THE INFLUENCE ANALYSIS OF INTANGIBLE ASSET DISCLOSURE (Empirical Study: The Annual Report of Company which Listed in Indonesia Stock Exchange involved in LQ45 for 2010 and 2011)

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The Influence Analysis of Intangible Asset Disclosure (Empirical Study: The Annual Report of Company which Listed in Indonesia Stock Exchange involved in LQ45 for 2010 and 2011)

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ABSTRACT

The purpose of financial reporting is to provide information that is useful for decision making. However, there has been a systematic decline in the usefulness of such information. Indeed, the current reporting model seems to be no longer sufficient mainly due to the fact that it ignores many of the non-financial intangible factors which are increasingly becoming important in determining corporate value and performance. That is, there is a need for the traditional reporting model to be modified or at least broadened to reflect Intangible Assets (IA) in order to enhance the usefulness of information being provided to different stakeholders.

The *purpose of this thesis* is to examine the voluntary disclosure practices of the companies in LQ 45 2010 and 2011 which listed in Indonesia Stock Exchange regarding the variety, nature and extent of IA and to consider some of the factors that may be associated with the level of such disclosure. The findings indicate that companies engage in voluntary disclosure practices in order to disseminate different varieties of mainly quantitative IA information to their global stakeholders. Further, the variety and the extent of IA disclosure are associated with corporate specific factors such as industry type, firm size, leverage, ebitda margin and profitability. Contrary to the existing literature on voluntary disclosure, however, Leverage and Ebitda Margin are not found to be associated with the IA disclosure level.

Keyword: Intangible asset, industry type, firm size, leverage, ebitda margin and profitability

ABSTRAK

Pelaporan keuangan bertujuan untuk memberikan informasi yang berguna untuk pengambilan keputusan. Namun, terdapat penurunan yang sistematis dalam manfaat dari informasi tersebut. Pada dasarnya, model pelaporan saat ini tampaknya tidak lagi cukup terutama karena fakta bahwa hal ini mengabaikan banyak faktor-faktor berwujud/non-keuangan yang menjadi semakin penting dalam menentukan nilai perusahaan dan kinerja. Untuk itu, timbul kebutuhan akan perubahan model pelaporan tradisional atau setidaknya diperluas untuk mencerminkan aset tidak berwujud (IA) agar dapat meningkatkan kegunaan *dari informasi yang diberikan kepada berbagai* pemangku kepentingan. .

Penelitian ini bertujuan untuk memeriksa praktek-praktek sukarela pengungkapan aset tak berwujud pada perusahaan LQ 45 untuk tahun 2010 dan 2011 yang terdaftar di Bursa efek Indonesia mengenai sifat dan tingkat IA serta mempertimbangkan beberapa faktor yang mungkin terkait dengan tingkat pengungkapan tersebut. Temuan menunjukkan bahwa perusahaan terlibat dalam praktik pengungkapan sukarela untuk menyebarkan varietas yang berbeda terutama kuantitatif IA informasi kepada para pemangku kepentingan global. Lebih lanjut, pengungkapan aset tak berwujud yang terkait dengan perusahaan tersebut dengan memperhatikan faktor seperti jenis industri, ukuran perusahaan, leverage, marjin ebitda dan profitabilitas. Dari hasil yang didapat bertentangan dengan literatur yang ada mengenai pengungkapan sukarela, dimana Leverage dan Ebitda Margin tidak ditemukan sebagai faktor yang mempengaruhi pengungkapan Aset tak berwujud.

Kata kunci: Aset tak berwujud, tipe industri, ukuran perusahaan, leverage, Marjin ebitda dan profitabilitas.

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Saya yang bertanda tangan di bawah ini menyatakan bahwa skripsi dengan judul: The Influence Analysis of Intangible Asset Disclosure (Empirical study: The Annual Report of Company which Listed in Indonesia Stock Exchange involved in LQ45 for 2010 and 2011)

Merupakan hasil karya saya sendiri, dan tidak terdapat sebagian atau keseluruhan dari tulisan yang memuat kalimat, ide, gagasan, atau pendapat yang berasal dari sumber lain tanpa memberikan pengakuan pada penulis aslinya. Adapun bagian-bagian yang bersumber dari karya orang lain telah mencantumkan sumbernya sesuai dengan norma, etika dan kaidah penulisan ilmiah. Apabila dikemudian hari ditemukan ***plagiat*** dalam skripsi ini, saya bersedia menerima sanksi pencabutan gelar akademik yang telah saya peroleh.

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CHAPTER I

INTRODUCTION

1.1 Background

Recently, the growth of the service sectors and information technology related to the businesses are dramatic increase in the number and size of international mergers and acquisitions. It makes accounting for intangible asset (IA) is very significant influence in the financial statement. The importance and the necessity of intangible assets in creating and maintaining corporate value have been widely accepted. But traditional financial reporting frameworks unfortunately could not capture many of the value drivers due to the non physical nature of IA and the subsequent uncertainties associated with their future benefits then the difficulties associated with recognizing IA in the financial statements, it has been suggested that corporations should consider any alternative ways for reporting IA.

One of the most popular alternative on intangible asset reporting by is in narrative. Information of IA is to be voluntarily disclosed in narrative sections in the annual reports, beside the financial statements and their notes.

Most of the companies are likely gain some benefit from such voluntary disclosure practices from economics transaction and wishing to raise their operating, investing and financing opportunities in various global markets. It could happen since the lack of clear guidelines regarding IA reporting, despite the recent harmonization of accounting standards, may encourage voluntary disclosure practices. Actually companies are competing in global markets may enhance their profile and reputation by engaging in voluntary disclosure practices in order to inform potential global stakeholders of their IA. While the concept of IA management and reporting practices in developed economies have been examined in the previous literature

The researchers and practitioners consider intangible assets as key factors for company success and important levers for value creation (Montemari, 2010). The role of intangible asset as value and growth creators is accepted among economist, investors and managers (Lev and Daum, 2004). According to Rashid *et al* (2009) it happens as the changing structure of global economy, as following :

> "The shift from industrial age to the information age is changing the structure of global economy, and highlighted the importance of intangibles or intellectual capital. There has been considerable agreement in academic and practical fields that intangible is central to the value creation process in knowledge economy."

Rashid et al., (2009) argued that intangibles would improve the informational relevance of financial statements to users in making the economic decisions. However, traditional (accounting-based) information systems are not able to provide adequate information about corporate intangible assets and its economic impact (Lev and Daum, 2004), and there is lack of appropriate accounting framework for intangibles (Rashid et al., 2009).

Current financial statements only give a limited account of the real economic conditions of a company. It does not provide information about the potential growth and adaptation of a company, nor do they disclose how efficient the company in utilizing its resources, assets and capabilities to generate future revenue and income.

In financial reporting standards developed by standards-making bodies, such as the IAI (Ikatan Akuntan Indonesia) and the IASB (International Accounting Standard Board), the recognition of intangible asset is not able to cover all intangible assets owned by enterprise, intangible asset that can be recognized in the financial statement only intangible asset that qualifies for recognition. Not all of intangible asset categories (such as innovation, human capital, customer loyalty, employee competences) can qualify for recognition in the financial statement. This makes the companies could not explore the disclosure of intangible asset to attract the investors and banks, therefore intangible asset voluntary disclosure is needed, as expressed by Ricardis (2006) in Montemari (2010) as following :

> "Considering that many of intangibles are not recognized in the financial statement, highly innovative companies where intangibles play a significant role but still difficult for attracting the investors and banks. In these cases, voluntary disclosure of intangible assets can help to reduce the uncertainties of investors and banks at the same time, it allows companies to have greater access to funds."

According to Andriessen (2004) in Montemari (2010), companies could have several reasons for disclosing information on its intangible assets.

1. To improve information to stakeholder about the real value and future performance of the enterprise.
2. To reduce the information asymmetry between management, shareholder

and investors.

3. To increase their ability to raise capital and to enhance their corporate reputation and affect the price of their stock.

This present study empirically explores intangible asset disclosure practices in annual report for a sample of industry sectors involved in LQ 45 which listed in Indonesia Stock Exchange for 2010 and 2011.

1.2 Problem Statement.

The literature suggests that there are various reasons for big companies to disclose more information than smaller company. First, the disclosure of detailed information for large companies is relatively cheaper (less costly) because they are already providing such information for internal purposes. Second, the annual report is the main source of information for competitors, smaller companies do not tend to disclose details about their activities that would cause competitive advantage (Widowati 2009). Third, larger companies in general are exposed of detail information just to get a high level of public interests, they cope with this interest by reporting more extensively on their assets (Gerpott et al., 2008).

Then, firm size is the most consistent corporate characteristics which has been found to be associated with the level of voluntary disclosure under all theoretical frameworks on collecting literature. Indeed, the relationship between firm size and voluntary disclosure has been supported in previous studies using various proxies for firm size and different measurement of voluntary disclosure. For example, firm size proxies, including sales revenue and market capitalization.

In leverage perspective, companies with high debt are generally under greater scrutiny by creditors to ensure that they are not violating debt covenants, and consequently, this scrutiny would result in disclosing more comprehensive information on different corporate items, especially those relating to debt covenants (Kang, 2006). According to Oliveira et al (2006), company with high leverage levels tend to lead a high agency costs. Consequently, companies with high levels of leverage tend to disclose more information voluntary, including information on intangible assets in order to reduce agency costs.

According to Gerpott et al (2008), higher EBITDA margins are indicative of higher levels of operational efficiency. Intangible assets such as highly skilled employees or sophisticated organizational processes contribute to achieving a high level of efficiency.

