

# Corporate Governance Mechanism on Intellectual Capital Disclosure and Firm Value

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**Abstract:** This study examined the effect of corporate governance mechanisms on intellectual capital disclosure and firm value. The corporate governance mechanism was proxied by the independent commissioner, audit committee, institutional ownership and managerial ownership variables. The population in this study is all manufacturing companies listed on the IDX in 2016-2018. The sample selection was carried out using purposive sampling method. The test results using path analysis show that in Model 1, the audit committee and managerial ownership have a positive effect on intellectual capital disclosure, while independent commissioners and institutional ownership have no effect on capital disclosure intellectual. The test results in Model 2 show that independent commissioners, audit committee, and intellectual capital have a positive effect on firm value, while independent commissioners and institutional ownership have no effect on firm value. The test results also show that intellectual capital disclosure mediates the effect of the audit committee on firm value. As expected, size and profitability as control variables show a positive effect on disclosure of intellectual capital and firm value.

**Keywords:** *corporate governance mechanisms, intellectual capital disclosure, firm value, path analysis*

## I. INTRODUCTION

Intellectual capital is a strategic resource owned by the company, which includes the company's knowledge and skills, capabilities, values and methods, which can help companies achieve competitive advantage and sustainable performance [1] [2]. Due to its dynamically changing nature, intellectual capital has become the main mechanism for companies to stand out from their competitors [3]. The concept of intellectual capital has evolved from a variety of different disciplines and is increasingly becoming an interdisciplinary field [4]. However, empirical evidence about its contribution to firm performance is scarce in certain sectors and geographic areas. Intellectual capital also cannot be seen easily by the market

because it is not explicitly seen in the financial statements published by the company. Therefore, intellectual capital needs to be disclosed.

Intellectual capital disclosure has a very important role for companies. [5] state that there are some disadvantages to the capital market if information on intellectual capital is not reported, namely: 1) smaller shareholders do not have access to information that is only shared with large investors, 2) trading occurs by insiders (inside information), 3) greater disclosure of intangibles will increase market liquidity and demand for shares, 4) investors misjudge the level of risk of the company, 5) increase the cost of capital, and increase the wrong assessment of the company's stock price, and decrease market value. As a consequence, companies will report more firm value in disclosure of intellectual capital to explain the effect on market capitalization [6]. Intellectual capital disclosure can reduce information asymmetry, increase transparency, accountability, reduce the cost of capital, and increase share prices, which in turn will increase firm value and can increase the trust and loyalty of employees and other stakeholders [7].

Unfortunately, the importance of intellectual capital for companies is not in line with the level of disclosure. Information about intellectual capital is still lacking [7]. Research on the disclosure of intellectual capital in Indonesia also shows that companies in Indonesia do not comply with regulations regarding the filing of annual reports, in which intellectual capital is disclosed [8]. As a result, there has been an increase in information asymmetry from companies and users of financial statements. This in turn can lead to inappropriate decisions made by stakeholders.

Based on the above arguments, it is necessary to investigate the factors that influence intellectual capital disclosure. Some of the main determinants of intellectual capital disclosure such as size, leverage, information asymmetry, type of industry,

and ownership structure are shown by [7], and [9]. However, most of the previous research on intellectual capital disclosure focused on developed countries and only a few were conducted in developing countries [10].

Most of the research on the factors that influence intellectual capital disclosure is company characteristics, including company size, profitability, leverage, type of industry and company age [11]. Currently, corporate governance is a hot target when looking for determinants of intellectual capital disclosure [12]. Corporate governance establishes a framework for efficiency and honesty, as well as corporate transparency and accountability. Corporate governance is a set of systems that ensures the company is well managed for the benefit of stakeholders. Consequently, managerial opportunistic behavior depends on the quality of these governance mechanisms [13]. Companies with better corporate governance will disclose more information. This aims to minimize agency problems and information asymmetry [14]. Following the previous literature, it can be assumed that the main factor affecting the disclosure of intellectual capital is corporate governance.

The quality of corporate governance can be evaluated based on the principles of disclosure and transparency, relationships with shareholders and stakeholders, characteristics of the board of commissioners, policies and compliance, as well as ownership and supervision structures [15]. Corporate governance is one of the tools used to control agency costs. The results show that the better the corporate governance, the higher their awareness of expressing intellectual capital, which means that intellectual capital will be more widely disclosed [16][17].

