INTELLECTUAL CAPITAL DISCLOSURE*: MANDATORY* OR *VOLUNTARY?*

Noorina Hartati, S.E., M.Sc.

Economic Faculty of Open University

Cabe Raya Street, Pondok Cabe, Pamulang, Tangerang Selatan City 15418,

Phone. (021) 7490941

E-mail: orin@ecampus.ut.ac.id

Abstract: *Intellectual Capital begins to be ogled by the stakeholders because of its existence as an intangible asset that is not less important than tangible assets. Therefore, these companies begin to actively move the training programs for its employees rather than expanding its business for example by buying land for expansion of land and constructing office buildings and factories. Most of the mandatory disclosure required by the accounting profession in relation to physical capital. The recognition of intellectual capital as a pivotal factors for the company, making mandatory disclosure related to physical capital becomes less relevant for the user. This has led to gaps in information related to investment decision making. Therefore, standard setters should develop guidelines for the disclosure of intellectual capital in order to protect the interests of users (Suhardjanto and Wardhani, 2010).*

Keywords*: intellectual capital, intellectual capital disclosure, mandatory, voluntary, market interest*

INTRODUCTION

Intellectual capital began to be ogled by the stakeholders because of its existence as in because of its existence as an intangible asset that is not less important than tangible assets. Intellectual capital may be employee knowledge and competency, good organizational structure, reliable control system, computer (high-tech) mastery considered as more valuable than physical facilities such as land, vehicle, building, and other visible physical facilities. For that reason, the companies begin to actively move the training programs for its employees rather than expanding its business for example by buying land for expansion of land and constructing office buildings and factories.

The stakeholders, particularly the investors embark on considering the company disclosing intellectual capital in their investment decision making. For that reason, go-public companies start to report in crowd the intellectual capital they have and the attempt they take to improve intellectual capital.

In modern business world, intellectual capital becomes a valuable asset. It results in challenge for the accountant to identify, to measure and to disclose it in financial report (Sawarjuwono and Kadir, 2003). The research on *intellectual capital* is useful for Bapepam and Indonesian Accountant Association for creating better standard in disclosing intellectual capital (Widarjo, 2011). For that reason, the go-public companies is highly recommended to disclose their intellectual capital in annual report, so that the information given is expected to be the matter of consideration by the investor in making investment decision.

DISCUSSION

PSAK No. 19 stated that intangible asset is the non-monetary one that can be identified and has no physical form and possessed to be used in producing or delivering product or service, leased to others, or for administrative purpose (Indonesian Accountant Society, 2009).

Intangible asset, according to IAS 38 published on January 1, 2013, is recognized if and if only:

(1) It enables the economic benefit in the future that can be attributed to asset flowing into the company, and
(2) Asset acquisition cost can be measured reliably.

Considering IFRS 3 *Business Combinations*, if *intangible asset* is recognized to be reasonable value in acquisition.

Result of research on Intellectual Disclosure

Guthrie and Petty (2000) conduct a research on 20 companies in Australia enlisted in stock exchange showing the following results:

1. The intellectual capital disclosure is presented more separately and none presented in numeral or quantitatively. It supported a stringent view that intangible asset or intellectual capital is quantified difficultly.
2. The disclosure of external capital is conducted more by company. No specific pattern in those reports. The disclosure is distributed between three elements of intellectual capital.
3. Intellectual capital report and disclosure is still carried out partially and not comprehensively.
4. Overall, the company emphasizes that intellectual capital is the key toward the successful competition in the future. However, it has not been able to be translated into a solid and coherent message in annual report.

Statement of intellectual capital is a new phenomenon either as a reporting document either accompanying annual report or as a management concept. However, few companies use it as annual report supporting document (Sawarjono and Kadir, 2003).

Intellectual capital reporting in corporate annual report is not included as one element into the balance although intellectual capital is identical more with intangible asset. It is because the elements composing intellectual capital are quantified difficultly. The alternative measure taken is to make the intellectual capital reporting the supplement to financial statement. The example of intellectual capital reporting can be seen in the result of research project conducted by Danish government. The result of study shows that there is no special model in intellectual capital reporting. Intellectual capital is situational in nature and prepared by the company in the attempt of applying strategy rather than representing the historical relationship. Measurement method and process are two inseparable things in intellectual capital statement, because both of them will create language and practice in intellectual capital. Instead of disclosing the resource value the company has, the intellectual capital statement discloses the aspects of corporate knowledge management activity, as well as the measures constituting an integral part of intellectual capital statement (Sawarjuwono dan Kadir, 2003).

