

Factors Affecting Intellectual Capital Disclosure and Company Value

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Abstract

This study examined the effect of profitability, firm age, firm size, leverage, earnings growth and profit growth on the intellectual capital disclosure (ICD) and the effect of intellectual capital disclosure on firm value. Sample in this research was obtained from 78 manufacturing companies listed on the Indonesia Stock Exchange with specific observations to the financial data in the period 2012-2015. By using Structural Equation Modeling (SEM) analysis techniques operated through the AMOS Version 21 program, the results show that profitability, and growth have a positive and significant effect on intellectual capital disclosure. Furthermore, intellectual capital disclosure as a mediating variable has an significant influence on firm value. Other findings indicate that the variables of company age, firm size, and leverage did not significantly affect intellectual capital disclosure. The findings of this study underline the importance of creating and strengthening intellectual capital disclosure in public companies in Indonesia.

Keywords

Intellectual capital disclosure (ICD), company value, manufacturing company, Indonesia Stock Exchange, profitability, growth

1. Introduction

The increasing difference between market value and book value of the company has attracted researchers to investigate the hidden value in the company's financial statements. Lev (2001) in Chen et al (2005) noted that during 1977 - 2001, in the US Standard and Poors (S&P) 500, the ratio of market value to the book value of the company increased from 1 to 5. This implies indirectly that 80% of the company's market value is not reflected in the financial statements. According to Edvinsson and Malone (1997) in Chen et al (2005), the difference between market value and book value of a company is the value of intellectual capital disclosure (ICD).

Firer & Williams (2003) state that conservatism accounting practices emphasize that corporate investment in intellectual capital presented in financial statements results from an increase in the difference between market value and book value. In the efficient market, the higher the company's intellectual capital disclosure, the higher the company's value. This is because investors will give high value to companies that have greater intellectual capital (Yuniasih et al., 2010). This is consistent with the results of research by Mačerinskienė & Survilaitė (2011) and Naidenova & Oskolkova (2011) which state that intellectual capital disclosure (ICD) influences firm value. However, Molodchik et al (2012) states that intellectual capital disclosure (ICD) has no effect on firm value.

Other research conducted by Lina (2014) states that the age of the company has a significant positive effect on intellectual capital disclosure. This was in contrast to the results of Oktavianti (2014) which states that the age of the company has a significant negative effect on intellectual capital disclosure. Moreover, Faradina (2015) and Ashari & Putra (2016) argue that the age of the company has no influence on intellectual capital disclosure. The results of previous studies that are inconsistent motivate to do a retest. The results of this study are expected to contribute to the development of science in the field of accounting, specifically related to the intellectual capital disclosure and are also expected to be able to be used as a reference for future research. This study examines the effect of profitability, company age, firm size, leverage, profit growth and earnings growth on intellectual capital disclosure (ICD) and examine the effect of intellectual capital disclosure (ICD) on firm value.

2. Literature Review and Hypothesis

Based on signal theory, companies that have high profitability can use intellectual capital disclosure to differentiate from other companies that are less profitable. Through these signals, the company can show that profitability results from investments in intellectual capital and the company will use intellectual capital disclosures to provide significant use signals in the form of these investments (Li et al., 2008). Thus, the higher profitability of the company make the company reveal more information about intellectual capital.

This is in line with research conducted by Oktavianti (2014), Utama & Khafid (2015), and Bidaki & Hejazi (2014) who find that profitability has a positive effect on intellectual capital disclosure. Based on the description, the hypothesis proposed in this study is:

H1: Profitability has a positive effect on intellectual capital disclosure.

In accordance with the signal theory, the longer the company's life signals investors that the company has more tangible and intangible resources. This makes a company with a longer life will provide wider disclosure of financial information compared to other companies with shorter lifespan on the grounds that the company has more experience in disclosing annual reports. The age of the company is estimated to have a positive relationship with the quality of company information disclosure. The underlying reason is that older companies have more experience in publishing financial statements. Companies that have more experience will better know the need for company information.