Findings from previous studies on the relationship between profitability and disclosure of Intangible asset are at best conclusive, and studies in examining voluntary disclosure practices because profitability as the potential impact of company performance and may also be correlated with return on equity and price to book ratio.

In accordance with the above mentioned that the factors such as firm characteristic (Industry type and firm size) and firm financial performance (leverage , EBITDA margin and Profitability) are expected influencing the practice of intangible assets voluntary disclosures in companies in the some industry sectors involved in LQ 45 in Indonesia.

Therefore, the importance of this thesis research, is what are exactly the factors influencing the intangible asset disclosure are.

1.3 Research Objective

According to the problem, the purpose of this study are as follows :

1. To investigate the influence of industry type on intangible asset disclosure practice of companies in Indonesia involved in LQ 45.
2. To investigate the influence of firm size on intangible asset disclosure practice of companies in Indonesia involved in LQ 45.
3. To investigate the influence of leverage on intangible asset disclosure practice of companies in Indonesia involved in LQ 45.
4. To investigate the influence of EBITDA Margin on intangible asset disclosure practice of companies in Indonesia involved in LQ 45.
5. To investigate the influence of profitability on intangible asset disclosure practice of companies in Indonesia involved in LQ 45.

1.4 Contribution of the Research

The contribution of the study are as follows :

1. It responds to the call for further survey research that focuses on the cross cultural single industry of intangible asset voluntary disclosure.
2. To give contribution to accountings development, especially about intangible asset disclosure in multinational company in Indonesia.

1.5 Research Outline

Chapter I explain about the main issue of this study that consist of research background, Problem Statement, research objectives and purposes, and research outline. Then Chapter II explain literature review.

Based on literature review, researcher will establish conceptual framework, and then formulate the research hypothesis. Chapter III explain research design, population, sample and sampling, research variable and variable operational definition, data collect procedure, and analysis method. Chapter IV explain description of research object, quantitative analysis, result interpretation, and argumentation of research results. Then the last, chapter V consist of conclusion, limitation of research and suggestion.

CHAPTER II

THEORITICAL FRAMEWORK

The roles of knowledge and information technology as key driving forces have mainly dramatic changes in the structure of companies. These changes in conjunction with increased customer demands and the challenge of companies to shift their perspective from tangible to intangible resources. These intangible assets have always played a certain role, and now their systematic is seen as being an essential competitiveness factor (Durst and Gueldenberg, 2009).

Intangible assets represent the opportunities of future growth and profitability which increasing the market based value of the firm. Actually, they have disclose as a measure of core competency and competitive advantages which explains the gap between the market based value and book value of an organization at a time of decreasing usefulness of current financial reporting (Han and Han, 2004). Therefore, many researches are interested in describing the structure of intangible assets and trying to define the main component that affects the voluntary disclosure. Actually there is no uniformity about this problem in the researchers, although a certain general understanding of intangible assets composition still exists.

Thus, Stewart (1997) defines intangible assets as knowledge, information, intellectual property, experience that can be use to create companies wealth. Sveiby (1997) determines that intangible assets of a firm consist of internal assets such as patents, administrative system, organizational structure and external asset such as brands, trademarks, relations with customers and suppliers, organization structures as well as of the competence of its personnel and others. According to Edvinsson and Malone, (1997), Roos et al., (1997) and Petty and Guthrie (2000) intangible assets of a firm include organizational and human capital (internal and external). In Brooking (1996) the following constituents of intangible assets are distinguished: market assets, intellectual property assets, human centered assets and infrastructure assets.

Intangible assets and tangible assets combined to create the firm market value, but the value created by intangible assets in a firm is hard to tell rather than the value created by tangible asset since the financial reporting cannot completely reflect the value of intangible assets because of fewer regulations and disclosure requirements for intangible asset. In a trend that among of firms want to provide additional information regarding to the intangible assets on a voluntary basis (Vandemaele et al., 2005; Burgman and Roos, 2007), it is important to find out determinants of intangible assets and then build an intangible assets prediction model for providing other different information from financial statements for investors or creditors. For evaluating the factor which influences the intangible asset disclosure, researcher refers to theory as follows :

2.1 Grand Theory.

Corporations which vary widely in their disclosure practices from various empirical studies have investigated associations between corporate characteristics and disclosures for quite time. Corporate characteristics such as industry type, firm size, and their influence on corporate disclosure practices, would be interest to today's researchers.

Existing literature has found that corporate voluntary disclosure is associated with the certain of corporate characteristics. Further, a considerable international accounting literature has been developed which investigates the association between corporate characteristics and disclosure levels in annual reports (Ahmed and Courtis, 1999). Subsequent studies also have documented the impact of corporate characteristics such as industry type, firm size, leverage, profitability, managerial ownership, Ebitda Margin, external auditor, and listing status on the level of corporate disclosures. Voluntary disclosure practices, especially regarding to the corporate social and environmental activities, are difficult to explain and there exist quite a number of similar and different theories which have been used to empirically consider such a phenomenon. Further, it has been suggested that these theories are not necessarily mutually exclusive (Campbell, 2000) such as they should be considered together in order to explain why corporations choose to voluntarily disclose social, environmental and other related activities. The following theory are the most explored theories behind such disclosure.

2.1.1 Agency Theory.

According to Jensen and Meckling (1976), agency theory is a contract under principal and agent. The principal engage the agent to perform some service on their behalf which involves in delegating some decision making and authority to the agent. In the company, shareholders as principal enter a contract to maximize her welfare by increasing profitability. Manager as the agent is motivated to maximize the economic and psychological needs, such as obtaining investment, loans, and compensation contracts. These relationships lead to agency costs caused by conflict of interest between principal and agent.

Jensen and Meckling (1976) argued that agency costs generated by the managers. Therefore, they are motivated to provide information voluntarily in order to reduce these agency costs. In another side, the increasing of agency costs will followed increasing of external capital which is likely to be higher in larger companies, in consequence, agency theory can explain the positive relationship between firm size and levels of disclosure (Widowati, 2009).

Agency theory is taken to explain relationship between profitability and level of disclosure. Agency theory suggests that there is a separation of profitability where the principal (stakeholders) focus on their return and do some control of a firm. The potential agency costs arises due to conflicts of interest between the two contracting parties. Subsequently, the potential conflicts between principal and agent is greater for companies whose share ownership (Fama and Jensen, 1983 in Kang, 2006).

Agency theory also is taken to explain relationship between leverage and level of disclosure. Based on agency theory, a corporation with high leverage has an incentive to disclose more information since creditors can protect themselves via restrictive debt covenants so managers have incentives to increase disclosures to reduce agency costs (Kang, 2006).

2.1.2 Signalling Theory.

Signalling theory assumes that firms with superior performance (or good companies) use financial information to send signals to the market. The basic assumption of the signaling theory is information asymmetry problems that occur in the market. This theory shows how asymmetric information can be reduced by a party who has more information by sending a signal to other parties. Signalling is a common symptom that can be applied to each market with asymmetric information (Widowati, 2009).

Various studies have shown that companies with an unfavorable financial information such as high leverage will give a signal to the market in the form of voluntary disclosure of information, including information about its intangible asset (Gerpott et al., 2008). Contrary, suggest that firms with a lower leverage might this signal via a favorable financial structure higher intangible asset disclosure quality.

2.1.3 Stakeholders Theory.

Definition of stakeholder according to Freeman (1983) is "groups and individuals who benefit from or are harmed by, and whose rights are violated or respected by corporate actions". Stakeholder theory states that entire stakeholders have a right to be given information about the company's activities that affect them.

Stakeholders considered the party that affects or is affected by the company. The main role of company is to assess the importance of meeting the demand of stakeholders in order to achieve corporate strategic objectives. When the degree of stakeholder power increases, the importance of meeting stakeholder demands increase in the same way, some of these request forms may be related to the provision of information on company activities (Ivada,2009).

On the other hand, the low concentration of ownership indicates the existence of diverse group of stakeholders in the company, and subsequently, the company has more incentives to disclose information to respond the different perspectives of different stakeholders (Kang, 2006).

2.1.4. Legitimacy Theory.

While many researchers state the term of legitimacy, there are few that define it with clarity (Suchman, 1995). Legitimacy Theory is defined as:

> *"A generalised perception or assumption that the actions of any entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions", Suchman (1995; 574).*

For example, some actions by corporate management to convince wider society that the corporation is responsibility are a part of the legitimation process (Haniffa and Cooke, 2005; Gray, et al, 1995a). Legitimacy theory has emerged asserting that:

> *"Organizations continually seek to ensure that they operate within the bounds and norms of their respective societies, that is, they attempt to ensure that their activities are perceived by outside parties as being 'legitimate'" (Deegan, 2000; 253).*

Legitimacy theory implies that given a growth in community awareness and concern, corporate will do some measurement to ensure their activities and performances are acceptable to the community. Legitimacy is conferred and controlled by the outside and hence, it is necessary for the corporation to communicate its activities to the public (Buhr, 1998). The annual report may be used to reinforce the community's perception of management's responsiveness to specific environmental, social and other corporate issues, or alternatively, to divert attention from adverse environmental situations. That is, accounting and financial reporting represent ways in which a corporation can communicate with society and its stakeholders, thereby legitimating its actions.

2.2. Intangible Asset.

In Indonesia, in line with International Accounting Standard (IAS) 38, Intangible Asset, the definition of intangible asset under Indonesia Accounting Standard Statement (PSAK) 19 on Intangible Assets paragraph 08 is as follows:

> *Intangible assets are non-monetary assets that can be identified and has no physical form and held for use in produce or deliver goods or services, leased to other parties, or for administrative purposes (IAI, 2000).*

An element called intangible assets when the definition of intangible assets as specified by paragraph 10 of SFAS 19 "identified, the control of resources and the future economic benefits" (IAI, 2000) is met.