Investors or potential investors will be interested in return (profitability) expected for the future relative to the company risk, and the profit can compensate the incremental risk raising (Nur, 2008).

To have power as value-added, the company should improve its own internal condition. Many factors can make the company sturdier in the market's eye indicated not only by physical asset owned, despite its high importance, but also by tangible asset the company has. The tangible asset includes stockholder number, positive equity, and advantage of financial performance, corporate intellectual ability in cost efficiency found in improving the company's financial performance and competitiveness, and ongoing innovation. In this case, the factors above are called the intellectual capital that can improve financial performance and company's competitiveness (Nur, 2008).

Theories underlying Intellectual Capital

***Resource-based Theory* (RBT)**

Resource-based theory is an intermediate development of Richardo's Economic Rent and Porter's structure-performance-conduct theories (Barney and Clarck 2007). This emerged because of a strategic question's presence about why a company can excel another and has sustainable superior performance. The company building its own resource and can control it ill have ability of maintaining its advantages compared with the one buying and acquiring the resource externally. A set of unique resource a company has and controls enables it to achieve and to maintain a sustainable superior performance.

The unique resource intended in RBT is the one with valuable, rare, inimitable, and non-substitutable properties. Valuable means can be used for the company activities, rare means owned by few companies only. Inimitable means that the resource is protected from the possibility of being imitated by competitors. Non-substitutable means that the resource is owned by certain companies only and no other product can substitute for it (Barney, et al., 2001). This type of resource can deliver the company to the achievement of competitive advantage.

RBT develops sufficiently rapidly particularly in proving its consequence using empirical study in various disciplinary domains. The domain developing it for the first time is strategic management (Spanos and Lioukas, 2001, Schroeder et al., 2002, Ray et al 2004).

Wernerfelt (1984) explains that according to resource based theory's view a company will be superior in business competition and will achieve the good financial performance by means of owning, dominating, and utilizing the important strategic assets (tangible or intangible). Belkaouis (2003) stated that potential strategy to improve the company performance is to integrate tangible asset into intangible asset. Resource-based theory is a thought developing in strategic management and corporate competitive advantage theory believing that the company will achieve the advantage when it has superior resources (Solikhah, et al., 2010). Considering the Resource-based theory approach, it can be concluded that the resource a company has affects its performance that in turn will improve the company's value.

Stakeholder Theory

The stakeholder theory stated that all stakeholders have the right to get information about the company activity affecting them. Stakeholder theory emphasizes on organizational accountability far beyond the simple financial or economic performance (Deegan, 2004). Stakeholder theory takes more the stakeholder position considered as powerful into account. It is this stakeholder group that will be considered predominantly by the company in disclosing or not disclosing some information in financial statement (Ulum et al., 2008). In this context, the stakeholders have authority of influencing the management in the process of utilizing all potencies the organization has. For it is only with good and maximum management of all potencies that the organization will be able to create value-added to support its financial performance and value later constituting the stakeholders' orientation in intervening with the management.

Legitimacy Theory

In legitimacy theory's view, the organization looks for a way of ensuring continuously that their business sustainability is in the border or norm prevailing within the society. The organization attempts to ensure that the activity the organization undertakes has been acceptable to external parties (Deegan, 2004). This theory builds on the statement that there is a social contract between organization and the environment where the organization runs its business. Social contract is a way of explaining the society's expectation about how the organization should run its operation. This social expectation is not constant, but changes as the time progresses; therefore it requires the company to be responsive to the environment where it operates (Deegan, 2004).

Signaling Theory

Signaling theory indicates that organization will attempt to give signal in the form of positive information to the potential investors through financial statement disclosure (Miller and Whiting, 2005). Leland and Pyle (1997) stated that signal is an action the former owner takes in communicating the information it has to the investor. The former owner has motivation to disclose private information voluntarily because they hope that such information can be interpreted as a positive signal about the company performance and can reduce information asymmetry.

Most writers discuss the intellectual capital measurement, while how the intellectual capital reporting is made is still discussed rarely. In addition, publication on intellectual capital is still carried out rarely. However, such companies existing in Scandinavia as Skandia AFS and in America as Dow chemicals, Coca-Cola, IBM began to prepare a report different from traditional one focusing on financial matter (Sawarjuwono and Kadir, 2003).