This is consistent with the results of research by Taliyang et al (2011), Lina (2013), and Dewi et al. (2014) which states that firm age has a positive effect on intellectual capital disclosure. Based on the description, the hypothesis proposed in this study is:

H2: The age of the company has a positive effect on Intellectual Capital Disclosure

Large companies give a signal that the company also has a large intellectual capital (Jensen & Meckling, 1979; Faradina, 2015). By disclosing intellectual capital more broadly, information asymmetry between shareholders and managers can be reduced. Thus, this information can be useful as a signal to investors and shareholders. The larger size of the company has the higher the demand for disclosure compared to smaller companies. Shareholders will certainly have broader knowledge about the condition of the company, including about how the prospect of creating company value in the future. With the reduction of information asymmetry between shareholders and managers, the intellectual capital disclosure will increase because companies do not close to information disclosure. Hence, larger companies will certainly be motivated to make intellectual capital disclosure more broadly.

The explanation is also supported by research conducted by Lina (2013), Oktavianti (2014), and Faradina (2015) which states that firm size has a positive effect on intellectual capital disclosure. Based on the description above, the hypothesis proposed for this study is:

H3: Firm size has a positive effect on intellectual capital disclosure

The leverage ratio shows the ratio of the use of liability to finance the company's assets. The higher liability ratio shows the signal of the worse performance of the company, therefore the company is trying to voluntarily disclose its intellectual capital to reduce investor concerns over the investment invested and as the responsibility of managers in managing the company. In addition, companies that have a high proportion of liability in their capital structure will bear a higher agency costs compared to companies that have a smaller proportion of liability. Companies that have a high proportion of liability in their capital structure will bear the risk and the stakeholders less trusting with companies that have a high proportion of liability. By disclosing their intellectual capital, the company can show that the possible risks faced by the company.

Research on leverage conducted by Utama & Khafid (2015) and Soebyakto et al. (2015) shows that leverage has a positive effect on intellectual capital disclosure. Based on the description, the hypothesis proposed in this study is:

H4: Leverage has a positive effect on Intellectual Capital Disclosure

The results of research by Taliyang et al (2011), Ashari & Putra (2016), and Bidaki & Hejazi (2014) states that profit growth has a negative effect on intellectual capital disclosure. However, profit growth will also affect intellectual capital disclosure. When profit growth increases, intellectual capital disclosure actually decreases. Positive profit growth will increase the company value and provide a positive signal to the market. On the other hand, this will give a signal to competitors about opportunities that are still hidden (Priyanti & Wahyudin, 2015). Therefore, to maintain the success and excellence, the company tends to increase the level of intellectual capital disclosure in its annual report.

Based on the description, the hypothesis proposed in this study is:

H5: Profit growth has a positive effect on Intellectual Capital Disclosure

Intellectual capital is a unique resource so that not all companies can imitate it. This is what makes intellectual capital a key resource for companies to create added value for the company and in the future the company's competitive advantage will be achieved. This added value is a signal that companies that have competitive advantages will certainly be able to compete and survive in the business environment (Chen et al., 2005). Riahi-Belkaoui (2003) and Firer & Williams (2003) state that conservatism accounting practices emphasize that corporate investment in intellectual capital presented in financial statements results from an increase in the difference between market value and book value. If the market is efficient, the higher the company's intellectual capital disclosure will increase the company's value, because investors will give high value to companies that have greater intellectual capital (Yuniasih et al., 2010).

This is consistent with the results of research by Mačerinskienė & Survilaitė (2011), Naidenova & Oskolkova (2011), and Sudibyo & Basuki (2017) which state that intellectual capital disclosure has a positive effect on firm value. Based on the description, the hypothesis proposed in this study is:

