

CHAPTER I

INTRODUCTION

1.1 Background

Due to the globalization and the demand of information keeps on increasing, a company must disclose other information which is not mandatory by the Bapepam (Arifin and Asy'ari, 2005). This kind of disclosure - which is called voluntary disclosure- supports the information of mandatory disclosure and gives value added to the whole information of a company. Steering Committee Report conduct a Business Reporting Research Project (2001) sponsored by FASB believes that voluntary disclosure can benefit companies in a several ways such as lower average cost of capital, enhanced credibility and improved investors relations, more liquid markets with narrower price changes between transactions, the likelihood of better investment decision making and also less danger of litigation alleging inadequate informative disclosure and better defenses when such suits are brought.

One of the voluntary disclosures is Intellectual Capital disclosure (Yuniasih, Rasmini and Wirakusuma, 2011). Intellectual Capital (IC) defines by Viedma (2007) as 'the knowledge and other intangibles that produce or create value in the present and knowledge and other intangibles that will produce or create value in the future'. People are getting more aware of the importance of IC voluntary

disclosure in creating and sustaining the competitive advantage and shareholder value (Tayles 2007 in Suhardjanto and Wardhani, 2010). This is because IC disclosure provides evidence about one company's true value and wealth creation capabilities. (Rahim, Atan and Kamaluddin, 2011). It also benefits one company by reducing the information asymmetry, enhance stock market liquidity, and increase demand for the company's shares (Graham et al., 2005 and Peterson & Plenborg, 2006 in Ho, Chau and Cheung, 2012). Based on the research by Yuniasih, Rasmini and Wirakusuma (2011), it is mentioned that the intellectual capital disclosure brings positive impact on market performance.

Too and Sumasundaram (2010) claimed that some intangible assets such as staff skills, training, management, customer relationship and loyalty are hard to be measured. Hence, there is no fixed accounting standard related to IC disclosure. Moreover, since it is a voluntary disclosure, the level of IC disclosure varies among the companies. (Purnomosidhi, 2006 in Yuniasih, Rasmini and Wirakusuma, 2011). Researchers then started to conduct researches to find the determinant in companies for disclosing its IC (Brüggen, Vergauwen and Dao, 2009). For example, Rahim, Atan and Kamaluddin (2011) concluded that the profitability has significant association to IC disclosure level. On the other hand, characteristics of companies such as size, type of auditor and leverage of Malaysian Technology Industry companies has no significant effect toward IC disclosure.

A research conducted by Brügger, Vergauwen and Dao (2009) in Australia showed that firm size influences IC disclosure. Research by Taliyang, Latif and Mustafa (2011) showed that the age, size, ownership structure and growth of the companies listed in Malaysia were related to IC disclosure, while leverage and profitability showed no relations with IC disclosure. In addition, a research conducted by Rahim, Atan and Kamaluddin (2011) in the Malaysian Technology industry showed that the size of company, leverage and type of auditor have no contribution to IC disclosure, while profitability has an influence on IC disclosure.

Based on the previous researches, the writer decided to conduct a research to find the influence of Indonesian companies measured by their characteristics towards IC disclosure. To differentiate from previous studies, the writer will use characteristics of Indonesian companies such as firm age, size, leverage, ownership, profitability, growth and type of auditor.

Therefore, this research will be entitled “**FACTORS INFLUENCING INTELLECTUAL CAPITAL DISCLOSURE AT LISTED INTELLECTUAL CAPITAL INTENSIVE COMPANIES IN INDONESIAN STOCK EXCHANGE**”.

1.2 Purpose of the Research

The purposes of this research are:

- 1) To know the influence of companies' characteristics towards IC disclosure.

- 2) To obtain empirical evidence about the influence of companies characteristics towards IC disclosure.

1.3 Problem Formulation

This research will be focusing on the relationship between companies' characteristics and IC disclosure. Writer will be focusing on characteristic companies such as firm age, size, leverage, ownership, profitability, growth and type of auditor.

Based on the description above, the main problem that will be discussed in this research can be formulated into:

- 1) Does firm age influence IC disclosure?
- 2) Does firm size influence IC disclosure?
- 3) Does leverage influence IC disclosure?
- 4) Does ownership influence IC disclosure?
- 5) Does profitability influence IC disclosure?
- 6) Does growth influence IC disclosure?
- 7) Does type of auditor influence IC disclosure?

1.4 Advantages of the Research

The advantages from this research are:

- 1) For accounting, as a reference and consideration in future research related to the influence of companies' characteristics toward intellectual capital disclosure.
- 2) For management of company, as an information and a decision making consideration regarding the company's characteristics in IC disclosure.
- 3) For the writer, as a requirement to fulfill one of the academic requirements for achieving Bachelor of Economics degree in Accounting and to increase the ability in performing a research.

1.5 Limitations of Research

The limitations of this research are:

- 1) The IC disclosure is classified into three classes which are Human Capital, Structure Capital and Relational Capital. In this research, writer will be using those three classes as part of IC disclosure measurements for listed companies in Indonesian Stock Exchange in year 2009-2011.
- 2) The characteristics of companies can be size of the firm, ownership structure, board composition, audit committee, firm age, profitability, growth, leverage, type of industries and etc. Writer decided to choose firm age, size, leverage,

ownership, profitability, growth and type of auditor as the characteristics of companies tested in this research.

1.6 Writing Scheme

Writer presents the result of this research into a journal with the contents as follows:

CHAPTER I INTRODUCTION

This chapter will explain about the fundamental matters regarding this thesis, which includes the background of the problem, purpose of the research, problem formulation, advantages of the research, limitations of research and writing scheme.

CHAPTER II LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

This chapter consists of concept definition to support the thesis. Moreover, writer also presents the conceptual framework and hypothesis development based on previous related studies.

CHAPTER III RESEARCH METHODOLOGY

This chapter will explain about population and sample, data collection method, research empirical model, operational variables and data analysis method.

CHAPTER IV ANALYSIS AND DISCUSSION

This chapter will discuss about the research object, data analysis, hypothesis testing, and the implication of hypothesis testing.

CHAPTER V CONCLUSION AND RECOMMENDATION

This last chapter concludes the result from this research and presents the implication of the research. Besides that, the limitations of the research were mentioned in this chapter and also recommendations for future research.