

THE EFFECT OF SIZE, FIRM AGE, GROWTH, AUDIT REPUTATION, OWNERSHIP AND FINANCIAL RATIO ON INTELLECTUAL CAPITAL DISCLOSURE

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Abstract - *The purpose of this research is to examine the effect of size, firm age, growth, auditor reputation, ownership concentration, leverage, market-to-book ratio, liquidity, and profitability on intellectual capital disclosure. This research used 157 non-financial companies that listed in Indonesia Stock Exchange and the data were selected using purposive sampling method during 2012 until 2015. The data were analyzed using multiple regression method. The empirical result show that size, profitability, auditor's reputation and ownership concentration have influence on intellectual capital disclosure practices while firm age, leverage, market-to-book ratio, liquidity, and growth have no influence on intellectual capital disclosure practices.*

Keywords: Intellectual capital disclosure, size, age, auditor reputation, ownership concentration, growth, financial ratio.

Abstrak: Tujuan penelitian adalah untuk menguji pengaruh ukuran, umur, pertumbuhan, reputasi auditor, konsentrasi kepemilikan, leverage, rasio market-to-book, likuiditas, dan profitabilitas terhadap pengungkapan modal intelektual. Penelitian ini menggunakan 157 perusahaan non-keuangan yang terdaftar di Bursa Efek Indonesia dan data dipilih menggunakan metode purposive sampling selama 2012 hingga 2015. Data dianalisis menggunakan metode regresi berganda. Hasil empiris menunjukkan bahwa ukuran, profitabilitas, reputasi auditor dan konsentrasi kepemilikan memiliki pengaruh terhadap praktik pengungkapan modal intelektual, sementara usia perusahaan, leverage, rasio pasar terhadap buku, likuiditas, dan pertumbuhan tidak memiliki pengaruh pada praktik pengungkapan modal intelektual.

Kata kunci: Pengungkapan modal intelektual, ukuran, umur, pertumbuhan, reputasi auditor, konsentrasi kepemilikan, leverage

INTRODUCTION

The company's annual report is a report prepared by the company each year as a form of corporate accountability to all parties who need

information related to the companies. The annual report generally contains the financial statements and disclosures of achievement and performance of other operations that have lasted for one period of the company. Today, the

disclosure of annual reports is quite a concern for users of the annual report because through the annual reports, the users of financial statements such as investors, governments, communities, and other external parties can determine the performance and accountability of the companies. The extent of disclosure depends on the extent of awareness of the company to disclose its performance to the public and how to apply management policies at the company.

According to Mouritsen *et al.* (2004), the financial statements traditionally considered less able to provide relevant information to investor to understand the resources owned by the company, most of which is intangible and it's able to increase the value of the company in the future. The company reports not only the things that are tangible, but also the intangible. Companies that disclose full disclosure regarding both tangible and intangible wealth considered more able to meet the needs of the users information to make a better decisions. The users of the annual report not only focuses on the number figures disclosure but the annual report also require an information that are not visible but can provide more benefits for the company which would be called intellectual capital.

Intellectual capital are a knowledge, information and intellectual property which can be used to find opportunities and manage threats of a company, so it can affect the durability and competitive advantage (Nugroho 2012). Intellectual capital nature can not be seen physically and may even be difficult to be measured, but the intellectual capital deemed necessary to be disclosed because intellectual capital is considered as an asset that can increase the value and profits for the company.

Agency Theory

Jensen and Meckling (1976) define an agency relationship as a relationship between individuals or groups who commit a contractual

agreement with individuals or other groups, where one party acts as a principal and the other party acts as an agent. Principals has the authority to make decisions related to the tasks performed by the agent. When the two sides, both principals and agents each trying to maximize their own interests, then the most likely agents will act outside the interests of the principals with the purpose to meet the interests of the agency.

Signaling Theory

This theory describes signals that company send to the market about the state of the company itself (Spence 1973). The signal given by a company is determined on the decision of the management company, will conduct a thorough disclosure or not. Spence (1973) revealed that if the company signaled bad news, it would generate more costs than signaled good news for the market. It is underlying the managers to disclosure on the company overall wealth and voluntarily due to their expectations by providing the good news, it will reduce the information gap between the company with the market.

Size and Intellectual Capital Disclosure

The size of the company can be seen from how much the assets owned by the company and can also be seen from the amount of capital managed by the company. According to Nugroho (2012), the larger size of the company, the larger demands to disclosure to the public compared with smaller companies because the big companies that disclose more information to the market, whether financial and non-financial information, trying to imply that the company has done a good management and to raise fund from investor. From the explanation above, then the hypothesis to be tested are as follows:

H₁: Size has positive effect on Intellectual Capital Disclosure.