H6: Intellectual Capital Disclosure has a positive effect on Company Value

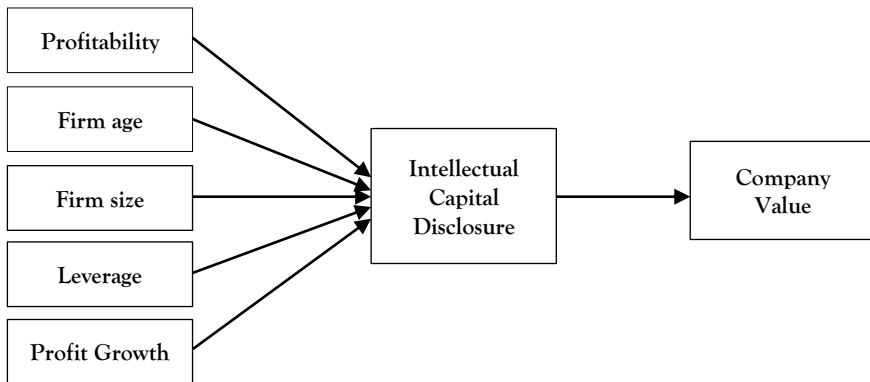


Figure 1: Theoretical Framework

3. Research Methods

This research uses causal approach. The population in this study is all financial data of manufacturing companies listed on the Indonesia Stock Exchange in the period 2012-2015. The period 2012-2015 is used because technological advances since 2012 grow rapidly that need to be researched impact on the company value. The sampling technique used is the purposive sampling method, namely the selection of samples based on certain criteria or considerations (Ferdinand, 2014). The sample criteria are manufacturing companies that registered during the observation period (2012-2015) in a row, and have complete data in the observation period.

Table 1: Research Samples

No	Information	Number of companies
1	Manufacturing companies listed on the IDX for the period 2012-2015	141
2	Manufacturing companies that are not registered consecutively	(63)
3	Incomplete data	(0)
	Number of Samples	78

Source: Data processed, 2017

In this study, the company value (Price to Book Value) is distributed by company with a Market Value Book Value Company. According to Brigham & Houston

(2001), PBV measures the value the financial markets that give to management and corporate organizations as a company that continues to grow.

$$PBV = \frac{\text{Stock Price}}{BV}$$

Furthermore, in this study, the intellectual capital disclosure index is used to determine the level of intellectual capital disclosure in the annual report. In addition, to measure the amount of intellectual capital disclosure, content analysis methods are used. A score of 1 is given if the specified item is disclosed by the company in the annual report, while a score of 0 is given if the specified item is not disclosed by the company in the annual report (Utama & Khafid, 2015).

The way to do an ICD assessment is to make a comparison between the intellectual capital disclosure that has been done by the company with the maximum amount of intellectual capital disclosure that must be disclosed by the company. Accordingly, the ICD Index formula is as follows:

$$ICD\ Index = \frac{\Sigma \text{Score disclosure made by the company}}{\Sigma \text{score maximum disclosure of intellectual capital}}$$

Measuring the dependent variable of intellectual capital disclosure refers to the disclosure index developed by Singh and Zahn (Suhardjanto & Wardhani, 2010) consisted of 25 items classified into four categories, namely intellectual property (3 items), infrastructure assets (6 items), external capital (10 items), and employee competence (6 items). Content analysis is used to measure the extent of intellectual capital disclosure (Utama & Khafid, 2015).

Table 2: Item Intellectual Capital

No	Category	No	Item
1	Intellectual Property	1	Patents
		2	Copyrights
		3	Trademarks
2	Infrastructure Assets	1	Management philosophy
		2	Corporate Culture
		3	Management Process
		4	Information System
		5	Networking System
		6	Research and Development Activities
3	External Capitals	1	Brands
		2	Customers
		3	Customers loyalty
		4	Company names
		5	Distribution Channels
		6	Business collaborations
		7	Favorable contracts

4	Employee Competence	8	Financial contracts
		9	Licensing agreements
		10	Franchising agreements
		1	Know-how
		2	Education
		3	Vocational qualification
		4	Work-related knowledge
		6	Entrepreneurial spirit

Sources: *Suhardjanto & Wardhani, 2010*

Profitability in this study was a proxy through Return on Equity (ROE). According to Kasmir (2018), the proxy is to show that the ability of the company to seek profit with capital owned which was reflected in the price of the stock.

