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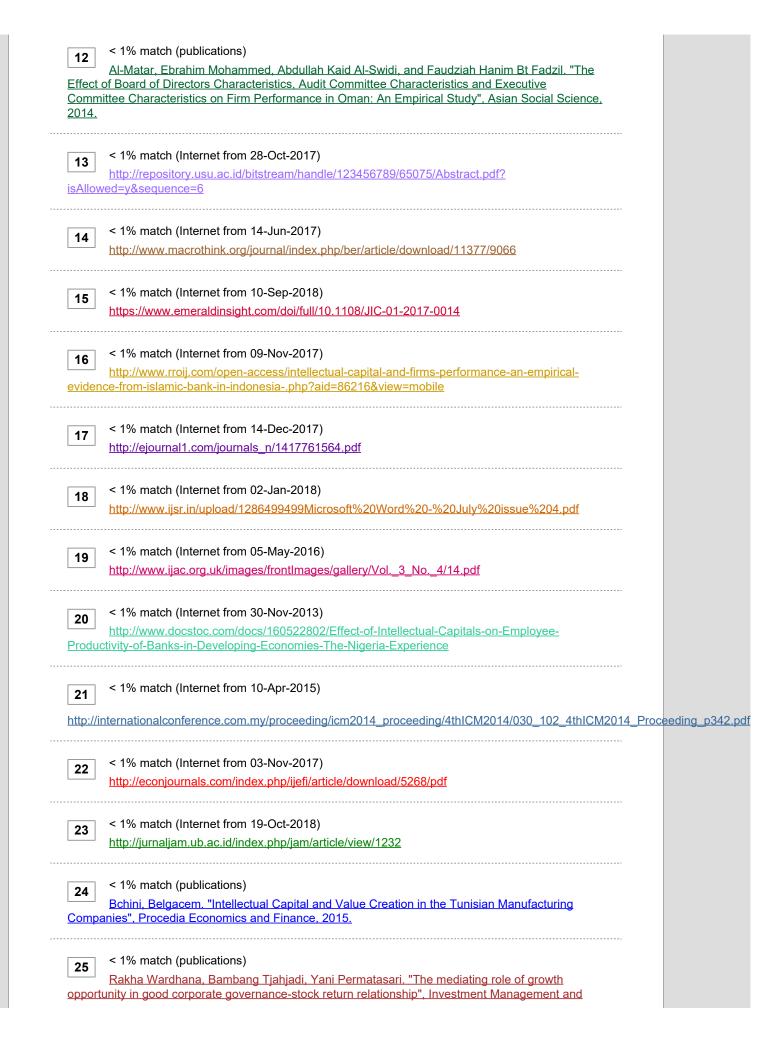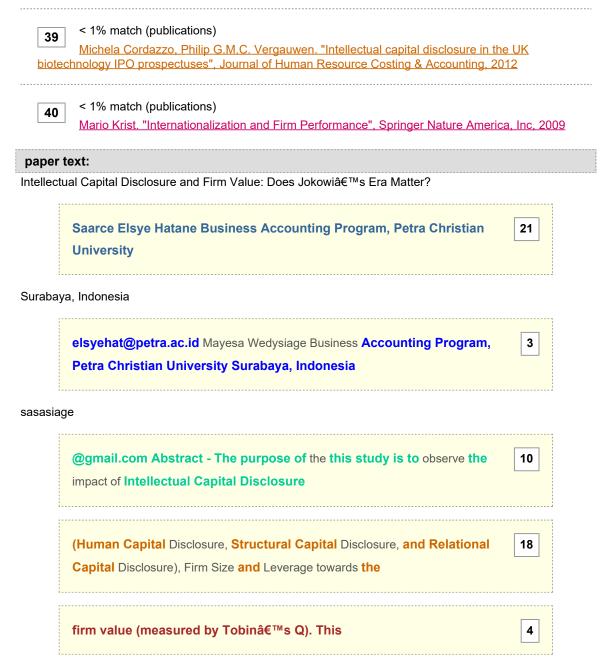**Plagiarism Percentage**

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paper text:

Intellectual Capital Disclosure and Firm Value: Does Jokowi's Era Matter?

