Chapter 1

INTRODUCTION

1.1 Background

The impact of globalization and the growth of information and communication technology are driving the emergence of a new economy known as the knowledge-based economy. According to Sariningsih (2019), in order to compete globally, a company must have a comprehensive strategy and this necessarily requires wider disclosure of information and data by companies. This is because, in an era where corporate management paradigms are shifting to a knowledge-based economy, the main key to the company is knowledge-based assets, known as intellectual capital rather than physical assets (Sudibyo & Basuki, 2017). As a result, it is important for businesses to consider not only the disclosure of financial information but also non-financial information.

The disclosure of non-financial information will increase the company's value. Stakeholders can use non-financial information to make decisions. According to Khafid and Alifia (2018), intellectual capital is an intangible assets. Therefore, non-financial information disclosure includes intellectual capital disclosure. Intellectual capital information can be used to help lower asymmetry of information while also generating benefits to the company, such as lower cost of equity, lower debt levels, a positive perception, increased investor loyalty, and increased financial statement appropriateness (Bruggen et al., 2009).

In fact, stakeholders are concerned about the disclosure of intellectual capital. Companies must publish information regarding their intellectual capital since the capital market's demand for information transparency is increasing. Investor confidence in a company can be boosted through IC disclosure, which can lead to more money being invested in the company. The disclosure of intellectual capital, as according to Solikhah et al. (2020), is a favorable signal regarding the company's competence. The higher the public disclosure, the higher the company's investor appraisal. As a result, intellectual capital has become a valuable resource for the company's future (Bontis, et al., 2015).

Information about intellectual capital can be communicated by company management through disclosure. Disclosure refers to a company's attempt to be transparent in delivering information towards its stakeholders, both financial and non-financial. Stakeholders can utilize information on intellectual capital disclosure to make decisions. There are different kinds of disclosure: mandatory disclosure and voluntary disclosure. Since companies are not forced to disclose their intellectual capital, intellectual capital disclosure belongs to the category of voluntary disclosure. According to Nguyen and Nguyen (2020b), the expectation of investors for information disclosure is continuing to increase, not only in mandatory disclosure but also in voluntary information disclosure.

Although not explicitly, PSAK No. 19 (revised 2010) regarding intangible assets began to raise the phenomenon of intellectual capital in Indonesia. However, this is still not in line with the Indonesian practice of disclosing information on a company's intellectual capital. This is possible due to Indonesia's lack of use of information technology in business development (Astuti and Wirama, 2016).

Bozzolan et al., (2003) provided an explanatory theory and investigated the elements that influence Intellectual Capital, such as firm size, leverage, profitability or financial performance, auditor type, company age, and corporate governance. However, because of the many inconsistencies in the results of prior study, this study aims to investigate using the factors of company size, leverage, profitability, auditor type, and industry type. Therefore, the authors of this study aim to see and re-examine what factors influence the amount of intellectual capital disclosed in annual reports.

Several earlier studies have examined into several factors that influence the disclosure of intellectual capital, but the conclusions are still contradictory. Firm size is a determinant of intellectual capital disclosure, according to Oliveira, Rodrigues, and Craig (2006), Bruggen et al. (2009), Ousama et al. (2012), Rahman et al. (2019), Fauziah and Murharsito (2021). Larger companies (SIZE) report higher levels of IC. Meanwhile, the findings of this study are inversely proportionate against those of Priyanti and Wahyudin

(2015), who found that it has no substantial impact on intellectual capital disclosure.

Moving on to the determinant of profitability, Ousama et al. (2012) and Utama & Khafid (2015) all found that profitability had a favorable impact on ICD. Profitability has a negative effect on ICD, according to Novrian et al. (2020). Meanwhile, evidence has been established by Leonard & Trisnawati (2015), Asfahani (2017), Isnalita & Romadhon (2018) that profitability has no effect on ICD.

Likewise, the findings of study on the determinants of leverage. Leverage has a favorable influence on ICD, according to studies by Priyanti and Wahyudin (2015), Utama & Khafid (2015), Zuliyati & Wahyuningrum (2018), Rahman et al. (2019), and Barokah & Fachrurrozie (2019). Despite Whiting & Woodcock (2011) and Ousama et al. (2012), Isnalita & Romadhon (2018) found no statistically significant influence on ICD.

Oliveira, Rodrigues, and Craig (2006), Bruggen et al. (2009), Woodcock and Whitting (2009) and Fereira et al (2012) all found that the type of auditor tends to affect intellectual capital disclosure. However, contradicting to Rahim et al. (2011) and Ousama et al. (2012), Susanto et al., (2019)'s findings that found the type of audit firm has no significant impact on ICD.