PSAK 19 paragraph 85 explains that a group of intangible assets is a set of assets that it characteristic and use in similar operations. Examples of intangible assets are: (a) brand name, (b) computer software, (c) licensing and franchising; (d) copyright, patent and other intellectual property rights, (e) recipes, formulas, models, design, and prototype, and (f) intangible asset under development. The Work Group "Accounting and Reporting of Intangible Assets" of the Deutsche Schmalenbach Gesellschaft fu¨r Betriebswirtschaft eV (DSG) in Gerpott et al (2008) developed intangible asset to seven general intangible classes. According to Gerpott et al (2008) taking into account the peculiarities of the industry sector, the seven intangible categories can be profiled as follows:

1. Human capital. This category highlights the employee-based value drivers of a firm. It reflects the inherent knowledge and skills of the employees, but also entails a firm's culture and working climate. Operational human capital indicators include company and job tenure structures of a firm's employees, employee turnover rates, and job satisfaction levels. Frequently, special knowledge and skills required to design and operate complex networks are found to be important intangible assets to the firms.
2. Customer capital. Customer capital consists of market-related variables such as a firm's current customer base, market share, customer satisfaction or brand strength. For TNOs, long-term relationships to contractually or emotionally bonded customers or both are among their key intangibles.
3. Supplier capital. This category relates to the procurement processes and outcomes of a company. Supplier capital indicators include statements on radio license allocations or key suppliers. Radio spectrum licenses are particularly important intangible assets for mobile network operators (MNOs) since their number is very limited due to technical constraints. MNOs frequently tend to overpay in order to obtain radio spectrum licenses if they are allocated via auctions.

4. Process capital. This intangible asset category focuses on the level of sophistication of a firm's internal work sequences such as its quality management. Pertinent indicators include information on a firm's sales network, planning and maintenance, or complaint management processes.
5. Innovation capital. Innovation capital deals with a company's R&D capitalization as reflected in a firm's number and quality of patents or other intellectual property rights. Further, absolute and relative R&D expenditures, patent portfolio structure variables, or the ratio of sales generated with new products introduced within the last x years to total sales are common innovation capital proxies.
6. Location capital. This category deals with advantages associated with the spatial location of the company. It includes valuable transport routes or a low geographical distance to universities with excellent graduates. For TNOs, location advantages often arise from the possibility of exclusively offering Manufacturing services in economically highly attractive places (example airports, shopping centers).
7. Investor capital. This category deals with assets improving a firm's position on international equity and/or debt markets. Investor capital information examples include a company's (credit) rating, shareholder structure (example positions of private and institutional investors), systematic risk, or the number of investor relations road shows/analyst meetings during a reporting period.

Disclosure of information on intangible assets requires the development of a theoretical basis upon which recognition and measurement criteria may be set. Traditionally, accountants have followed a deductive approach to the problem, based on two income theories. One is the valuation approach, which is balance sheet oriented and relies on the assumption that a true economic value can be associated with each element in the financial statements and that true income can be estimated as the difference between the net value of the firm's assets at two different points in time (Rashid et al., 2009).

The central issues in recognition are the judgment of what the future economic benefits are that probable occur and to what extent they are controlled by the firm. The IASB states that probable refers to what can be reasonably expected or believed on the basis of logical evidence. Therefore, if there is a reasonable expectation that an investment in an intangible element will generate future economic benefits controlled by the firm, it should be recognized as an intangible asset and reported in the financial statements. Control of the probable future benefits arising from the intangible investment is considered by most accounting standard setting bodies as a basic requisite for recognition. As a result, investments such as recruiting and training may not be capitalized and amortized because of the lack of certainty surrounding the length of the contractual relationship between the firm and its employees.

International accounting standard, prescribe that acquired intangible assets be included in the balance sheet at their acquisition cost and amortized, whereas internally developed intangibles must be expensed. Most of accounting standard board in the world placing intangible asset as important things to disclose on financial statement. Firstly, In its Research Bulletin No. 43, the AICPA established that the initial amount assigned to all types of intangibles should be cost. In the case of non-cash acquisitions, as, for example, where intangibles are acquired in exchange for securities, cost may be considered as being either the fair value of the portfolio of shares or the fair value of the property or right acquired. Although the value of intangibles (among them goodwill) is likely to grow over time if the firm undertakes successful intangible investments, revaluations are only allowed for certain fixed assets by some accounting standard setting bodies [ASC, 1987]. However, the value of intangibles is likely to grow over time if the firm undertakes successful intangible investments.

Secondly, IAS 38 considers R&D as a category of internally generated intangible items. It requires the full expensing of research, but allows certain development costs to be carried forward as assets in order to be matched against related revenues during a period of up to 20 years.

Thirdly, In Australia, the ASSB exposure draft 49, required that identifiable intangible assets be amortized over the period of time during which the asset may be reasonably expected to yield benefits. The draft faced strong criticism from practitioners [English, 1990] as it is against the views held by the IASC.

Fourthly, In the European Union, the IV Directive allows member states to authorize firms to carry forward R&D costs, but does not provide a precise definition thereof. Goodwill resulting from an acquisition may also be capitalized and amortized during a period of up to five years, but member states may set a higher limit, provided it does not exceed the economic life of the asset. Obviously, this results in a variety of accounting methods being applied and limits the comparability of accounting information [FEE, 1992].

In short, although most accounting standard setting bodies in the world are now placing a great importance on the measurement and the disclosure of information on intangibles, the heterogeneity in their approaches results in financial statements that are neither comparable nor able to present enough relevant information on the intangible determinants of the value of companies.

2.3. Intangible Asset Disclosure Factors.

This study examines factors influencing intangible asset disclosure practices by the companies, which are explained below.

2.3.1 Industry Type.

Companies tend to provide more information which is in line with the unique nature of their industry sectors that categorizes into two sides which are high technology and traditional technology. Based on international accounting standard board the industry type categories into the following two sides:

A. High Technology.

1. Technology-based Assets.
2. Customer-based Assets.
3. Market-based Assets.
4. Workforce-based Assets.
5. Contract-based Assets.
6. Organization-based Assets.

7. Statutory-based Assets.

B. Traditional Technology.

For example, on high technology, labor intensive industries are expected to provide more information about their employees, chemical industries are likely to provide more information about environment, and service industries can be expected to exhibit more consumer-oriented and brand information to enhance their corporate image among consumers (Cowen, et al., 1987).

2.3.2 *Firm Size (Market Capitalization).*

Agency theory is taken to explain the positive relationship between firm size and disclosure level. Jensen and Meckling (1976) in Widowati (2009) explain that the agency costs increases when the proportion of external capital increased, which is likely to be higher for large companies. The use of external capital is likely to increase for large companies. Therefore, agency theory predicts positive influence between firm size and level of IA disclosure.

2.3.3 Leverage (DER).

Agency theory explains association between leverage and intangible asset disclosure. According to Kang (2006), corporations with high debt are generally under greater scrutiny by creditors to ensure that they are not violating debt covenants. Consequently, this scrutiny would result in disclosing more comprehensive information on different corporate items especially those relating to debt covenants. Therefore, company with high levels of leverage is likely to disclose more information voluntary, including information on intangible assets in order to reduce agency costs.

2.3.4 EBITDA Margin.

According to Gerpott et al (2008), higher EBITDA margins are indicative of higher levels of operational efficiency. Intangible assets such as highly skilled employees or sophisticated organizational processes contribute to achieving a high level of efficiency. These companies processes would want to inform their stakeholders of such potential by voluntarily disclosing intangible asset information in their annual reports

Previous research posits that disclosure works as a mechanism to control a manager's performance, that managers are stimulated to disclose information voluntarily to maintain their positions and compensation arrangements. Consistent with signalling theory, highly profitable companies are expected to be more likely to disclose good news to avoid undervaluation of their shares (Oliveira et al, 2006).

2.3.5 *Profitability (ROE).*

By measuring how much earnings in a company can generate from assets, ROE offers a gauge of profit-generating efficiency. ROE helps investors determine whether a company is a lean, it means profit machine or an inefficient clunker. Firms that do a good job of milking profit from their operations typically have a competitive advantage - a feature that normally translates into superior returns for investors. The relationship between the company's profit and the investor's return makes ROE a particularly valuable metric to examine.

2.4 Prior Research.

Research on voluntary disclosure of intangible asset has too many different hypothesis result recently. One of them is Kang (2006)'s research on top 200 emerging market companies which was obtained from *Business Week*, 14 July 2003 issue. Kang (2006)'s research objective is to examine factors associated with the voluntary disclosure practice on those companies. The result is the extent of IA disclosure is associated with leverage, adoption of IFRS/US GAAP, industry type, price-to book ratio, and country-specific factors such as economic policy and legal system. however, firm size and ownership concentration are not found to be significant.