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@gmail.com Abstract - The purpose of the **this study is to** observe **the** impact of **Intellectual Capital Disclosure** | **10**

(Human Capital Disclosure, **Structural Capital** Disclosure, **and Relational Capital** Disclosure), Firm Size **and** Leverage towards **the** | **18**

firm value (measured by Tobin's Q). This | **4**

study examines 36 Indonesia's listed companies from infrastructure, utillity, and transportation industry in 5 years period, from 2013 to 2017. The periods that have been choosen in order to differ the performance of 2 years before and 3 years of Joko Widodo's era (Jokowi, President of Indonesia 2014-2019). Various results are found from the individual tests. None of the components from ICD has influence on firm value during the pre Jokowi's era. The negative effect of RCD towards firm value is found without differentiate the era of president. In addition, the negative response from firm value is found when the interaction of ICD and the time period is increasing. This study conducts the content

analysis of the **IC disclosure in** the **annual reports,** | **39**

while it may not express the whole quality of IC practice. Furthermore, company also may use other information channels than annual report to expose its

IC performance. The restricted information **of this study is** driven by **the** | **33**

sample size; therefore the extention of type of industries could bring a comprehensive results. Despite these limitations, this study contributes to the discussion about the apreciation of investors on the disclosures of IC and its components. Keywords - disclosure; intellectual capital; firm value; Jokowi's era. INTRODUCTION As disclosed by ekonomi.kompas.com (Setiawan, 2018) economy in Indonesia has been stably growing for the past 10 years. In 2013 until 2017 were the years of transmission between Susilo Bambang Yudhoyono's eras to Joko Widodo's eras which was started on 2014. As seen on Indonesia's economical growth in 2013 reached 5.56%. In 2014, which was the year of Jokowi's inauguration, the economical growth reached 5.02%. Meanwhile in 2015, 2016 and 2017, Indonesia's economical growth reached 4.79%, 5,02% dan 5,01%. The economical growth in Indonesia Christine Olivia Angeline Business

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vanesa_ling2777@yahoo.com happened because of the support from all of the economy sectors. In ekbis.sindonews.com (Baco, 2018) stated that there were 128 non-economic public companies and non-state owned companies which positively developed throughout 2013-2017. The profit growth and value establishment in organization is caused not just because of the financial factor, but also the non-financial factor (Cumby&Conrord, 2001; Bukit&Nasution, 2015). Several components in the non- financial aspect are: experiences, organization technology, and customer's relationship that create companies' competitive advantage in the market.

Intellectual Capital is recognized as **one of the** basic **factors to** evaluate company's **performance** 20

(Serenko & Bontis, 2013). Intellectual Capital (IC) consists of intangible resources like skill and competency which are

possessed by employees so **that create value for the** 6

company (Smriti & Das, 2017). In 1998, Pulic formulized value added that generated from Intellectual Capital which was addition from Human Capital's investment,

structural capital efficiency and capital employed efficiency. VAIC **is also** 19

one of the factors that increase company's value (Hatane,2017; Iazzolino, G.&Laise, D. 2013,). Besides the IC measurement which uses Pulic's concept, IC is also measured through the number of disclosures in annual report related to Human Capital, Structural Capital and Relational Capital's activities (Bruggen, Vergauwen, & Dao, 2009). Not only using the number of disclosures, IC is also measure using the quality of disclosures in the company's annual report (Anifowose, Rashid, & Annuar, 2017). (Jardon & Dasilva, 2017) mentions

components of Intellectual Capital are: human capital, structural 17

capital

which is related to organization and relation capital which related to the relationship between organization and people outside the organization or outsider (customer, surrounding and supplier). Intellectual capital disclosure is needed because it is a mechanism to cut down the agency cost which arises from the possibility that the manager acts not for the sake of the stakeholders (Hassan et al ,2009). (Kweh, Lu, & Wang, 2014) explains that IC is an addition from all of the knowledge that support company to gain and maintain the competitive advantage continuously. Therefore, IC is needed to improve the resources to innovate (European Commision, 2013). To find out how big the company's value establishment that produced by IC, so

in this study company' s value is measured by Tobin's Q. | 5 |

In the previous studies that related to the influence of intellectual capital disclosure to firm value as follows, (Pozniak, 2010), (Oluwagbemiga, 2014), (Achoki, Kule, & Shukla, 2017) (Zaman, Arslan, & Siddiqui, 2015) and (Berzkalne & Zelgalve, 2013) discuss that intellectual capital disclosure has positive influence towards firm value.