This study examines the effect of corporate governance mechanisms, both from board structure and ownership structure, on voluntary disclosure. In several previous studies only partially examined the effect of corporate governance mechanisms. In addition, this study also extends previous research by examining the impact of disclosure on firm value. Several researchers have previously tested the effect of intellectual capital disclosure on market capitalization and firm value alone [18] [19].

**II. METHODS**

*A. Population and Sample*

Where:

- PBV = Price to book value
- ICD = Intellectual capital disclosure
- IndCom = Independent commissioner
- AuditCom = Audit committee
- InstOwn = Institutional ownership
- ManOwn = Managerial Ownership
- Size = Company size

The population in this study are all manufacturing companies listed on the IDX in 2016-2018. The sampling technique was carried out using a purposive sampling method, with the following criteria: 1) publishing audited financial reports and 2) having complete data. Based on these criteria, 129 data were obtained.

*B. Variables and Measurements*

The variables in this study consist of endogenous variables, namely firm value, mediating variables, namely intellectual capital disclosure, and exogenous variables which include independent commissioners, audit committee, institutional ownership and managerial ownership as proxies for corporate governance mechanisms. Firm value in this study is measured using price to book value (PBV), which is the ratio between stock market prices and book value [20]. Independent commissioners are measured by using the proportion of the number of independent commissioners to the total board of commissioners [21], the audit committee is measured by the number of members of the audit committee [22], institutional ownership is the ratio between the number of shares owned by institutional investors and the total shares of the company [9], and managerial ownership is the ratio between the number of shares owned by the manager and the number of shares outstanding [9] (Haji dan Gazali, 2013). Intellectual capital disclosure is measured by 36 items developed by [23], based on the modification of those proposed by [24] Guthrie and Petty (2000) and adjusted to the Indonesian regulations. It was calculated, mathematically, using the Total disclosure score/cumulative score. Size and profitability as control variables in this study are measured using the log of natural assets and the ratio between net income and total assets [25].

*C. Analysis Technique*

Based on the theoretical framework built, this study used path analysis with the following formula:

$$ICD = \alpha + \beta_1 \text{ IndCom} + \beta_2 \text{ AuditCom} + \beta_3 \text{ InstOwn} + \beta_4 \text{ ManOwn} + \beta_5 \text{ Size} + \beta_6 \text{ Prof} + \varepsilon \quad (1)$$

$$PBV = \alpha + \beta_1 \text{ IndCom} + \beta_2 \text{ ComDit} + \beta_3 \text{ InstOwn} + \beta_4 \text{ ManOwn} + \beta_5 \text{ ICD} + \beta_6 \text{ Size} + \beta_7 \text{ Prof} + \varepsilon \quad (2)$$

- Prof = Profitability
- $\alpha$  = Constant
- $\beta_1 - \beta_7$  = The regression coefficient for each independent variable
- $\varepsilon$  = Error term

Table 1  
Summary of Regression Testing Results for Models 1 & 2

Description	Dependent Variables			
	Model 1 (ICD)		Model 2 (PBV)	
	Coefficient	Sig	Coefficient	Sig
IndCom	-.010	.723	1.080	.000
AuditCom	.019	.017	.346	.000
InstOwn	.022	.181	.154	.315
ManOwn	.102	.000	.183	.334
ICD	-	-	.574	.014
Size	.009	.000	.112	.000
Prof	.182	.000	6.627	.000
Adjusted R Square	.411	-	.622	-
F-count	15.883	-	27.783	-
Sig.	.000	-	.000	-

**III. RESULTS AND DISCUSSION**

*A. Results of Model Testing*

Two models in this study have met the requirements of using ordinary least square regression, namely the residual normality test and classical assumptions which include multicollinearity, autocorrelation and heteroscedasticity. A summary of the results of testing Model 1 and Model 2 is presented in Table 1.

The information in Table 1 shows that the adjusted R2 value for Model 1 is 0.411, which means that 41.10% of the variation in intellectual capital disclosure can be explained by the independent commissioner, audit committee, institutional ownership, managerial ownership, size and profitability, while the remaining 58.9% is explained by other variables not included in the model. F count shows a value of 15.883 with a significance value of 0.000, so it can be concluded that Model 1 can be used.

