual capital are not significantly explaining intellectual capital disclosure. Shella & Wedari (2016) do research about intellectual capital and intellectual capital disclosure toward market performance of companies includes LQ-45 in Indonesia. The authors found that intellectual has positive influence toward market performance while intellectual capital disclosure has negative influence toward market performance.

The differentiation this research with prior study, first, this research do to analyze company's characteristic as antecedent of intellectual capital disclosure and intellectual capital disclosure toward market performance as consequences from intellectual capital disclosure. Second, in this study, researchers took the banking sector as a research population. The banking sector was chosen because according to Firer & Williams (2003) the banking industry is one of the most intensive sectors in the management of Intellectual capital. This sector also has a high degree of influence on intellectual capital, this is because the banking sector uses the largest resources in the form of

human capital which is part of intellectual capital. In addition, from the intellectual aspect, overall employees in the banking sector are more homogeneous compared to other economic sectors (Kubo & Saka, 2002). Homogeneity is important to ensure that all employees have a level of knowledge that is not too diverse (heterogeneous), so that the treatment of its human capital becomes more objective. The treatment of human capital in this case is related to salary, training, career opportunity, and so on. Third, the 2018-2019 election was conducted with the hope of selecting the latest year of financial statements so that they could better represent the current state of the company.

The prior research in the other countries regarding intellectual capital also gives some insight. The prior research done by Brügger et al. (2009) which examine the effect of size, type of industry, and information asymmetry between firms and users of financial statements on intellectual capital disclosure. The authors found that industry type plays key roles as determinants for disclosure level of intellectual capital. Furthermore, size of the company becomes another determinant factor for company in intellectual capital disclosure. In addition, empirical evidence show that the level of information asymmetry is not related to the level of intellectual capital disclosure. Whereas in the research of Li et al. (2008) found board composition, ownership structure, audit committee size and frequency of audit committee meetings are

associated with the intellectual capital disclosure. Ousama et al. (2012) examines the determinants of intellectual capital disclosure in the annual reports of Malaysian listed companies. The paper found that firm size, profitability, industry type are determinants of intellectual capital disclosure. Furthermore, Taliyang et al. (2011) considers a 150 companies listed in Bursa Malaysia on 2009. Determining factors are age, size, director ownership and growth. The results support the findings Li et al. (2008) and Ousama et al. (2012) who finds that size and ownership are significant in explaining intellectual capital disclosure.

Septiani (2013) examine board size, board independence, board diversity, size, age, leverage, underwriter, auditor and offering stock. of company that does IPO in Indonesia Stock Exchange 2008-2011. The result show size and auditor's reputation are significantly positive. Whereas, independent commissioners, distribution of board members, company size, company age, leverage, underwriter reputation and offer size did not influence intellectual capital disclosure on the IPO prospectus. These result support research of Woodcock & Whiting (2009), they stated that companies that operate in high technology-based or knowledge-intensive industries, and companies with large big four auditing firms show more extensive intellectual capital disclosure than those in other industries and without big four auditors. A company's ownership concentration, leverage level and listing age did not

influence the occurrence of intellectual capital disclosure. While, Andika & Laksito (2015) investigate banking companies listed on the Indonesia Stock Exchange 2012 – 2013 found that age, size, and concentration of ownership have significant relationship toward intellectual capital disclosure, while leverage and profitability, growth, type of auditors are not significant in influencing intellectual capital disclosure.

From the discussion above it shows that the results of research on intellectual capital disclosure are still diverse and there are contradictions. Based on this background, the purpose of this study is to analyze company's characteristic as antecedent of intellectual capital disclosure, influence intellectual capital and intellectual capital disclosure toward market performance as consequences from intellectual capital disclosure. Thus, the writer will conduct a study with the title “Analysis of Factors Affecting the Intellectual Capital Disclosure and Its Consequences”.

B. Research Question

Based on problem identification, the writer formulates the problem as follows:

1. Does the factor of the company affect the utilization of intellectual capital?
2. Does intellectual capital affect intellectual capital disclosure?
3. Does disclosure of intellectual capital affect market performance?

C. Objectives of the Study

The objectives of this study are to investigate empirically the effect of company characteristics on Intellectual Capital Disclosure and its effect on market performance. This specifically includes:

1. The effect size of company toward intellectual capital disclosure
2. The effect ownership concentration toward intellectual capital disclosure
3. The effect leverage toward intellectual capital disclosure
4. The effect profitability toward intellectual capital disclosure
5. The effect type of auditor toward intellectual capital disclosure
6. The effect level of intellectual capital toward intellectual capital disclosure
7. The effect intellectual capital toward intellectual capital disclosure
8. The effect intellectual capital disclosure toward market performance

D. Significance of the Study

1. Theoretically
 - a. This study is expected to provide empirical evidence of factors affecting intellectual capital and intellectual capital disclosure affecting market performance.
 - b. This study is expected gives additional reference and provides more knowledge about the intellectual capital disclosure in the banking sector in Indonesia.

- c. This study is expected gives additional knowledge, insight, and understanding of researchers regarding intellectual capital.
- d. This study is expected to be used as a comparison with previous research and is also used as a reference for future researchers.

2. Practically

- a. This research is expected to help management in making decisions regarding the intellectual capital disclosure and provide an overview of its consequences through market performance.
- b. This research is expected to help investors, this research can be a reference in decision making by looking at existing antecedents and providing an overview of the consequences of intellectual capital disclosure through market performance.
- c. This research is expected to help debtors as one of the considerations or reference material for creditors in making loan decisions.
- d. This research is expected to provide information and contribute for academic parties to the development of science, especially research related to financial accounting.