This shows that IC is **significantly** affect company's **market value** regardless **of the type** of **the** | 6 |

company (Smriti & Das, 2017). On the contrary, (Taliyang & Jusop, 2011) argue

that the influence **of intellectual capital disclosure** towards firm value **is** negative. Seeing **the** | 29 |

difference in the result

of the studies and **the** importance of **the** impact **of intellectual capital** disclosure towards firm **value,** | 24 |

then this study tested the effect of ICD and each of the components against company's value in service sector which existed in Indonesia on the 2 years of Susilo Bambang Yudhoyono's era and 3 years of Joko Widodo's era. The selection of the years is due to the previous years before 2013, companies that were meet the minimum amount of examination. This study found that HCD and SCD are not significantly affecting Tobin's Q on the second period of observation. RCD is negatively affecting the Tobin's Q without differentiating before and after Jokowi's regime. In Jokowi's period, ICD is negatively affecting the Tobin's Q. Profitability is consistent control variables that increase company's worth. Therefore, this study contributes to complete studies about ICD and see any variable that affect Tobin's Q. THEORY AND DEVELOPMENT OF HYPOTHESES Referring to the previous studies regarding disclosure IC towards firm value, there are several supporting theories, such as resource based theory and signaling theory. According to Crook (2008) Resource Based Theory become the basis for company to use and utilize resources owned by the company such as knowledge and technology optimally so that be able to create company's value. According to (Barney et al,2011), Resource Based Theory is one of the suitable theories in explaining the relationship in an organization. Signaling theory as a second theory that supported by Conelly et al. (2011) which states that a company tries to give positive signal to investors in a way increasing disclosure concerning company's activities in an annual report. With the company provides positive signal, investor is expected to also give positive respond, for instance additional value for

the company. In accordance to Davey&Eggleton (2011) information disclosure voluntarily regarding intellectual capital is able to make investor’s assessment of the company better.

> **Intellectual Capital Disclosure Intellectual Capital is a** `38`

component of intangible asset that impossible to be measured accurately and fail to appear in the balance sheet of any company (Frykman & Tolleryd, 2010). Intellectual Capital is also

> **defined as** a **non-monetary** asset **or resources without physical substance, such as innovation,** employee training **and** `11`

customers’ satisfaction, which underlines the process of company’s value establishment. (Salehi, Enayati, & Javadi, 2014).

> **Human Capital** Disclosure **Human capital refers to the** amount **of** knowledge, competency, and **employees’** `22`

commitment (Morris, 2015). (Ahmadi & Shakeri, 2011) and (Hashim, Osman, & Alhabshi, 2015) mentions that human capital is the main and important component to keep the competitive advantage in a company. However, the truth is human capital has become an asset that are often forgotten by the company because companies in general see labor as a load for the company, and not as a company’s asset. Structural Capital Disclosure Structural Capital consists of organizational ability, company’s tradition, process, and other intellectual aspects that are attached on organization (Ahangar, 2011). Structural Capital is permanently attached on a company and fail to vanish as long as the company exists. (Aramburu & Saentz, 2011) Relational Capital Disclosure Relational Capital is an asset which appear in

> **the establishment of** relationship **with external stakeholders (Kweh, Lu, & Wang, 2014).** `14`

According to (Hashim, Osman, & Alhabshi, 2015)

> **relational capital is a relationship** between a company **with customers** and **suppliers,** government **and** `26`

business partners in the same industry, along with the company’s reputation. Relational capital is believed to be influenced the sustainability of the company (Mondal & Ghosh, 2012). Company’s Value (Tobin’s Q) There are 2 methods in calculating a company’s value which are accounting based measurement and market based measurement. ROA and ROE are the example of implications accounting