Widarjo (2011) studied the intellectual capital in the companies undertaking Initial Public Offering (IPO) in Indonesian Stock Exchange. This research is important because in the initial stock public offering there is asymmetric information between the former owner and the investor because the former owner has better private information on the company prospect than the investor that will invest in the company (Hartono, 2006 in Widarjo, 2011). To mitigate the asymmetric information, the former owner should transmit signal about the company's quality offered to investor. By analyzing the signal transmitted by the former owner, the investor can recognize the company prospect in the future (Widarjo, 2011).

Considering the result of research conducted by Erdianthy and Djakman (2014), the high intellectual capital disclosure in several items is due to the Bapepam's regulation Number: Kep-38/PM/1996 dated January 17th, 1996 about the form and content of annual report, so that the disclosure is more mandatory (complying with the provision) in nature. Healy et al (1999) in Widarjo (2011) stated that the high information disclosure level will lead the investor to revising their value against the company's stock price and to creating additional institutional value and to increasing the analysts' interest in security (bond). The result of Healy and Palepu's (1993), Welker's (1995), Botosan's (1997); and Healy et al's (1999) studies in Widarjo (2011) indicate that the higher capital disclosure will provide credible information, and will reduce the investor's error in evaluating the company's stock and in improving the market capitalization all at once.

Widarjo's (2011) study indicated that signal transmitted by the company through intellectual capital disclosure can reduce asymmetric information. The more the items in intellectual capital disclosure index in the company prospectus, the more easily the potential investors find out the company prospect and performance entirely, so that the potential investor will give higher assessment in the company discloses more the intellectual capital.

In this case, the potential investors believe that only the companies having high quality available to expand the intellectual capital disclosure. The signal theory states that the high quality companies will give adequate signal to market, so that the market can distinguish the high- from the low-quality companies. For the signal to be effective, it should be captured and perceived well by the potential investors, and inimitable by the low-quality companies (Hartono, 2005 in Widarjo, 2011).

The result of Widarjo's (2011) study stated that intellectual capital disclosure affected positively the company values after the initial public offering. The higher the intellectual capital disclosure, the higher is the company value. The expansion of intellectual capital disclosure will reduce information asymmetric between the former owner and the potential investor, thereby help the potential investor evaluate the company's stock and analyze precisely the company prospect in the future. The result of research has implication to the policy makers to make a review and discussion on the standard governing the intellectual capital disclosure in corporate financial statement. The standard existing currently should require the intellectual capital disclosure as voluntary requirement. The new standard should obligate the company to prepare intellectual capital report as a supplement to corporate financial statement so that the intellectual capital disclosure practice will be more structured and comprehensive. As such, the investor will analyze the company performance and prospect more easily, thereby make decision appropriately.

Williams (2001), and Miller and Whiting (2005) stated that voluntary disclosure on intellectual capital enables the investor and other stakeholder to assess better the company's ability in the future, to make appropriate evaluation on the company and to reduce their perceived risk. The company discloses the intellectual capital in the attempt of meeting the investor's need for information and of improving the company value (Miller and Whiting, 2005). The positive signal from the organization is expected to get positive response from the market; it will give the company the competitive advantage and the higher value.

Balance is considered as completed in the term of measuring human resource (HR) asset (Sugiri and Sumiyana, 2005). HR is included into Balance only because the potential service in the future cannot be measured in monetary unit, although it actually meets the definition of asset (Sugiri and Nursasmito, 1994 in Sugiri and Sumiyana, 2005). This human resource refers to Intellectual Capital categorized into intangible asset.

Most mandatory disclosure required by accounting profession is related to physical capital. The recognition of intellectual capital as the pivotal factor for the company makes the mandatory disclosure related to physical capital less relevant to the users. It results in information discrepancy related to investment decision making. For that reason, the standard setter should develop guidelines for the intellectual capital information disclosure to protect the users' interest (Suhardjanto and Wardhani, 2010).

Suhardjanto and Wardhani's (2010) study proved that the intellectual capital disclosure level in Indonesia is still low (the mean is only 34.5 out of 25 intellectual capital items). It is perhaps due to the Indonesian companies' low awareness of the importance of intellectual capital in creating and in maintaining the competitive advantage and shareholder value.