The adjusted R2 value in Model 2 shows the number .622, which means that 62.20% of the variation in firm value can be explained by the independent commissioner, audit committee, institutional ownership, managerial ownership, intellectual capital disclosure, size and profitability, while the remaining 37.80% is explained by other variables not included in the model. The F count in Model 2 shows the number 27,783 with a significant value of .000, which means that the regression model is feasible to use.

*B. Result of Testing Hypothesis*

Hypothesis testing in Models 1 and 2 is presented in Table 1. The H1 test results show that the independent commissioner has a positive and significant effect at the 1% level, so that H1 which states that the independent commissioner has a positive effect on the disclosure of intellectual capital is accepted. The existence of independent commissioners in the board of commissioners

*C. Results of Mediation Variables Testing*

Based on the results of hypothesis testing in models 1 and 2, it can be seen that in Model 1, the audit committee beta coefficient value is 0.019 and

structure is expected to be able to supervise management, so that management will be more transparent with company information. The results of this study do not support the findings of several previous studies [21] [12] [9] which prove that the existence of independent commissioners will increase the extent of intellectual capital disclosure.

The audit committee has a negative effect on intellectual capital disclosure, so H2 which states that the audit committee has a positive effect on intellectual capital disclosure is accepted. The existence of an audit committee in a company will strengthen the monitoring function, thereby increasing the transparency of company management. The findings in this study are in line with the results of research conducted by [22], [26] and [27] which prove that the audit committee is able to carry out its functions properly, thus impacting on voluntary disclosure of relevant information including intellectual capital related issues in the annual report.

Institutional ownership has a positive and insignificant effect on disclosure of intellectual capital, so that H3 which states that institutional ownership has a positive effect on disclosure of intellectual capital is rejected. This result is not in line with the findings of [9] which show that the higher the number of shares held by an institution, the lower the level of intellectual capital disclosure.

According to H4, managerial ownership has a positive effect on intellectual capital disclosure. The higher the shares owned by management, the more management will act in accordance with the interests of the owner by implementing good governance, including through transparency of information.

Based on Model 2 in Table 1, it can be seen that independent commissioners and audit committees have a positive effect on firm value. It can be concluded that H5 and H6 which state that the independent commissioner and audit committee have a positive effect on firm value is accepted. These results indicate that the independent commissioners and audit committee perform their supervisory functions well on management, so that company performance increases. This condition will be responded positively by the market through an increase in share prices. The findings of the study are in line with the research results of [19]. Institutional and managerial ownership have no effect on firm value, so H7 and H8 which state that institutional and managerial ownership affect firm value are rejected. The results of this study are not in line with the findings of [28] who found a positive effect of ownership on firm value.

significant at the level of 0.017. In Model 2, the audit committee beta coefficient value is 0.346 and intellectual capital disclosure is 0.574, all significant at the 0.000 and 0.014 levels. The

results of the path analysis show that the audit committee can have a direct effect on firm value and can indirectly influence it through disclosure of intellectual capital as a mediating variable on firm value. The magnitude of the direct effect is 0.346, while the magnitude of the indirect effect is  $0.19 \times .574 = 0.1092$ . The total effect of the audit committee on firm value is  $0.346 + 0.1092 = 0.4552$ .

#### IV. CONCLUSION

This study examines the effect of corporate governance mechanisms proxied by independent commissioners, audit committee, institutional ownership and managerial ownership on intellectual capital disclosure. This study also examines the impact of corporate governance and intellectual capital disclosure on firm value. The results showed that the audit committee and managerial ownership have an effect on intellectual capital disclosure, while independent commissioners and institutional ownership have no effect. The results also show that the audit committee and intellectual capital disclosure have a positive effect on firm value, while independent commissioners, institutional ownership and managerial ownership have no effect. As expected, two control variables, namely size and profitability, have a positive effect on firm value.

Apart from the contribution that can be given, this study has several limitations that require improvement in future research. This study is only able to prove 4 of the 9 proposed hypotheses. The results of the path analysis also show that the disclosure of intellectual capital only mediates the effect of the audit committee on firm value. Future studies need to consider other measures of corporate and governance mechanisms, such as the activities and characteristics of the board of commissioners and audit committee, in order to obtain better results.

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