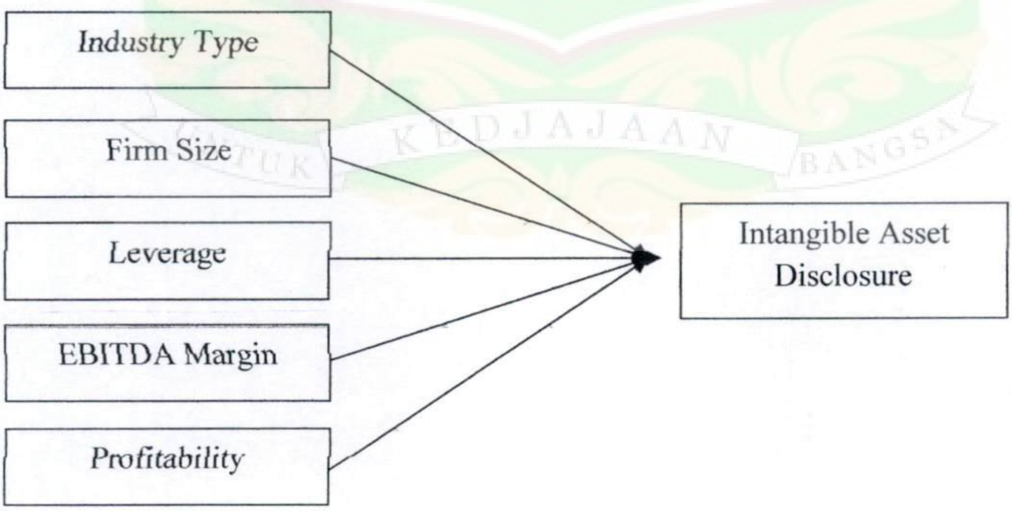
Oliveira et al. (2006)'s research on 56 listed companies at 31 December 2003 on the Portuguese Stock Exchange found that the voluntary reporting of intangibles is influenced significantly by size, ownership concentration, type of auditor, industry and listing status. Widowati (2009) replicated Oliveira et al. (2006)'s research on 43 listed companies at 31 December 2005, 2006 and 2007 on Indonesia Stock Exchange. Widowati (2009) found that firm size and industry type influence intangible asset reporting practices. In Contrast with Oliveira et al. (2006), ownership concentration, leverage, profitability, and auditor type did not influence intangible asset reporting.

Gerpott et al. (2008), conducted research on single industry to detect industry-spesific patterns of intangible asset disclosure in an international sample of 29 Manufacturing network operators (TNOs) at June 2003. Gerpott et al. (2008) found that intangible asset disclosures were often limited to small pieces of qualitative information. Intangible asset disclosure varies significantly by the home region of the TNO, with European TNOs displaying higher quality levels than their American counterparts, and intangible asset disclosure measures were not significantly related to TNOs' financial performance criteria.

2.5 Conceptual Framework.

Based on the development of the hypothesis above, the conceptual framework of this study is illustrated in Table 2.1. The table presents the disclosure of intangible assets as measured by the index is treated as the dependent variable while the independent variables as followed:

Table 2.1



CHAPTER III

RESEARCH METHOD

This research method explains the research design, population and research sample, research variables and hypothesis development, data collection and data analysis method.

3.1 Research Design.

The purpose of this research is to investigate the analysis methodology and review the models that developed to test the factors which influencing intangible asset disclosure. This methodology commences by introducing content analysis as a qualitative method for addressing content of narratives. This is followed by a review on the application of content analysis in analyzing factors that influencing intangible asset disclosure of annual report.

Sampling in this study takes the purposive sampling method, which is a type of sample obtained by using certain considerations. The requirement in this study are some industries involved in LQ 45 which publish annual report consistently via website in 2010 and 2011, whereas annual report publishes globally through the internet. Annual reports are downloaded from website. The study used LQ45 because they represent the concerns and interests of corporations in a comprehensive and compact manner. Beside that it also represent as the active market trading, high volume trading, the high contribution for Indonesia and most of them are multinational company. Further, they are regularly produced and offer an opportunity for a comparative analysis of management attitudes and policies across reporting periods.

Table 3.1 : Data Sample

Sample Characteristics	Amount
Listed Company in 2011	455
LQ 45 Sector in 2011	45
Company did not include for 2 following years in LQ45 2010 and 2011	5
Data Sample	40

3.2 *Research Variables and Hypothesis* Development.

3.2.1 Dependent Variable.

Based on Widowati (2009), the dependent variable in this study is voluntary disclosure index of intangible assets, which consist of 45 companies. Because of 5 companies did not include on LQ 45 for 2 following years, consequently, these company are eliminated and the data sample amount is 40. The measurement is using a scoring index. Scoring index range is 1-7, for company which publish some item of intangible asset, index will get a score by adding all item and divide with 7 (all disclosure). The item has already explained in chapter II.

3.2.2 Independent Variables.

The independent variables of this research are industry type, firm size (market capitalization), leverage (DER), EBITDA margin and profitability (ROE).

3.2.2.1 Industry Type.

Previous studies have found that industry type has a significant impact on the level of voluntary disclosure practices that demonstrates companies from the IT/telecommunication and consumer goods/services industries that disclosed more extensive overall IA information / High-Tech Company than those companies from energy, industrials, and financial industries /Traditional Company (Cormier and Gordon, 2001)

This result reflects the proposition that companies operating in industries heavily influenced by intangible resources naturally have more IA, and hence, would voluntarily disclose more information on IA. Further, the company are categorize as high technology will valued 1 and companies as traditional company will valued 0

Based on agency theory above, the hypothesis developed to examine association between industry type and intangible asset disclosure is following:

H1 : There is a positive association between industry type and intangible asset voluntary disclosure index.

3.2.2.2 Firm Size.

Firm size is the most commonly used to examine the corporate intangible asset disclosure (Gerpott et al., 2008). Several studies using firm size as an independent variable because the size of the company revealed that the greater company will make a voluntary disclosure (Oliveira *et al.,* 2006) in Widowati (2009). There are alternative proxies to measure firm size. These include total assets (Bozzolan et al., 2003; Oliviera et al., 2006), sales (Bozzolan et al., 2003), turnover (Gerpott et al., 2008), market capitalization (Widowati, 2009), and number of employees (Gerpott et al., 2008). That how this present study measured the size of company involved in LQ 45 by using natural log (Ln market capitalization). Ln use in this measurement to avoid large value differences with the value of other independent variables.

For develop a hypothesis, researcher look at based on agency theory, larger firm size is more likely to have greater agency problem than smaller firm size. To reduce this agency problem, manager as agent discloses more information to shareholders as principal. According to Widowati (2009), agency costs increase when external capital increased which is likely to be higher in larger companies, thus agency theory can explain the positive relationship between firm size and level of disclosure. Prior work that detected significantly positive relations between firm size and intangible asset disclosure are Gerpott et al (2008) in Europe region, and Widowati (2009) in Indonesia, with the exception of Kang (2006) who observed insignificant associations.

Based on agency theory above, the hypothesis developed to examine association between firm size and intangible asset disclosure is following:

H2 : There is a positive association between firm size and intangible asset voluntary disclosure index.

3.2.2.3 Leverage.

Firm leverage shows firm ability to cover its current liabilities (Oliveira *et al.,* 2006). Leverage in this study is measured as debt to equity ratio. Total debt or total liabilities, and total equity are taken from Statement of financial position of sample companies in years 2010 and 2011.

According to Agency theory, a corporation with high leverage has an incentive to disclose more information since creditors can price protect themselves via restrictive debt covenants, managers have incentives to increase the disclosures to reduce agency costs (Kang, 2006). Signalling theory suggests that a firm with a relatively low leverage has incentive to send signals to the market about its financial structure implying the higher voluntary disclosures (Oliveira et al, 2006). The empirical evidence of the effect of leverage on intangible asset disclosure is different. Gerpott et al (2008) find a significant positive relationship, in the other hand Kang (2006) find a significantly negative relationship, and Widowati (2009) find no such significant association.

Based on the rationale that a higher leverage and a resulting higher financial risk lead to increased monitoring interests of the capital market in a corporation, it can be expected that highly leveraged companies are motivated to disclose more intangible asset to reduce their cost of capital (Gerpott et al., 2008). The following hypothesis is thus developed:

H3 : There is a positive association between leverage and intangible asset voluntary disclosure index.

3.2.2.4 EBITDA Margin.

Agency theory posits that disclosure as a mechanism to control a manager's performance, that managers are stimulated to disclose information voluntarily to maintain their positions and compensation arrangements. Consistent with signalling theory, highly profitable companies are expected to be more likely to disclose good news to avoid undervaluation of their shares (Oliveira et al, 2006). However, Gerpott et al (2008) and Widowati (2009) detected significant association between EBITDA margin and profitability and intangible asset disclosure. Higher EBITDA margins are indicative of higher levels of operational efficiency. Intangible assets such as highly skilled employees or sophisticated organizational processes contribute to achieving a high level of efficiency (Gerpott et al, 2008). These companies would want to inform their stakeholders of such potential by voluntarily disclosing intangible asset information in their annual reports. The following hypothesis is following:

H4: There is a positive association between EBITDA margin and intangible asset voluntary disclosure index

3.2.2.5 Profitability.

Return on equity (ROE) measures the rate of return on the ownership interest (shareholders' equity) of the common stock owners. It measures a firm's efficiency at generating profits from every unit of shareholders' equity (also known as net assets or assets minus liabilities). ROE shows how well a company uses investment funds to generate earnings growth. ROE rate between 15% and 20% are generally considered good.

Some previous research measuring how much earnings of a company can generate from assets, ROE offers a gauge of profit-generating efficiency. ROE helps investors to determine whether a company is a lean, it means profit machine or an inefficient clunker. Firms that do a good job of milking profit from their operations typically have a competitive advantage - a feature that normally translates into superior returns for investors. The relationship between the company's profit and the investor's return makes ROE a particularly valuable metric to examine

In Agency theory suggests that there is a separation of ownership and control of a firm, the potential for agency costs arises due to conflicts of interest between the two contracting parties. Subsequently, the potential for conflicts between principal and agent is greater for companies whose share ownership (Fama and Jensen, 1983 in Kang (2006).