Oliveira, Rodrigues, and Craig (2006), Bruggen et al. (2009), Woodcock and Whitting (2009), Ousama et al. (2012), and Isnalita & Romadhon (2018) all found that the type of industry influences intellectual capital disclosure. Meanwhile in Yi et al (2011), industry type was not a significant factor of Intellectual capital disclosure.

Agency theory, signal theory, and legitimacy theory are all used in this study. The agency relationship between agents and principals is explained by agency theory (Jensen & Meckling, 1976). According to the signaling theory, organizations that perform well would publish their information in order to provide favorable signals to the market (Spence, 1973). Stakeholder theory asserts that the objective of forming a company is to benefit multiple parties, such as stakeholders, rather than just the company on its own. The company has a responsibility to all stakeholders, not even just shareholders. On the other side, legitimacy theory is founded on the concept of a social contract between a firm and its society. Companies will voluntarily provide certain information (such as social, environmental, IC) to satisfy the public that their activities are legally, permitted, and also have made a significant contribution to the welfare of the community in regularly to secure that their functions and processes are regarded legitimate (Ousama et.al 2012).

In this study, companies that are listed on the main board of the Indonesia Stock Exchange in 2020 are being used. The researcher chose the object of this study because one of the independent variables in this study was the industry type variable, hence the researcher needed a population with a diversity of industry types. Furthermore, firms listed on Mainboard have established market prestige and access to the broadest spectrum of institutional and retail investors, therefore companies normally pay more attention to the disclosure of their company information. Importantly, the sample selection is based on a random procedure, which can help to generalize the research findings and ensure that the sample represents the entire population.

Researchers recreated the study of Ousama et al. (2012) with a few adjustments, such as the study's location, sampling procedure, and the year of data and samples collection (research context). The researchers chose 2020 as the sample year because it is the latest year for the disclosure or publication of annual reports by companies, meanwhile for 2021, there are just a few companies which have already issued their annual reports, and this number cannot fulfill the research's minimum sample size requirements.

Intellectual capital disclosure study is hard to undertake over a number of years. As a result, the researcher chose to use one year of data in 2020 because it refers to reference articles from several earlier studies from different countries. For example, the studies conducted in Australia by Whiting and Woodcock (2011), Portugal by Fereira et al. (2012), and Malaysia by Ousama et al (2012). And several studies from Indonesia, including Nugroho, A. (2012), Astuti and Wirama (2016), and Sariningsih (2019), which also used data within a one-year term in their research.

1.2 Formulation of the Problem

Based on the above description, the problem formulation from this research is as follows:

1. How does the size of the company affect the disclosure of intellectual capital of Indonesian listed companies in 2020?
2. How does profitability affect the disclosure of intellectual capital of Indonesian listed companies in 2020?
3. How does leverage affect the disclosure of intellectual capital of Indonesian listed companies in 2020?
4. How does the type of audit firm affect the disclosure of intellectual capital of Indonesian listed companies in 2020?
5. How does industry type affect the disclosure of intellectual capital of Indonesian listed companies in 2020?

1.3 Research Purpose

The following are the objectives of this study based on the formulation of the problem above:

1. To determine whether firm size affects the intellectual capital disclosure of Indonesian listed companies in 2020.

2. To determine whether profitability has an influence on the intellectual capital disclosure of Indonesian listed companies in 2020?
3. To determine whether leverage has an effect on the intellectual capital disclosure of Indonesian listed companies in 2020?
4. To determine whether the type of audit firm has an impact on the intellectual capital disclosure of Indonesian listed firms in 2020.
5. To determine whether the industry type has an impact on the intellectual capital disclosure of Indonesian listed firms in 2020.

1.4 Benefit of Research

Based on the background that has been described, the problems studied, and the research objectives to be achieved, this research can provide the following benefits:

1. The findings of this study can be used to advance science and as a basis for developing policies to disclose more intellectual capital in the company's annual report.
2. Consideration for investors and company management regarding the importance of intellectual capital disclosure for decision making and company value extension. It is also expected to provide information to investors and become a material consideration when making investment decisions for Indonesian listed companies.

1.5 Writing systematical

There are five elements to the systematics in this study. The introduction, problem formulation, research purpose, and benefits of research and research systematics are all explained in the first chapter. The theory, literature study, review of previous research, a conceptual framework for research, and development of hypotheses will be presented in Chapter 2. The design, types, and sources of research data, population and samples, research variables and measurement variables, data processing, and analytic procedures are all covered in chapter three. The research findings and other factors that may influence the findings will be presented in the fourth chapter. The fifth chapter will present the research's conclusions, limitations, and recommendations.