> **based measurement,** meanwhile **Tobin’s Q is** `12`

implications of

> **market based measurement. Tobin’s Q is** `12`

able to measure long-term performance which is expected by the company (Bozec et al., 2010). Tobinâ€™s Q is a basic assessment for company over their assets and is a good media to reflect their competitive advantage; also it is able to see investment of intellectual capital and profit that are already achieved (Jihene & Robert, 2013). Control Variable This study is using profitability, firm size and leverage as control variable. Profitability is an ending result or value from a number of the company managementâ€™s decision (Brigham and Houston, 2006). In this study, profitability is measured with ROE. There is a positive impact from ROE in generating a huge profit for the company, so that company achieved the desirable income (Meizaroh&Lucyanda, 2012). Firm size is the companyâ€™s capacity, that is in this study stated in logTA. Based on Fitriya, Basyith, & Foo (2010), big size companies are able to increase their companiesâ€™ value because they are able to gain fund easily and enlarge agencyâ€™s cost which affects the increase in dividend payments. Meanwhile, leverage is companyâ€™s ability in using assets or funs which has interest in order to accomplish companyâ€™s objectives, to maximize companyâ€™s profit.

> **LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT Intellectual capital has** | 27

become one of the standards to measure additional economical value that helps investors in the decision making process (Salehi, Enayati, & Javadi, 2014). IC is expected to be able to increase the stock market value compared to the exited cost (Vishnu dan Gupta, 2014). ICD is proven to be able to increase the market value immediately (DÅ¾enopoljac et al., 2016). IC disclosure is also considered as an effective way for company to boost their relationship with other stakeholders (Yi & Davey, 2010). Many previous studies that were investigate IC componentsâ€™ effects toward firm value in various countries and industries.

> **The majority of studies show** the **positive** influence **of** | 1

each of the ICâ€™s component towards Tobinâ€™s Q

> **(ul Rehman et al., 2011;** Ahangar, 2011; **Tseng et al., 2013; Nimtrakoon, 2015;** | 1

Denicolai dkk., 2015). ICâ€™s

> **components that are widely accepted among** the **researchers** are **HC, SC** | 1

dan

> **RC (ul Rehman et al., 2011; Wang et al., 2014; Nimtrakoon, 2015; Bontis et al., 2015).** | 1

Human Capital concerning in competency, knowledge and employeesâ€™ innovations, have become the key factor toward a companyâ€™s value Bontisetal.,2015; Denicolai et al., 2015). By disclosing the employeesâ€™ skills, it

> **is believed to be** able **to** increase **the companyâ€™s** | 36

value in the long run (Janosevic and Dzenopoljac, 2012). For the structural capital, the previous studies

have found that SC disclosure was affecting company's value in the long run. Structural capital has become important since it consists of strategic assets owned by the company (Janosevic and Dzenopoljac, 2012;

Bontis et al., 2015; Denicolai et al., 2015) [1]

along with other studies, study ul Rehman et al. (2011) claims

that there is a positive and significant impact from **Structural Capital** [16]

towards firm value. The last component from IC is Relational Capital where in the previous studies was found that there was

a positive correlative **between RC and Firm** [1]

value

(ul Rehman et al., 2011; Wang et al., 2014; Nimtrakoon, 2015; Bontis et al., 2015). The study **of** [1]

Wang et al. (2014) shows the sensitivity **and** there is a **significant correlation between** RC **and firm** [1]

value statistically. Therefore, based on the studies above, the hypotheses in this study are as follow: H1: ICD in President Jokowi's regime

has a positive effect on company's [37]

value H2: HCD

has a positive effect on company's value. **H3:** SCD **has a positive effect on** company's value. **H4:** RCD **has a positive effect on** [2]

company's value. RESEARCH METHODOLOGY This study uses quantitative research method with intellectual capital disclosure (ICD)

as the independent variable, Firm **Size and Leverage as control** [7]

variables also firm value as the dependent variable. This study is an associative causality research that sees the relationship between one variable with other variable which has cause and effect quality. The relationship between variables in this study is shown in the equation model as follows: Model 1: This model is tested without differentiate the period, however, Jokowi's regime is become the interaction variable in ICD total. $TQ = \beta_0 + \beta_1 HCD + \beta_2 SCD + \beta_3 RCD + \beta_4 ICD*Period + \beta_5 Leverage + \beta_6 Firm\ Size + \beta_7$