Firm Age and Intellectual Capital Disclosure

Firm age is the length of time the company to conduct its operations and maintain its existence in the world of business (Nugroho 2012). The longer the company can survive, showing that the company is able to maintain the going concern of its operations (Fontana and Macagnan 2012). Companies that existed long enough is generally considered to be more widespread disclosure compared with younger companies (Ansah 1998). It is because the younger company will suffers when they reveal some information such as research costs, capital costs, and the development of its products. From the explanation above, then the hypothesis to be tested are as follows:

H₂: Firm Age has positive effect on Intellectual Capital Disclosure.

Growth and Intellectual Capital Disclosure

Growth is the growth rate of the company, both in terms of sales and growth in asset ownership. Companies that experiencing rapid growth, the company will increasingly be required to make more disclosures to the shareholders both financial and non-financial information and company has sent a positive signal to the market that the company is has a good management (Brookings 1996). From the explanation above, then the hypothesis to be tested are as follows:

H₃: Growth has positive effect on Intellectual Capital Disclosure.

Auditor Reputation and Intellectual Capital Disclosure

Auditor is the party that has a certain qualification in auditing company reports and activities of a company or organization. Each company generally working with Public Accounting Firm to examine and evaluate the report prepared by the company for the purpose of performance improvement in the future. Public Accounting Firm that has a good reputation will generally be more daring to push the client to do more disclosure in the annual report (Wijana *et*

al. 2013). It is intended to maintain the reputation of the auditor itself, and assist clients in improving its accountability to the public. In addition, the auditor who comes from a reputable accounting firm will be better able to assist clients in expressing intellectual capital owned by the company because the auditor is considered to have a good level of intelligence capabilities (Soliman 2013). From the explanation above, then the hypothesis to be tested are as follows:

H₄: Auditor Reputation has positive effect on Intellectual Capital Disclosure.

Ownership Concentration and Intellectual Capital Disclosure

Ownership concentration is defined as the pattern of distribution of shares between shareholders of different companies (Moeinfar *et al.* 2013). A company with concentrated ownership, in the sense of ownership of the company largely owned by several parties a majority, will make fewer disclosures (Whitting and Woodcock 2011). This is because the company's responsibility to the public disclosure is not high, because the ownership is more focused on the internal and not to the shareholders or outsiders. From the explanation above, then the hypothesis to be tested are as follows:

H₅: Ownership Concentration has negative effect on Intellectual Capital Disclosure.

Leverage and Intellectual Capital Disclosure

Leverage is the amount of company assets that come from having a fixed load funds, where the assets are used to increase the level of income of the company (Weygandt *et al.* 2015). The company will be required to be more thorough disclosure with for their demands on loan, either directly or indirectly from creditors because lenders require comprehensive information regarding the company to then make decisions (Alsaeed 2006, Fontana and Macagnan 2012). From the explanation above, then the hypothesis to be tested are as follows:

H₆: Leverage has positive effect on Intellectual Capital Disclosure.

Market-to-Book Ratio and Intellectual Capital Disclosure

Market-to-book ratio is generally defined as the ratio between the market value and the book value stated in the financial statements of the company. The difference between the market value and book value of the company could be interpreted by shareholders as related potential benefits to be derived in the future (Fontana and Macagnan 2012). When companies are having huge growth opportunity, the company will make more extensive disclosure to the market whether financial or non-financial information. From the explanation above, then the hypothesis to be tested are as follows:

H₇: Market-to-Book Ratio has positive effect on Intellectual Capital Disclosure.

Liquidity and Intellectual Capital Disclosure

Liquidity is the ability of the company to meet its short-term liabilities (Fontana and Macagnan 2012). When a company is able to meet its short term obligations, the company will be considered able to survive in future (Alsaeed 2006) and will increase the confidence of the management company and more extensive in the disclosure of intellectual capital. From the explanation above, then the hypothesis to be tested are as follows:

H₈: Liquidity has positive effect on Intellectual Capital Disclosure.

Profitability and Intellectual Capital Disclosure

Profitability is the ability of a company to generate profits on the company's operating results for a particular period, resulting from the use of assets or capital owned by the company. Companies with a high level of profitability will also do more disclosure in financial and non-financial information to give positive signals and information to external parties as consideration

in investing in the company and to prevent the stock valuation is too low (Soliman 2013, Marston and Polei 2004). From the explanation above, then the hypothesis to be tested are as follows:

H₉: Profitability has positive effect on Intellectual Capital Disclosure.

RESEARCH METHODS

The population used in this research are non-financial companies listed on the Indonesian Stock Exchange between 2012 and 2015. The sample selection techniques used in this research is the purposive sampling method. The sample in this research are 157 companies. To test the hypotheses, a multiple regression method is used.