Agency Theory

Agency theory is concerned with resolving two problems that can occur in agency relation-ships. The first is the agency problem that arises when (a) the desires or goals of the principal and agent conflict and (b) it is difficult or expensive for the principal to verify what the agent is ac-tually doing. The problem here is that the prin-cipal cannot verify that the agent has behaved appropriately. The second is the problem of risk sharing that arises when the principal and agent have different attitudes toward risk. The problem here is that the principal and the agent may prefer different actions because of the dif-ferent risk preferences (Eisenhardt, 1989)

Disclosure

Wolk, Dodd, and Rozycki (2008) defined disclosure in broader interpretation, the one related to information existing in either financial statement or additional information (supplementary communication) consisting of footnote, information about the events after reporting date, management analysis about company operation in the future, financial forecasting and operation, and other information. The information disclosed in emittent annual report can be divided into two:

1. Mandatory disclosure
2. Voluntary disclosure

Mandatory disclosure is the information delivery that should be disclosure by emittent governed by a state's security market regulation. Every emittent or public companies enlisted in the stock exchange obligatorily deliver the annual report and other material information periodically to Bapepam and the public (Nuswandari, 2009).

Voluntary disclosure is the information delivery voluntarily by the company outside the mandatory disclosure. Voluntary disclosure is the information disclosure beyond the minimum precondition of prevailing security market regulation. The company has discretion in making voluntary disclosure in annual report thereby resulting in variation of voluntary disclosure between the companies (Nuswandari, 2009).

CONCLUSION

The stakeholders, particularly the investors embark on considering the company disclosing intellectual capital in their investment decision making. For that reason, go-public companies start to report in crowd the intellectual capital they have and the attempt they take to improve intellectual capital.

In modern business world, intellectual capital becomes a valuable asset. It results in challenge for the accountant to identify, to measure and to disclose it in financial report (Sawarjuwono and Kadir, 2003). The research on *intellectual* *capital* is useful for Bapepam and Indonesian Accountant Association for creating better standard in disclosing intellectual capital (Widarjo, 2011). For that reason, the go-public companies is highly recommended to disclose their intellectual capital in annual report, so that the information given is expected to be the matter of consideration by the investor in making investment decision.

The result of Widarjo's (2011) study stated that intellectual capital disclosure affected positively the company values after the initial public offering. The higher the intellectual capital disclosure, the higher is the company value. The expansion of intellectual capital disclosure will reduce information asymmetric between the former owner and the potential investor, thereby help the potential investor evaluate the company's stock and analyze precisely the company prospect in the future. The result of research has implication to the policy makers to make a review and discussion on the standard governing the intellectual capital disclosure in corporate financial statement. The standard existing currently should require the intellectual capital disclosure as voluntary requirement. The new standard should obligate the company to prepare intellectual capital report as a supplement to corporate financial statement so that the intellectual capital disclosure practice will be more structured and comprehensive. As such, the investor will analyze the company performance and prospect more easily, thereby make decision appropriately.

REFERENCES

Barney, J. B., Wright, M., and Ketchen, D. J. 2001. The Resource-based View of The Firm: Ten Years After 1991. *Journal of Management*, 27, 625-641.

Belkaoui, Ahmed-Riahi. 2003. "Intellectual Capital and Firm Performance of US Multinational Firms." *Journal of Intellectual Capital*. Vol 4, No. 2, pp. 215-226.

Deegan, C. 2004. *Financial Accounting Theory*. McGraw-Hill Book Company. Sydney

Eisenhardt, Kathleen M. 1989.Agency Theory : Assessment and Review. Academy of Management Review, Vol. 14, No. 1, 57-74.

Erdhianthy, Daissy dan Chaerul D. Djakman. 2014. Pengungkapan Modal Intelektual, Proporsi Komisaris Independen dan Kinerja Bank di Indonesia. *Simposium Nasional Akuntansi XVII*. Mataram: 24-27 September

Ikatan Akuntan Indonesia. 2009. Pernyataan Standar Akuntansi Keuangan No. 19. Jakarta: Salemba Empat.

Khlifi, F. dan A. Bouri. 2010. Corporate Disclosure and Firm Characteristics: A Puzzling Relationship. Journal of Accounting – Bussiness & Management 17 (1): 62-89.

Leland, H. E., dan D. H. Pyle. 1977. Information Asymetries, Financial Structure, and Financial Intermediation. The Journal of Finance 32 (2): 371-387.

Makki, M.A. Majid dan Sulaeman, A. L. 2008. The Labore Journal of Economics 13:2 (Winter 2008): PP. 81-98.

Miller, C. dan H. Whiting. 2005. Voluntary disclosure of intellectual capital anda the “hidden Value”. Proceedings of the accounting and finance association of Australia and new Zealand conference.