$$ROE = \frac{\text{Net Income}}{\text{Equity}} \times 100\%$$

In this study, the firm age was assessed from the year the company was listed on the IDX (Ghomi & Leung, 2013). For firm size, it is valued by the total assets of the company for a certain year. For the value of total assets are sufficiently large, the measurement is converted into logarithm natural (Ln). The formula of firm size according to Brigham & Houston (2006) is as follows:

$$\text{Firm size} = \ln (\text{Total Assets})$$

Leverage in this study is measured from the Debt to Equity ratio (DER) because DER reflects the magnitude of the proportion between total debt (total liability) and total shareholder's equity (total equity). The formula that is used to calculate the ratio of Debt Against Capital (Debt to Equity Ratio) is (Husnan & Pudjiastuti, 2004):

$$DER = \frac{\text{Total Liabilities}}{\text{Total Equity}}$$

Growth is the opportunity that the company has to be able to develop, including opportunities to make investments in the future. Growth is measured by the company's profit growth ratio (Priyanti and Wahyudin, 2015).

$$\text{Growth} = \frac{\text{Profit}_t - \text{Profit}_{t-1}}{\text{Profit}_{t-1}}$$

Data in the study of this form of recording historical data is data annual report company year period 2012-2015. Source of data used were obtained from Indonesian Capital Market Directory and annual report obtained from the website

www.idx.co.id. The analysis technique used in this study is Structural Equation Modeling (SEM), which is operated through the Amos Version 21 program.

4. Results and Discussion

The findings of the descriptive statistical analysis (Table 3) show characteristics of the samples used in this study include the sample size (N), mean, maximum value, minimum value, and standard deviation for each variable.

Table 3: Results of Statistical Descriptive Analysis

Variable	N	Minimum	Maximum	Mean	Std. Deviation
PBV	198	0.03	5.66	1.40	1.29
ICD	198	0.12	.84	0.56	.16
ROE	198	-4.01	33.59	9.61	7.47
Age	198	1,00	38.00	19.93	6.87
Size	198	11.48	19.18	14.49	1.50
DER	198	0.04	2.69	.86	0.55
Growth	198	-1,60	1.60	-0.10	0.49
Valid n (listwise)	198				

Source: Secondary data processed, 2017

Test of fit models was conducted to examine the goodness fit of the study model in predicting performance (Ghozali & Fuad, 2005). Overall fit assessment of a model can be done using goodness of fit indicators in evaluating it (Table 4).

Table 4: Goodness of Fit Test Results

No	Indicator	Results	Cut-off	Conclusion
1	Chi Square (CMin)	0.07	> 0.05 (5%)	Fit
2	GFI	0.89	> 0.90	Marginal Fit
3	NFI	0.96	> 0.90	Fit
4	RFI	0.96	> 0.90	Fit
5	IFI	0.90	> 0.90	Fit
6	CFI	0.94	> 0.90	Fit
7	RMSEA	0.03	< 0.080	Fit

Source: Secondary data processed, 2017

Table 5: Model Estimates

Hypothesis	Estimate	S.E	C.R	p
ICD <--- ROE	0.01	0.00	7.40	0.00
ICD <--- Age	0.00	0.00	-0.20	.84
ICD <--- Size	-0.01	0.00	-1.62	.10
ICD <--- DER	-0.00	0.01	-0.49	0.61
ICD <--- Growth	0.05	0.02	2.43	0.01
PBV <--- ICDI	3.10	0.53	5.83	0.00

Source: Secondary data processed, 2017

The test results show that there are 6 indicators stating that the model has a good fit. Thus, it was concluded that the model had a fairly good fit.