Intellectual capital disclosure in this study is the extent of voluntary disclosures made by the company regarding the intellectual capital held by the company (Wijana *et al.* 2013). Variable measurement of intellectual capital disclosure is done by using the index number (ICD index). Disclosure index is a method that is done by scoring the disclosure of certain formation that holds the number 1 for the disclosure and figures of 0 for which no disclosure on each item (Istanti 2009). Disclosure as a percentage of the total index is then calculated by the formula with the formula as expressed by Nugroho (2012):

$$\text{Score} = \frac{S_{di}}{M} \times 100\%$$

Company's size is the size of the company. Variable size companies use a ratio scale. Company's size measured by proxy the natural logarithm the total value of assets owned by the company at the end of the year (Nugroho 2012)

Company's age is the duration of the company in operational activities. In this study, a proxy for company's age is the duration of the company when the company listed in Indonesia Stock Exchange through years of research, which is measured in years (Nugroho 2012)

Growth is the growth rate of asset that the company have. The measure of this variable is as follow:

$$\text{Assets Growth} = \left[\left(\frac{\text{Total Assets}_t}{\text{Total Assets}_{t-1}} \right) - 1 \right] \times 100$$

Auditor's reputation is described by the company quality audit based on the results of its performance and reputation (Wijana et al. 2013). The auditor's reputation is measured using dummy variables where 1 is given to companies using that use *Big Four* and 0 for the otherwise.

Ownership concentration is the number of outstanding shares held by the shareholders in a company (Nugroho 2012). The measure of this variable using the percentage of shares owned by the three largest shareholders company.

Leverage is the amount of assets that are measured by debt financing by creditors. The measure of this variable is as follow:

$$\text{Debt to Total Asset Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

Market-to-book ratio is the ratio used to determine how big the difference between market value and book value of which is owned by the company (Kirch *et al.* 2012). The measure of this variable is as follow:

$$\text{Market-to-Book Value Ratio} = \frac{\text{Market Value of the Shares}}{\text{Book Value of the Shares (Equity)}} \times 100\%$$

Liquidity is the ability of the company to meet its short term obligations. The measure of this variable is as follow:

$$\text{Liquidity} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Profitability is the level of financial success that is able to be obtained by the company (Wijana *et al.* 2013). The measure of this variable is as follow:

$$\text{ROA} = \frac{\text{Net Profit After Tax}}{\text{Total Asset}} \times 100\%$$

RESULTS

Table 1 Descriptive Statistics Test Results

Variable	Minimum	Maximum	Mean	Standard Deviation
ICD	0,04	0,88	0,4463	0,1457
SIZE	23,5459	33,1341	28,4987	1,6043
AGE	1	34	15,52	7,930
GROWTH	-0,6963	426,5773	0,8568	17,0174
AUDITOR	0	1	0,44	0,497
OWN_CONCENTRATION	0,0831	0,9908	0,6371	0,2020
LEVERAGE	0,0003	1,6593	0,4512	0,1981
MBR	-41,0778	246,460	3,3467	11,5119
LIQUIDITY	0,2405	247,1271	3,0423	11,9408
PROFIT	0,0002	0,6572	0,0846	0,0791

Table 2 Hypothesis Result

Variable	B	Sig.
(Constant)	-0.516	0,000
SIZE	0,034	0,000*
AGE	-0,001	0,100
GROWTH	-0,0002	0,874
AUDITOR	0,047	0,000*
OWN_CONC	-0,074	0,001*
LEVERAGE	0,011	0,984
MBR	0,000	0,692
LIQUIDITY	-0,001	0,210
PROFIT	0,212	0,002*
R		0,546
Adjusted R ²		0,288
F		29,230

CONCLUSION

Table 2 above shows that size has significant value below 0.05 so it can be concluded that size has positive effect on intellectual capital disclosure. The larger the company, the company will be widened to reveal the intellectual capital owned by the company. Based on the agency theory, a large company's will do comprehensive disclosure in order to minimize agency costs that arise between the principal and the agent. In addition, large companies are also more broadly disclosure with the aim of revealing about to give a positive signal to the public about the management of the resources owned by the company.

Based on table 2, auditor reputation has significant value below 0.05 so it can be concluded that auditor reputation has positive effect on intellectual capital disclosure. Companies that has audited by the Big Four accounting firm doing the disclosure of intellectual capital as it is driven by the accounting firm to conduct comprehensive disclosure in order to maintain the reputation itself in terms of its accountability to the public. Ownership concentrati has significant value below 0.05. From these results it can be

concluded that the ownership concentration has negative effect on intellectual capital disclosure. A company with concentrated ownership, fewer carry out intellectual capital disclosure. This is because, corporate responsibility for its performance to external parties is concentrated to a few parties only and the company does not need to make extensive disclosures. Concentration of ownership is more concern to some of the majority are considered to have lower agency costs, due to performance accountability largest company devoted to some of the parties so that the company will be doing less intellectual capital disclosure.

Profitability has significant value below 0.05 so it can be concluded that profitability has positive effect on intellectual capital disclosure. The higher level of profit that is owned by the company, the company will do disclosure of intellectual capital with comprehensive with the aim to show that the company is able to obtain a higher profit because it has a high intellectual capital. In addition, the company also wanted to give a positive signal to the public about the work done by the company during the relevant period and as a consideration to the public to invest in the company.

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