Profitability + μ Model 2: This model is tested for the period before and at President Jokowi's period. TQ = $\alpha_0 + \beta_1$HCD + β_2SCD + β_3RCD + β_4Leverage + β_5Firm Size + β_6 Profitability + μ Variables used and indicator measurement scale of each variable are as follow: 1. TQ = Tobin's Q (Firm Value) (MV + Total Debts) / Total Assets 2. HCD= human capital disclosure is activities which are related to the human recourse development exists in the company. There are 30 indicators, which are: Employee training, employee education, appreciate employee, etc. (the annual average of HCD quality of the company) 3. SCD= structural capital disclosure is activities which are related to structure and managerial activity of the company. There are 22 indicators, which are: Research and Development, corporate culture, management structure, etc. (the annual average of SCD quality of the company) 4. RCD= rational capital disclosure is activities which are related to the relationship between the

company and external parties, **such as customers, suppliers,** government **and** | 2

investors. There are 19 indicators which cover corporate image and reputation, brand recognition, goodwill, permission agreement, etc. (the annual average of RCD quality of the company) 5. ICD= intellectual cap disclosure is the whole activities which covers HC, SC and RC [=the average (HCD+ SCD + RCD) per year per company] 6. Firm Size=company's total asset [log Total Asset] 7. Leverage= company's total debt [Total Debt / Total Equity] 8.

Profitability= return on equity [Net Income / Total Equity] | 8

9. Period= dummy variable where 0=period before Jokowi's regime; 1=period of Jokowi's regime. 10. α_0 = constants 11.

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6, \beta_7$= **coefficient** | 28

of each variable 12. μ = error In determining the quality of components of ICD, this study refers to (Abeysekera, 2008) which makes the ICD quality assessment into 4 criteria, that are: number 0-3. In here, number 0 means there is no disclosure over ICD component in any form in the annual report; number 1 shows there is a disclosure upon ICD component descriptively in the annual report; number 2 shows there is a disclosure over ICD component which is supported by numerical data in the form of percentage or amount; then number 3 shows there is a disclosure over ICD component which is supported by nominal data in the form of monetary (this study uses Rupiah or Dollar) The collection method in this study is documentary by collecting the data from Annual Report and Financial Statements from 2013-2017.

Type of the **data used in this study is** qualitative **data.** | 25

Data sources are

secondary data obtained from website Indonesian Stock Exchange (www.idx.co.id) | 13

and through Bloomberg. The

method used in this study is purposive sampling | 35

method. Set criteria are (1) is a company in infrastructure, utility and transportation registered in Indonesia Stock Exchange; (2) has complete annual reports from 2013-2017. Samples in this study are 36 companies with observation period in 2013-2017. Unit of analysis used in this study is firm year, with a total observation of 72 firm years before Jokowi's regime and 108 firm years in the Jokowi's regime, thus 180 firm years in total. The analytical

> **technique used in this study is multiple** linear **regression** `30`

panel data. EMPIRICAL RESULT AND DISCUSSION 4.1 Statistical Results Based on table 1, it shows the standard deviation value of each variable where if the value approaches 0 means that data from these variables are getting similar or alike. Whereas if the value is more than 1, it shows that data from these variables are getting diverse. Table 1 demonstrates that the average HC, SC and RC disclosure quality is still low, proven in table 2 where the quality of the majority disclosure is in the number 0 and 1. From the table above, P-value is obtained from the combination era and the era of Jokowi as much as 0.000740 and 0.008487 which means this model has the potential to be tested with OLS approach. Meanwhile, for the eras before Jokowi, the P-value was 0.173106, it shows that this model has the potential to have data panel effect. However, those three models are still going through data panel effect test which shows in Table 5. After colinerity test, no components containing colinerity were found having the VIF values from all variables that less than 10. From table 5, it shows the result from panel data model test. If the P-value from Fixed Estimator is < 0,05, then Model Fixed Effect is more suitable. If the P-value breusch pagan test is < 0,05, then random model is more suitable. The final determinant test is hausman test which if the P-value is < 0,05, then fixed model is more suitable. Whereas if the P- value > 0,05, then the model is random. For the Fixed Effect Model, there is a possibility that Weighted Least Square Model (fixed model that is released from heterogedasicity potential) is more suitable if it is viewed from the size of R- Square. Therefore, models that contain fixed effects are also tested in a form of WLS Model Panel, with the results