Nur, Dhani Ichsanuddin. 2010. Meningkatkan Kinerja Keuangan melalui Intellectual Capital: Bukti Empiris Perusahaan Otomatif Bursa Efek Indonesia. Jurnal Aplikasi Manajemen Vol. 8, No. 3.

Nuswandari, Cahyani. 2009. Pengungkapan Pelaporan Keuangan dalam Perspektif Signalling Theory. Kajian Akuntansi Vol. 1 No. 1 Hal 48-57.

Spanos, Y. E. and Lioukas, S. (2001). An Examina-tion into the Causal Logic of Rent Generation: Contrasting Porter's Competitive Strategy Framework and the Resource-based View Perspective. *Strategic Management Journal,* 22, 907-934.

Schroeder, R. G., Bates, K. A. and Junttila, M. A. (2002). A Resource-based View of Manufac-turing Strategy and the Relationship to Manufacturing Performance. *Strategic Mana-gement Journal*, 23, 101-117.

Petty, R. and Guthrie, J. (2000). Intellectual Capi-tal Literature Review: Measurement, Report-ing, and Management. *Journal of Intellectual Capital*, 1(1), 155-176.

Ray, G., Barney, J. B., and Muhana, W. A. (2004). Capabilities, Business Process, and Competi-tive Advantage: Choosing The Dependent Variable in Empirical Test of The Resource-based View. *Strategic Management Journal*, 25, 23-37.

Sawarjuwono, Tjiptohadi dan Agustine Prihatin Kadir. 2003. “Intellectual Capital: Perlakuan, Pengukuran dan Pelaporan (Sebuah Library Research).” *Jurnal Akuntansi dan Keuangan*. Vol 5, No. 1, h.31-51.

Sholikhah, B., A. Rohman dan W. Meiranto. 2010. Implikasi intellectual capital terhadap financial performance, growth, dan market value: studi empiris dengan pendekatan simplistic specification. Simposium Nasional Akuntansi XIII. Purwokerto: 13-14 Oktober.

Soetedjo, Soegeng dan Safrina Mursida. (2014). Pengaruh *Intellectual Capital* Terhadap Kinerja Keuangan pada Perusahaan Perbankan. *Simposium Nasional Akuntansi XVII*. Mataram: 24-27 September.

Sugiri, Slamet dan Sumiyana. 2005. Akuntansi Keuangan Menengah Buku I, Edisi Revisian. Yogyakarta: UPP AMP YKPN.

Ulum, Ihyaul. 2008. “Intellectual Capital Performance Sektor Perbankan di Indonesia.” *Paper disajikanpada SNA 11, Pontianak.*

Widarjo, wahyu. 2011. Pengaruh modal intelektual dan pengungkapan modal intelektual pada nilai perusahaan. Simposiom Nasional Akuntansi XIV. Aceh : 21-22 Juli.

Williams, S.M. 2001. Is Intellectual Capital Performance and Disclosure Practise Related? Journal of Intellectual Capital 2 (3): 192-203.

Wolk, Harry I., James L.Dodd, dan John J. Rozycki. 2008. Accounting Theory, Seventh Edition. USA: Sage Publication, Inc.

AFI
ASOSIASI FINANSIAL INDONESIA
INDONESIAN FINANCE ASSOCIATION

FAKULTAS EKONOMI DAN BISNIS
Universitas Sebelas Maret

Center for Governance, Finance, & Management
Universitas Sebelas Maret

FAKULTAS EKONOMIKA & BISNIS
UNIVERSITAS GADJAH MADA

FAKULTAS EKONOMI
UNIVERSITAS INDONESIA

UTY
UNIVERSITAS TEKNOLOGI YOGYAKARTA

Our Supporter

LEMBAGA PENJAMIN SIMPANAN
Indonesia Deposit Insurance Corporation

Media Partner

Bisnis Indonesia

Bloomberg
TV INDONESIA

Certificate

This certificate is presented to:

Noorina Hartati

as

Presenter

in The 1st Annual Conference Indonesian Finance Association (IFA)
Solo Paragon Hotel and Residences
Surakarta, 14-15 January 2015

Dean, Faculty of Economics and Business
Universitas Sebelas Maret

KEMENTERIAN PENDIDIKAN DAN KEBUDAYAAN
UNIVERSITAS SEBELAS MARET
FAKULTAS EKONOMI DAN BISNIS
DEKAN

Dr. Wisnu Untoro, M.S.

President,
Indonesian Finance Association

Dr. Irwan Adi Ekaputra, M.M.