H5 : There is a positive association between Profitability and intangible asset voluntary disclosure index.

3.3 Data Collection Method.

Data used in this study is secondary data, which is annual report of some industry involved in LQ 45 in Indonesia Stock Exchange, in years 2010 and 2011. The information of company publish by Indonesia Stock Exchange (www.idx.com) or through the search engine (such as www.google.com), and the websites that provide information about company.

3.4 Data Analysis Method.

Method of data analysis in this study is descriptive statistics analysis, classical assumptions test, and multiple linier regression analysis.

3.4.1 Descriptive Statistics Analysis.

Descriptive statistics analysis is conducted to determine intangible asset disclosure index, industry type, firm size, leverage, EBITDA margin and profitability (ROE) of company in Indonesia Stock Exchange. The measurement used in this study are mean and deviation standard.

3.4.2 Classical Assumption Test.

3.4.2.1 *Autocorrelation Testing.*

The purpose of autocorrelation testing is to test whether in linier regression model there is correlation between confounding error in t period and confounding error in t-1 period (before). If there is a correlation, it is called that there is a autocorrelation problem. Autocorrelation arises due to successive observations over time related to each other. This problem arises due to the residuals (confounding errors) are not independent from one observation to another observation. It is often found in time series data due to "interference" in the same individual / group in the next period. According to Gujarati (2003) in Widowati (2009) regression that affected autocorrelation problem, one of the corrective action is using data transformation. If the *d* value of Durbin_Watson, the technique can be used is Theil – Nagar technique.

3.4.2.2 Multicollinearity Testing.

The purpose of multicollinearity testing is to test whether in regression model there is a correlation between independent variable (Ghozali, 2007). According to Kiswara (2010), that correlation can be detected based on tolerance value and VIF (Variance Inflation Factor), if tolerance approach 1 value and VIF are in the surrounding, then it is non multicoloniriltias

3.4.2.3 Heteroscedasticity Testing.

The purpose of the heteroscedasticity testing is to test whether there is residuals inequality in the regression model at one observation to another observation. If there are variances from a variable to the other remain variable, it is called Homoscedasticity and if different, it is called Heteroscedasticity. Heteroscedasticity is detected by using the park test. According to Ghozali (2007),

3.4.4.4 Normality Testing.

Normality testing used to test whether the data of dependent variable, independent, or both have normal distribution (Kiswara, 2010). According to Ghozali (2007), the purpose of normality testing is to test whether in the regression model, confounding variables or residual variable have normal distribution. One way to detect whether residual has a normal distribution or not by using statistical test. A simple statistical testing is conducted by looking at the value of kurtosis and skewness of the residuals.

3.5 Multiple Liner Regression Model.

The purpose of multiple linier regression analysis is to explore association between several independent variables and dependent variable. The regression equation in this study is following :

$IADI = a + \beta_0 IT + \beta_1 FS + \beta_2 Lev + \beta_3 oOC + \beta_4 EBITDA + \beta_5 LOC + \beta_6 SAV$

Note :

IADI : Intangible Asset Disclosure Index

FS : Firm Size

IT : Industry Type

Lev : Leverage

EBITDA : EBITDA margin

SAV : Profitability (ROE)

a : Constanta

ß : Regression coefficient

3.6 Statistical Test.

This model, determine the best level of accuracy in regression analysis, in this case is shown by the Adjusted R_2. Adjusted R_2 value is used to determine the percentage of independent variables influence to the dependent variable. It will be known how much the dependent variable will be able to be explained by the independent variable, while the rest is explained by the other reasons outside the model.

a) Simultaneous Significance Testing (F Statistical Test)

   To determine whether the independent variables collectively have the same effect on the dependent variable, therefore simultaneous test by using the F test should be done, with the following procedures: $H0 : bi = b2 = 0$, meaning, collectively, there is influence between the independent variable on the dependent variable.

H0 : bi = b2 = 0, meaning, collectively, there is no influence of independent variables on the dependent variable. With a 5% significance level and df = nk, F_{table} values obtained. Then F_{table} value compared with the F_{count} value that obtained. By comparing these two values, its effect will be able to determine, which is able to determine acceptance or rejection of the hypothesis, with the following criteria:

1. When the $F_{count} > F_{table}$; Ha is received
2. When the $F_{count} < F_{table}$; Ha is rejected

b) Individual Parameter Significance Tests (t Statistic Test) The purpose of t Statistical Test is to see how far the influence of explanatory variables (independent) individually explained the variation of dependent variable. The desire Null hypothesis (H0) is whether a parameter (bi) is equal to zero, or :

H0: bi = 0, meaning no effect between the independent variable on the dependent variable.

H0: bi > 0, meaning that there is effect between the independent variable on the dependent variable.

With a 5% significance level and df = nk, t_{table} values obtained. Then t_{table} value compared with the t_{count} value that obtained. By comparing these two values, its effect will be able to determine, which is able to determine acceptance or rejection of the hypothesis, with the following criteria:

1. When the $t_{count} > t_{table}$; Ha is received
2. When the $t_{count} < F_{table}$; Ha is rejected

CHAPTER IV

RESULTS AND ANALYSIS

4.1 Research Data.

The population in this research is the whole company in LQ 45 that listed in Indonesia Stock Exchange which publishes their annual report and sustainability report for 2010 and 2011. Companies listed in the Indonesia Stock Exchange as much as 455 companies, 45 them are registered to the LQ 45 and publish their annual reports on website of BEI, www.idx.co.id. The sample selection method used is the purposive sampling, because the sample is limited to annual report of LQ45.

4.2 Research Result.

4.2.1 Descriptive Analysis

Descriptive statistics analysis was used to determine the description of a data from the average (mean), and the value of the standard deviation. Based on an analysis of descriptive statistics retrieved the following company description in following table:

Table 4.1

Descriptive Statistics

	Mean	Std. Deviation	N
IA_Disclosure	0.2766	0.31624	80
Ind_Type	0.5125	0.55103	80
Firm_Size	24.1549	1.39295	80
Leverage	2.3786	3.08133	80
EBITDA_Margin	37.8500	16.40292	80
Profitability	20.2376	19.50294	80

Based on table 4.1 above indicates the number of respondents (N) there are 80 companies, from 80 of the company has intangible assets disclosure average 0.2766 with standard deviation of 0.31624. The condition indicates that the average disclosure of intangible assets on a company that is being sampled is still small, so the company needs to give more disclosure, so that the user can get a more complete picture about intangible assets owned. As for the value of a standard deviation greater than the average value shows that intangible assets are disclosed in each company sample has a magnitude which is almost the same between each sample company.

For the first independent variables namely industry type, the average value and standard deviation is 0.5125 and 0.55103. This indicates that the company's industry type sample included high technology relative plenty based on data sample in appendix.

Then for the second independent variable indicates the firm size has a value of average is 24.1549 Billion with a standard deviation of 1.39295. This illustrates that the sample is a company that belongs to has a large market capitalization because the amount of market value is greater than the sample average.

A third independent Variable is the leverage that has averaged 2.3786 and standard deviation 3.08133. This shows that in the structure, the amount of debt used to finance the activities of the company in its operation, so as to heighten financial risk faced by the company.

In terms of EBITDA Margin has the average value and the standard deviation are 37.8500 and 16.40292, it is indicating that the EBITDA Margin of the relative companies are higher.

The fifth independent variable is profitability showed that corporate profitability has averaged 20.2376 and standard deviation of 19.50294. This indicates that the sample is a company that has a high level of return on equity as the key measurement on profitability.

4.2.2 Classical Assumption Test.

After doing linear regression analysis, the assumption that classical results did not result in a value bias. The classical assumption test in this research include autocorrelation test, Heteroscedastisity test and relevant test to normality.

4.2.2.1 Autocorrelation Test.

Autocorrelation used to test the internal correlation between variables and a series of observations composed by accelerated time in the series of space. To diagnose the autocorrelation in a regression model by testing against value test Durbin Watson (test dw). If the statistics are among du until 4-du means no autokorelasi (santoso, 2003). The following table shows the summary data over autocorrelation test.

Table 4.2

Autocorrelation Test

Hypothesis	Regression	DW	D1	D2	D3	D4	Result
H1	Industry type	2.446	1.3991	1.6	2.4	2.609	No Autocorrelation
H2	Firm size	2.166	1.391	1.6	2.4	2.609	No Autocorrelation
H3	Leverage	2.02	1.391	1.6	2.4	2.609	No Autocorrelation
H4	EBITDA	1.814	1.391	1.6	2.4	2.609	No Autocorrelation
H5	Profitability	1.817	1.442	1.54	2.456	2.558	No Autocorrelation

This test is done to find wether there is autocorrelation or not by Durbin Watson test (DW), and obtained the result total count from the table above are located between DW-2 up to 2. Thus falls on the DW no autocorrelation, so it can be said there is no autocorrelation in model.

4.2.2.2 Multicolinearity Test.

Multikolinierity used to show a linear relationship between dependent variables and independent variable in a model of regression. To test wether there is symptoms or not multikolinierity used VIF variance. If the value of VIF below then 5, it means, does not contained symptoms of multicollinearity, in contrarily if VIF larger then 5 it means occurring the symptoms of multicollinearity. The results of multicollinearity test can be shown on a following table:

Table 4.3

Multicollinearity Test

Variable	VIF	Crtical Value	Description
Industry type	1.291	5	No Multicollinearity
Firm size	1.596	5	No Multicollinearity
Leverage	1.622	5	No Multicollinearity
EBITDA	1.612	5	No Multicollinearity
Profitability	1.629	5	No Multicollinearity

Based on tables 4.4 above, the value of VIF for all of variables having value of VIF below 5, so regression models in this research was not containing symptoms of multicollinearity.