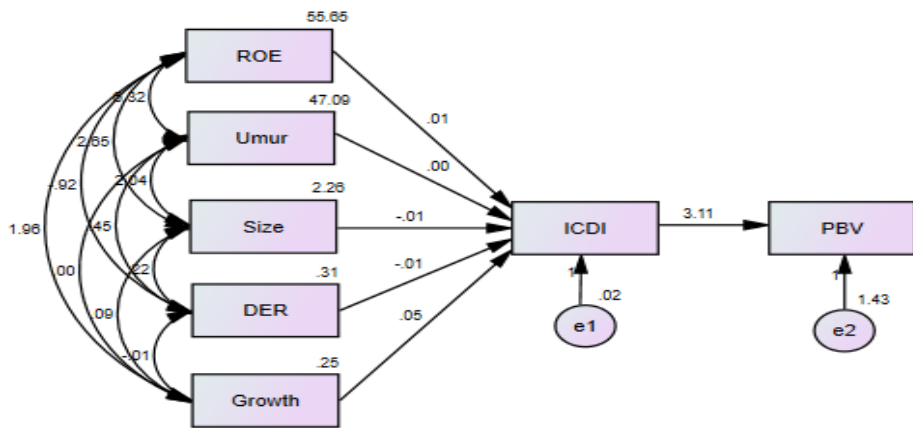


Figure 2: Empirical Model

The results of structural equation modeling test show that intellectual capital disclosure has a significance of $0.00 < 0.05$, with an estimated value of 0.011. This shows that profitability has a positive effect on intellectual capital disclosure. Thus, it can be said that hypothesis 1 stating that profitability has a significant positive effect on intellectual capital disclosure, is accepted. Companies that have high profitability can use intellectual capital disclosures to distinguish them from other companies that are less profitable. In addition, through these signals, the company can show that profitability may result from investments in intellectual capital and the company will use intellectual capital disclosures to signal significant uses of these investments. This result is in accordance with the research of Oktavianti (2014), Utama & Khafid (2015), and Bidaki & Hejazi (2014) demonstrating that profitability has a positive effect on intellectual capital disclosure.

The results show the firm age has no effect on intellectual capital disclosure with a significance value of $0.840 > 0.05$. Thus, hypothesis 2 stating that the firm age has a significant positive effect on intellectual capital disclosure is rejected. In this study, the firm age does not affect the intellectual capital disclosure. This shows that the firm age does not guarantee that the company has experience and understanding in intellectual capital disclosure, so the longer company's life is not necessarily the better the level of experience and understanding related to intellectual capital owned by a company, so the level of intellectual capital disclosure is not able to be optimal. The spirit of motivations boosts the image of the company and become a well-known company in stock market trading even though their company is seemingly new on the Indonesian stock market. Based on research data, the average age of the company is 20 years with a standard deviation value indicating that there is not much variation in the age of the company from the sample companies. The age of the sample

companies does not vary making the firm age has no effect on changes in intellectual capital disclosure. These results are in accordance with research by Faradina (2015) and Ashari & Putra (2016) that say the age of the company has no effect on intellectual capital disclosure.

The firm size also does not affect the intellectual capital disclosure with a significance level of 0.690. Thus, hypothesis 3 which states that firm size has a significant positive effect on intellectual capital disclosure is rejected. The results of this study explain that the size of the company does not always expand intellectual capital disclosure. Large companies always carry out more activities and usually have a variety of business units that have the potential to create different long-term value, but this does not always make the company more aware to increase the intellectual capital disclosure. Based on research data, by looking at the average value of firm size of 14.49, show that the average sample company has a large size. Manufacturing companies that are used as samples of this study are, on average, included in large companies so that they have large assets. The size of the sample company is large on average and there is almost no difference between one company with another company making the size of the company has no effect on changes in intellectual capital disclosure. These results are consistent with research by Ashari & Putra (2016) who say firm size has no effect on Intellectual capital disclosure.