4.2.2.3 Heteroscedastisity Test

Heteroskedastisity is the assumptions related to the dependency of each variable. To detect any symptoms of heteroscedastisity used Scatter plot graph.

Figure 4.1

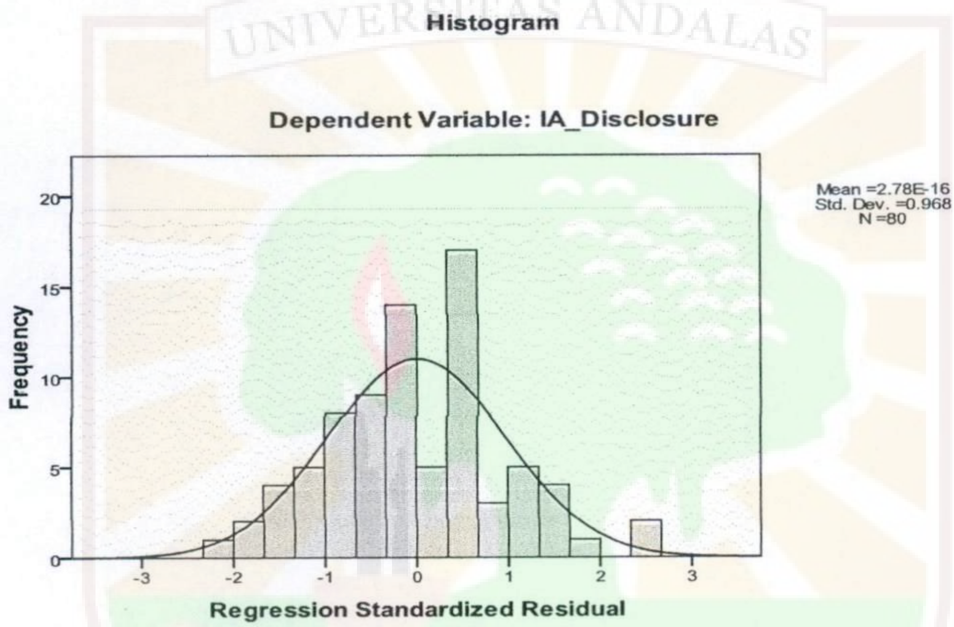
Partial Regression Plot

Based on the graph as shown in figure 4.1, it can be noted that the entire variable regression graph scatter plot has the dots formed randomly spread above and below the 0 on the y-axis, and do not form a specific pattern. Thus the proposed variable in the study free of the symptoms Heteroscedastisity.

4.2.2.4 Normality Test.

In this research, for testing the normal distribution should be conducted by looking the histogram which compares with the distribution of data observation that approaches to normal, as in a picture below.

Figure 4.2



4.2.3 Hypothesis Test by Simple Linear Regression.

This analysis is used to see how big a role of independent variables such as: industry type, firm size, leverage, EBITDA and profitability as a factor affecting the disclosure of intangible assets by the company. To determine the ability of each variable in the act as an influential factor, used linear regression simple models equation as follows :

To test of this hypothesis, the Ohlson (1995) model is extended as follows:

$$IAjt = \alpha0 + \alpha1INd\_Typejt + \alpha2Firm\_Sizejt + \alpha3Leveragejt + \alpha4EBITDAjt + \alpha5Profitabilityjt + \epsilon t \quad (1)$$

Where,

IAjt : Intangible Asset Disclosure

ITjt : Industry Type

FSjt : Firm Size for the fiscal year,

Levjt : Leverage by Debt to equity as indicator

EBjt : EBITDA Margin for the fiscal year,

Profjt : Profitability buy Return on Equity as indicator.

4.3.1 Hypothesis Test.

The precision of the sample regression functions in estimating the actual value can be measured from the Goodness of fit, include the determination coefficient (R^2), the value of statistics and the statistical value of F t.

4.2.3.1 Cooficient Determination Test (R^2).

The coefficient of determination (Adjusted R) is shown in table 4.5 indicates the ability of multiple regression equations to show the level of the dependent variable of the model description.

Tabel 4.4

Result of Cooficient determination test

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.746[a]	.657	.527	.21748	.557	18.606	5	74	.000	1.557

a. Predictors: (Constant), Profitability, Ind_Type, EBITDA_Margin, Firm_Size, Leverage

b. Dependent Variable: IA_Disclosure

The coefficient of determination (Adjusted R) is shown in table 4.4 indicates the ability of multiple regression to show the level of the dependent variable of the model description. The magnitude of the coefficient of determination (Adjusted R) is 0,657 or 65% this means that the ability of the explanatory variable in this case is industry type, firm size, leverage, EBITDA Margin, and profitability simultaneously have the effect on a dependent variable disclosure of intangible assets. While the rest is 35% (100%-65%) is explained by the other explanatory variables than the independent variable or variables above.

4.2.3.2 Simultan Test (F Test)

F test basically shows that all independent variables included in the model have an influence on the dependent variables simultaneously. Basically the value of F is derived from table ANOVA (analysis of variance), which can be seen in the table below

Table 4.5

Result of Simultan Test

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.400	5	.880	18.606	.000[a]
	Residual	3.500	74	.047		
	Total	7.900	79			

a. Predictors: (Constant), Profitability, Ind_Type, EBITDA_Margin, Firm_Size, Leverage

b. Dependent Variable: IA_Disclosure

Based on the above table 4.5 obtained the test results on independent variable (X) and the dependent variable may affect in a significant way. Of the ANOVA F test or obtained a value of F test of significance and 0.0000 meaning independent variable industry type, firm size, leverage, EBITDA margin and profitability simultaneously affect variable intangible asset disclosure.

4.2.3.3 Parsial Test (t Test).

Hipothesis test performed using t-test. T-test basically shows how far the influence of one independent variable individually in the dependent variable explained. Based on the results using multiple linear regression analysis were obtained the following results:

hypothesis which states that industry type effect on disclosure of intangible assets is accepted.

4.2.3.4.2 Hypothesis test of Firm Size.

Testing the influence of firm size to the intangible assets using multiple regression showed significant results. This can be seen on their significance value of 0.000 below of £ = 0.05. Based on the results of multiple regression testing individually can be concluded that the hypothesis H2 which states that the firm size influence on disclosure of intangible assets can be accepted.

4.2.3.4.3 Hypothesis test of Leverage.

Testing the influence of leverage against the disclosure of intangible assets by using multiple regression showed not significant results. This can be seen in the value of their significance of 0.954 greater £ = 0.05. Based on the results of multiple regression testing on an individual basis it can be concluded that the hypothesis of H3 that leverage effect on disclosure of intangible assets was rejected.

4.2.3.4.4 Hypothesis test of EBITDA Margin.

The fourth hypothesis was the EBITDA Margin to disclosure of intangible assets. In the framework of the fourth hypothesis testing, done by using multiple linear regression equations. Based on testing by using multiple linear regression that has been summarized in table 4.6 obtained the following results: testing the influence of EBITDA Margin to disclosure of intangible assets using multiple regression shows the results of the p-value of 0.128, where this value is greater than the value of significance level £ = 0.05. This proves that the EBITDA Margins do not affect significantly the disclosure of intangible assets. Based on the results of multiple regression testing can be concluded that the hypothesis H4 stating that the EBITDA Margin to disclosure of intangible assets cannot be demonstrated or fourth hypothesis was rejected.

4.2.3.4.5 Hypothesis test of Profitability.

Testing the influence of profitability against disclosure of intangible assets by using multiple regression showed significant results. This can be seen in the value of their significance by 0.040 below the £ = 0.05. Based on the results of multiple regression testing on an individual basis it can be concluded that the hypothesis H5 that profitability effect on disclosure of intangible assets is accepted.

4.3 The Discussion of Factors that Influencing Intangible Asset Disclosure.

This study examines the influence of industry type, firm size, leverage, ,EBITDA margin and profitability against disclosure of intangible assets. Based on the empirical testing has been done to some hypothesis in the study, the results show that not all of the independent variables on the dependent variable effected significantly. The factors that most influence significantly to the disclosure of intangible assets are industry type, firm size and profitability while the remaining as rejected.

4.3.1 The Influence of Industry Type to IA Disclosure.

Alternative hypothesis in this study (H1) states that company included in the high technology industry are likely to disclose information about intangible assets than companies that belong to the traditional industry. As hypothesised, the extent of IA disclosure was found to be significantly associated with the industry type. From the data sample in appendix demostrate that companies from the IT/telecommunication and consumer goods/services industries (IA-intensive) disclosed more extensive about IA information than those companies from energy, industrials and financial industries.

This result reflects the proposition that companies which operating in industries heavily influenced by intangible resources would naturally have more IA, and hence, would voluntarily disclose more IA in their annual reports. Considering the fact that they may also be valued by the markets based on their IA, these companies indeed would voluntarily be involved in IA disclosure practices. Further, IA-intensive companies also disclosed more extensive the IA information stemming from both the *Discovery and Learning* and *Implementation* Phases.

Industry type became a factor only when the extent of IA disclosure in annual reports was considered. For example, companies in IA intensive industries may mention that *Research and Development* is important to their activities; for example PT. Unilever Indonesia Tbk, they may be able to disclose a detailed description of *why* and *how* it is important to the company, and how such IA items can be utilised in the value adding activities of the company. On the other hand, IA-intensive companies would possess specific IA which they could report in detail, such as *Research and Development* and *Infrastructure assets* (from the *Discovery and Learning* phase) for IT/telecommunication companies, and *Customer integration* (also from the *Discovery and Learning* phase) by the consumer services sector companies. These companies would also include information on *Patents, trademarks and copyrights* and *Licensing agreements* (from the *Implementation* phase) to reflect the requirements of their industry.

By looking at the results of the regression in the table note that the probability of significance for industry types of 0.036 far below 0.05, it showed that the industry type had influence in the reporting intangible assets. The above findings indicate that the company is included in the high technology industry have intangible assets disclosure index greater than the companies that belong to the traditional industry. According to the signaling theory, that the company reported disclosure of intangible assets can build the reputation of the company so it could be affect the perception and appreciation of stakeholders of the potential value of the firm in the future (Lako, 2006).

If we compare with previous research, the results of this research in the regression test states that the company belongs to high tech tend to disclose more information about intangible assets. As well as supporting the theory of signal that companies which have intangible assets then higher opportunity to growth in the future.

For example, PT. Gudang Garam, Tbk as manufacturing industry is related to certain types of social responsibility disclosures. That is, companies tend to provide information which is in line with the unique nature of their industry sectors. Another example, is labour intensive industries (PT.Jasa Marga Tbk) are expected to provide more information about their employees, and chemical industries (PT. Krakatau Steel Tbk) are likely to provide more information about environment, then service industries (PT United Tractor Tbk) can be expected to exhibit more consumer-oriented and brand information to enhance their corporate image among consumers.

Subsequently, it is proposed that companies from the IT industry and consumer services and products industries are likely to disclose more IA information in their annual reports. This categorisation is similar to the one used in the social responsibility literature where authors divided companies into a socially “sensitive” industry sector and a “less sensitive” industry sector (CIMA, 2004, Granfield University).

4.3.2. The Influence of Firm Size to IA Disclosure.

Firm size, as measured by lon of market capitalisation, was found to be significantly associated with any of the IA disclosure level measures, it may be explained by the following two reasons.

First, companies would have various underlying reasons to voluntarily disclose extra corporate information in order to enhance their image and profile in the global markets; if there are any company in global markets that would consider voluntarily disclosing IA information, they would be these top performing companies (Aboody, D., & Lev, B. (1998).

Second, regardless of size, company are expected to go through the three phases of the value chain; they would discover, implement and publish their IA in order to create value, and since the sample companies are likely to have sufficient financial resources to engage in voluntary disclosure practices, they would do in their annual reports, it is likely that more larger companies have more of the underlying reasons for higher disclosure. Given the nature of these companies and the importance of IA in creating corporate value as discussed above, it is possible that these companies would engage in voluntary disclosure practices of IA information regardless of their firm size.

As a rule, larger companies will have greater competitive advantages. The disclosure of their intangible assets can be a source of obtaining additional advantages because these elements may differentiate a company from its competitors. This variable has been measured in different ways in previous studies on intangible assets disclosure:

1. Market capitalisation
2. Value of sales
3. Number of employees
4. Total assets
5. Logarithm of the asset value
6. Market share

Results of this study support the theory by Legitimacy theory that large companies have the ability to recruit skilled employees, as well as the demands of shareholders and analysts, so that large companies have the incentive to do more extensive disclosure than small companies. The company is an entity that is highlighted by the market or the public in general. Disclose more information is a part of the company's efforts to achieve public accountability. Another explanation of frequently questions is because the big companies have the resources which is great, so companies need to be able to finance and the provision of information for internal purposes (Almilia, 2007). Such as information and material for the purposes of disclosure of information to external parties, so there is no additional cost for more complete disclosure. Marwata (2001) state that firms with relatively small resources may not have the information, so there is a need a large additional cost to complete the disclosure. Small companies generally are on the situation of intense competition with other companies. Disclosing too much about his true identity to external parties could compromise its position in competition so that smaller companies tend not to do as complete disclosure of large companies.

In most of the above mentioned studies, the hypothesis of a statistically significant, positive association between the company size and the information disclosure of intangibles assets is confirmed. That way there is a positive relationship between the firm size and the disclosure of intangible assets in its financial statements.

4.3.3. The influences of Leverage to IA Disclosure.

According to agency theory, a company with high leverage has an incentive to disclose more information since creditors can protect themselves via restrictive debt covenants, managers have incentives to increase the disclosures to reduce agency costs, which would suggest a positive relationship between the level of voluntary disclosure and leverage. That is, company with high debt are generally under greater scrutiny by creditors to ensure that they are not violating debt covenants, and consequently, this scrutiny would result in disclosing more comprehensive information on different corporate items especially those relating to debt covenants.

But from the data analysis, the hypothesis is rejected. The reason is IA and their subsequent voluntary disclosure may not be as relevant to existing creditors. That is, it may not be the debt that significantly related to the level of IA disclosure. It is proposed that the association between leverage and IA disclosure may be influenced by the underlying conceptual status of the debt market.

Actually, the guarantee by using intangible asset is very little protection being offered to private debtholders. Subsequently, any debt being provided would heavily be biased towards public lenders, both domestic and foreign, such as banks and state-held institutions. The institutional lenders would not necessarily need to rely on public information such as annual reports, and they may not consider IA information to be the most pressing corporate information required to make any decision.

4.3.4 The influences of EBITDA Margin to IA Disclosure.

Company in producing EBITDA that still low may be caused model of accounting traditional that admitting a charge some cost for development of intangible asset as expense in the income statement, so that causing the low on EBITDA obtained by company. Hence management will be motivated to express intangible asset possessed by company more in its annual report for giving good signals to outsiders that the company was invest in the intangible asset expected to produce economic benefits for the company in the future and also to offset asymmetry information happened. It corresponds to theory signal according to et al, (2008) will expectations manager that provides a signal with nice regard to the company performance will reduce asymmetry information.

If seen from the theory legitimacy, company with performance in producing EBITDA that still low will have a specific need to express about their intangible asset in annual report, it was done because company has a specific need to express his intangible asset in an effort to get legitimacy of the public. Company with performance in producing EBITDA who tends still less will try to express about their intangible asset more in its annual report this is to explain to investors, potential investors, creditors and other stakeholders that the company was invest in the Intangible asset those who do not reflected in the statement of financial position. This aims to provide information about a future prospect created by investment in intangible asset, and information about items that has been reflected as expense on income statement will give the benefit of the future for the company.

Meanwhile, in the company's performance shows an indication of the increasingly improved, it might be more prudent for management of intangible assets to hide them by do not express them in the annual report. This is done to protect strategic information from competitors, in order for the company's competitive advantage is not lost (Sonnier et al., 2007). This is in line with the view of the theory of the legitimacy that the company will be more likely to report about their intangible assets if they have a specific need to do (Guthrie et al., 2004).

Company whose performance still low would disclose their intangible asset more if they have a specific need to maintain old investors, attract new investor or to explain that the company was invest in intangible asset expected to produce benefits later so that the current company performance in producing EBITDA still low. Opposite to company whose performance has started to improve, then desire company capital to express intangible asset they will reduced, it was because the company already has no necessity specifically to express their Intangible asset.

4.3.5 The influences of Profitability to IA Disclosure.

The relationship between Intangible asset level disclosure with profitability also can be seen from the theory signal. A company that produces performance in low of net profit because failure traditional accounting model in exploiting costs associated with intangible resources of company which concerning the disclosure. It could use their intangible asset to send signal to the public for good prospects will be obtained by company in the future.

The argument that the most profitable companies comparatively disclose more information, leads to the economic performance usually be one of the factors most commonly used in the studies on disclosure determinants. Profitability is usually measured in the studies on the disclosure of intangible assets by the aspect of return on equity /ROE (Martinez, 2005)

Agency Theory suggests that where there is a separation of ownership and control of a firm, the potential for agency costs arises because of conflicts of interest between the two contracting parties (Fama and Jensen, 1983). Subsequently, the potential for conflicts between principal and agent is greater for companies whose share ownership is widely held than in more closely held companies. That is, low concentration of share ownership demands more disclosure as the agents share ownership falls, agents (managers) will have increased incentives to consume perks and reduced incentives to maximise job performance. Therefore shareholders will increase monitoring of managers' behaviour, and subsequently, managers will voluntarily provide more disclosures to reduce monitoring costs by outside shareholders. Hence, Stakeholder theory also supports the low concentration of ownership indicates the existence of a more diverse group of stakeholders in the company, and subsequently, the company has more incentives to disclose information to respond the different perspectives of different stakeholders.

Indeed, companies with high concentration of ownership are expected to be responsive to public investor's information demand, since the dominant shareholders typically have access to the information that they need and relying on publicly available information, such as those disclosed in annual reports. This is especially true of markets condition where many companies would have their shares owned by the respective governments and state authorities, who would have access to any information that they need through private channels, that is, there is need for these companies to voluntarily provide more information in annual reports.

The determination and the measurement of the Intangible assets contribute through the illustration of the performance and the profitability of the company. In terms of competitive advantage and market power the global competition era enforces the enterprises to measure their knowledge based resources.

Generally it seems that companies disclose information on specific intangibles when they are putting much effort in that specific intangible. An example could be a company concentrated on increasing its market share. When they succeeded in that they disclose relatively much positive information about market shares. But when the company seemed to stabilize its market share the disclosure of market share decreased.