The results show leverage has no effect on intellectual capital disclosure with a significance level of 0.286. This means that hypothesis 4 which states that leverage has a significant positive effect on intellectual capital disclosure is rejected. Companies that have a high proportion of liabilities in their capital structure will bear higher agency costs compared to companies that have a smaller proportion of liabilities. To reduce agency costs (costs arising from differences in interests between management and shareholders regarding how to respond to liability), company management does not always disclose more information because the liability taken by the company is partly used to finance business operations including the recruitment of competent HR in their fields. Management feels the disclosure of too much information will raise many questions from the investor side regarding the use of funds, so the company does not always disclose more information. This is also justified by the results of descriptive statistics which reveal that the average sample company was able to reduce the level of liability which in 2012 and 2013 reached the value of 1.09 and 1.27 to 0.86 in 2015. On average manufacturing companies reduced, the level liability illustrated from the liability to equity ratio which is below the number one. The results of the average liability ratio that does not vary between companies makes the liability ratio does not significantly affect changes in intellectual capital disclosure. These results are consistent with research by Faradina (2015) and Ashari & Putra (2016) which states that leverage does not affect intellectual capital disclosure.

The results of the analysis show that growth has a positive effect on intellectual capital disclosure with a significance value of $0.015 < 0.05$ and an estimate of 0.052. Thus, hypothesis 5 which states significant positive growth on intellectual capital

disclosure is accepted. Profit growth is able to increase the value of the company and provide a positive signal to the market. Stakeholders view intellectual capital disclosure as a means for companies to deliver detailed information, especially regarding internal capital, external capital and human capital. Therefore, to maintain the success and excellence, the company tends to increase the level of intellectual capital disclosure in its annual report. These results are in accordance with the research of Taliyang et al (2011), Ashari & Putra (2016), and Bidaki & Hejazi (2014) which states that growth influences Intellectual capital disclosure.

The results of the calculation of the effect of intellectual capital disclosure on company value get a significance result of $0.000 < 0.05$, with an estimated value of 3.106. It shows that intellectual capital disclosure has a positive effect on company value. Intellectual capital as a key resource for companies to create value added companies and the company will achieve competitive advantage. This added value is a signal that companies that have competitive advantages will certainly be able to compete and survive in the business environment. Riahi-Belkaoui (2003) and Firer & Williams (2003) state that conservatism accounting practices emphasize that corporate investment in intellectual capital presented in financial statements results from an increase in the difference between market value and book value. If the market is efficient, the higher the company's intellectual capital disclosure will likely able to increase the company's value. This is because investors will give high value to companies that have greater intellectual capital. The results are consistent with research by Mačerinskienė & Survilaitė (2011), Naidenova & Oskolkova (2011), and Sudibyo & Basuki (2017) which state that intellectual capital disclosure affects firm value.

Based on the test result of structural equation modeling, it shows the value of the coefficient of determination for predicting intellectual capital disclosure. Intellectual capital disclosure can be explained by independent variables namely profitability, firm age, firm size, leverage, and growth of 38.8%, while intellectual capital disclosure can explain the company's value of 14.7%.

5. Conclusion

The study findings show that profitability has a positive effect on Intellectual capital disclosure. The company is able to show that profitability may result from investments in intellectual capital and the company uses intellectual capital disclosures to give signal significant of these investments. Analysis of variable growth also shows a positive effect on Intellectual capital disclosure. Positive profit growth makes the company increase the level of intellectual capital disclosure in its annual report and give a positive signal to the market. Intellectual capital disclosure has a positive effect on company value. The higher value of the company's intellectual capital disclosure makes the higher company's value. This is because investors give high value to companies that have greater intellectual capital.

Profitability, growth effect on intellectual capital disclosure. Furthermore, Intellectual capital disclosure as a mediating variable has an influence on company value.

Other findings indicate that the variable age of the company, firm size and leverage does not affect the intellectual capital disclosure. In this context, the company should be able to strengthen its intellectual capital. Intellectual capital is one of the company's assets, a competitive advantage compared to its competitors. If the company is able to be more effective in increasing profits and reducing liability, the company increase intellectual capital disclosure to provide investors with insight into the company's strengths.

Furthermore, associated with the low value of the coefficient of determination, research shortly come should measure the company value, by using other variables like a component of corporate governance such as the structure of ownership, the committee of audit, and the profit growth. Besides that, taking the sample can be extended from the other company sectors like real estate and property and mining.

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