The very same phenomenon occurred in another company's annual report. This company was focusing on its software in its disclosures of intangibles, that have been very sophisticated and also seemed to strengthen its position on the market and that the company's competitive advantage has increased to a great extent. It also seems that companies disclose more information about a specific intangible when this specific intangible is shown to be of a critical importance for the company. Companies also increase the disclosure when they feel that the performance is good, but disclose less when the performance is less good. The companies are not very keen on disclosing information on any item that is not contributing to their performance. This can be exemplified with a company that is decreasing its disclosure on market share. The decreasing its disclosure implied a decline in the market as well as in the market share.

CHAPTER V

CONCLUSION

Intangible asset disclosure is important things, but most of companies did not pay more attention to these things. Without disclosing more information, the relevancy of financial statement has decline. One of the explanations for such a decline in the relevancy of financial information is the proposition that traditional financial statements do not capture many of the intangible value drivers that dominate today's economy. Indeed, under the current accounting standards, companies do not have to recognize these drivers as assets and, in fact, many companies may be choose do not disclose in their financial statements.

Therefore, there is the issue of whether the traditional reporting model needs to be modified or at least broadened to reflect these assets, so to enhance the usefulness of accounting information to different stakeholders. One of possible alternative way of reporting such assets is the utilization of narrative sections of annual reports, that is, corporations may engage in voluntary disclosure practices in order to disclose intangible assets (IA) information as part of an external corporate reporting framework. Further, as discussed in Chapter II, companies most likely get benefit from voluntary disclosure from competing in global markets. While the importance of voluntary disclosure practices regarding corporate social responsibility and environment has been well documented in developed economies.

The aim of this thesis was to examine voluntary disclosure practices of the top companies (LQ45) which listed in Indonesia Stock Exchange per 2010 and 2011 regarding their IA in the sections of corporate annual reports. For the purpose of the current study, IA were defined as "claims to future benefits that do not have a physical or financial embodiment" and were classified into three broad categories: IA stemming from the Discovery and Learning phase, the Implementation phase, and the commercialisation phase.

5.1 .Variety, nature and extent of IA disclosure

This research examined whether companies in LQ45 engaged in voluntary disclosure practices regarding their IA. In particular, considered the variety of IA items being disclosed by the sample companies and the extent to which these IA were being reported in annual reports, as well as the nature (quantitative or qualitative) . The three phases of IA that companies would discover and learn their IA, which would be implemented in order to reap the benefits through commercialisation of IA. Company would voluntarily disclose IA information in order to enhance their reputation and profile, as well as to negate the perceived transparency problems associated with their capital markets and financial reporting systems. In summary, 4o out of the 21 sample companies (46%) disclosed IA information in their annual reports. Consistent with the proposition that companies may be reluctant to disclose how they would implement IA as part of their corporate value chain in case they unwittingly disclosed competitive advantage

Further, the majority of IA information being disclosed in the narrative sections of corporate annual reports had a quantitative component, either financial or non financial. This finding is somewhat contrary to that of previous studies examining social responsibilities and environmental voluntary disclosure practices, findings from these studies indicated that most voluntary disclosures are qualitative only in nature. This is in line with the expectation that companies may not want to indicate how much they spend on implementing some of their IA processes and ideas. The extent of IA disclosure was found to be similar to the level of disclosure in the variety and nature measures.

5.2. Factors associated with the IA voluntary disclosure

This part considered whether there is a relationship between the IA voluntary disclosure and some factors by conducting a series of multiple regression analyses. For the purpose of this thesis, 3 independent variables from 5 factors were selected based on previous studies. The dependent variable for the multiple regression analysis was considered for the purpose of the current study. From the result, this study found that industry type, firm size and profitability are significantly influence to the intangible asset disclosure.

5.3 Limitations

5.3.1 Limitations specific to the current study

There are three main limitations to this study. First, due to the time limitations imposed, it was not possible to consider more than the companies and compare with the other countries to conduct an extensive content analysis. Subsequently, the sample size was reduced to LQ45 companies for content analysis to examined. A larger sample size may have allowed for a more thorough examination of the issues relating to voluntary disclosure practices by increasing the number of independent variables.

The second limitation of this study also contributed to the potential sample size limitation that discussed above. This was due to the difficulties associated with the general lack of available data and the collection of such data about companies. For the purpose of the current study, it was necessary to consider the voluntary disclosures in annual reports.

The third limitation of this study is that it did not examine whether the voluntary disclosures regarding IA in annual reports were considered useful by the users of annual reports. Companies that voluntarily disclosing extensive business information are in part of annual report just trying to differentiate themselves by providing an enhanced level of information that can help investors and creditors understand the better company (Levinson, 2001). The investigation into what is voluntarily disclosed by companies may enhance the understanding of the motivation behind such disclosures, exploring how these voluntary disclosures are perceived and used by various stakeholders would enhance the research literature on IA and voluntary disclosure practices.

5.3.2 Limitations common to the research methodology

The common limitation to the research methodology that adopted in this thesis is multiple regression analysis does not allow researchers to consider the causal relationship between the dependent and independent variables: the focus is on associations rather than on the *one way* cause-and-effect relationship. That is, in the current study, it was not possible, nor was it intended, to ascertain whether variables directly *influenced* the level of IA voluntary disclosure in annual reports.

5.4 Contributions of the Research.

As previously discussed, the thesis findings have several implications for the literature. A summary of the practical implications is given in this section.

First, this study introduced and empirically tested the factor that motivated manager to disclose IA in annual report. While there are many different measurement frameworks for IA, such as the intangible asset considers the entire spectrum of the company's activities. It is designed to inform various stakeholders of the company's intangible resources and how they are used within the value creating processes. Based on theory there are three IA activities, starting with the *Discovery and Learning* of the IA resources of the company, to the *Implementation* of such resources, and then to the *Commercialisation* phase where the benefits from IA are realised. It is also one of the framework which was designed to the external reporting as its main objective and, therefore, has the most potential to be an external reporting model which can be included as part of corporate annual reports.

Second, this thesis considered issues beyond those the existing of IA, that is, while the previous studies have examined the types of IA items being reported in the annual reports of corporations, less considered are the practical implications of the reasons behind such disclosure. This study thus considered the factors which are associated with the differing levels of IA voluntary disclosure.

Third, this study examined the extent and nature of IA voluntary disclosure practices thereby contributing to the literature on financial reporting practices in company. Further, the study examined whether voluntary disclosure practice can be considered as an alternative to the harmonization of accounting standards. As previously discussed, the harmonization of accounting standards may not be viable in practice, especially for items such as IA reporting. Subsequently, voluntary disclosure may represent an alternative path to the harmonization of accounting information disclosed in annual reports.

5.5 Suggestions for future research

The suggestion in this research as well as the limitations. First, future research could examine the IA voluntary disclosure practices of a larger number of companies from more diverse country. While the current study was concerned with the disclosure practices of the LQ45 companies, next the proposition that these companies are the ones whose details are being demanded in international markets and consider whether there is indeed a significant difference in the disclosure practices of companies and others in global markets.

Further, next studies may want to investigate more extensively whether national differences influence the extent of IA disclosure and the implications of such differences to existing and future stakeholders. The second research opportunity relates to investigating other forms of external financial reporting. While the use of annual reports as the main external reporting is well documented and supported and therefore it is accepted as the most relevant type of corporate documents. There are alternative meaning of disseminating corporate information to various stakeholders such as quarterly or half yearly reports, intellectual capital statements, special reports, and corporate websites.

The third refer to the further research is concerned with the phenomenon, there may be systematic differences between disclosed in the local language annual reports and the english version of the annual reports. While it has been proposed that only english annual reports are relevant in global markets, examining the reasons why there may be the substantial differences between the two different language versions of annual reports.

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Descriptive Statistics

	Mean	Std. Deviation	N
IA_Disclosure	.2766	.31624	80
Ind_Type	.5125	.55103	80
Firm_Size	24.1549	1.39295	80
Leverage	2.3786	3.08133	80
EBITDA_Margin	37.8500	16.40292	80
Profitability	20.2376	19.50294	80

Variables Entered/Removed

Model	Variables Entered	Variables Removed	Method
1	Profitability, Ind_Type, EBITDA_Margin, Firm_Size, Leverage[a]	.	Enter

a. All requested variables entered.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.746[a]	.657	.527	.21748	.557	18.606	5	74	.000	1.557

a. Predictors: (Constant), Profitability, Ind_Type, EBITDA_Margin, Firm_Size, Leverage

b. Dependent Variable: IA_Disclosure

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.400	5	.880	18.606	.000[a]
	Residual	3.500	74	.047		
	Total	7.900	79			

a. Predictors: (Constant), Profitability, Ind_Type, EBITDA_Margin, Firm_Size, Leverage

b. Dependent Variable: IA_Disclosure

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions					
				(Constant)	Ind_Type	Firm_Size	Leverage	EBITDA_Margin	Profitability
1	1	4.555	1.000	.00	.01	.00	.01	.00	.01
	2	.705	2.542	.00	.01	.00	.32	.00	.15
	3	.415	3.313	.00	.79	.00	.02	.01	.01
	4	.249	4.279	.00	.06	.00	.32	.00	.52
	5	.075	7.768	.00	.02	.00	.32	.95	.19
	6	.001	64.639	1.00	.10	1.00	.00	.03	.13

a. Dependent Variable: IA_Disclosure

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	-.2856	.7306	.2766	.23601	80
Residual	-.43548	.54708	.00000	.21049	80
Std. Predicted Value	-2.382	1.923	.000	1.000	80
Std. Residual	-2.002	2.516	.000	.968	80

a. Dependent Variable: IA_Disclosure