> **in table** 6. **From the table** 6 above, **it** is **seen that the** `7`

value of Adjusted R Square from WLS panel for the combination era and the era of Jokowi is bigger than the fixed effect model. Hence, this study tested the hypotheses based on WLS model panel. From the table above, we are able to see the coefficient's value and P-value from each variable. For the combination era, P-value from the independent variable of ICDxPeriod is below the significance level of 10% which shows the significant negative influence of ICD in the Jokowi's era towards

> **Tobin's Q.** Since ICD **has a** negative **effect** `40`

on Tobin's Q, hence hypothesis 1 is rejected. For HCD and SCD variables in the combination era, era before and following era after Jokowi's are not significantly affecting Tobin's W, therefore hypothesis 2 and 3 are rejected. Meanwhile, for RCD in the combination era is significantly effecting towards Tobin's Q. Whereas for the era before and the era of Jokowi there is no significant influence. Therefore, hypothesis 4 is rejected. The profitability variables consistently

> **have a positive effect on Tobin's Q.** `34`

The firm size is fail to influence Tobin's Q in the Jokowi's era. while, Leverage is fail to influence Tobin's Q in the eras before Jokowi.

> **Discussion and** Managerial **Implication The** result **of this study** shows **that** `9`

ICD is negatively affecting Tobinâ€™s Q, so that hypothesis 1 is rejected. This result contrasts with some previous studies which show the positive influence of ICD on firm value.

(ul Rehman et al., 2011; Tseng et al., 2013; Nimtrakoon, 2015; Bontis, 1998; Ahangar, 2011; Denicolai et al., 2015). [1]

This negative significant result implies that more and more companies who disclose their intellectual capital, make the value of company which measured by

Tobinâ€™s Q decrease. **This study found that** disclosure of **intellectual capital** [23]

that was too detailed actually reduced investorâ€™s interests, since investors gain excessive information about the strengths and weaknesses of the company. This disclosure makes investors have complicated considerations. From the test results above, it was found that HCD did not have a significant effect towards firm value, therefore, H2 is rejected. This studyâ€™s result is similar with the previous study Smriti and Das (2018). One of the possible factors for the cause of this insignificant influence is the low average quality of HCD disclosure compared to RCD. According to table 2, the HCDâ€™s 18% quality reveals that HC is supported by statistical data (numeric and monetary) meanwhile the rest does not reveal or only limited to descriptive disclosure hence it is not interesting to be read by investors. Thus, the company must improve the quality of HCD by adding statistical data to increase investor market or interest. As well as HCD, it turns out that Structural Capital Disclosure also does not have a

significant effect on firm value as **measured by Tobinâ€™s Q,** [5]

hence H3 is rejected. This result contrasts with the previous study (ul rehman

et al.,2011; Janosevic and Dzenopoljac, 2012; **Bontis et al., 2015;** Denicolai **et al.,** [15]

2015). One of the possible factors to be the cause of effect of this insignificant influence is the low average quality of HCD disclosure compared to RCD. Table 2 shows the 17% quality of SCD on the number 2 and 3 which mean numeric and monetary disclosure that are not interesting to be read by investors. The result of the fourth hypothesis test states that

there is a negative relationship between RCD **and firm** value **as measured by Tobinâ€™s Q** [4]

in the combination era. This turned out to be in accordance with the research from Sardo & Serrasqueiro (2017), but contrasts with the study of

(ul Rehman et al., 2011; Wang et al., 2014; Nimtrakoon, 2015; Bontis et al., 2015). [1]

Companies actually disclose relational capital because they hope by providing more information to the

stakeholders, it is able to increase their firm value. However, based on this study, higher RCDs

> **have a negative effect on the** value of the **company. market** 8

share price is RCD’s component that has the best quality disclosure. However, the fluctuated stock price value provides a huge risk for investors (Keivanfar, M. M, ,2010), and thus this decreases TBQ’s value of a company. Profitability, Firm Size and Leverage are control variables in this study. Profitability is significantly giving a significant and positive effect towards firm

> **value. This is in line with** the **previous** studies **which** 32

is (Sudibya&Restuti, 2014). Meanwhile, Leverage was fail to affect Tobin’s Q in the era before Jokowi’s. This is a contrast from the study of Meythi (2011). Firm size is unable to affect Jokowi’s era, thus it is a contrast from the study of Fitriya, Basyith, & Foo (2010). Conclusion and Suggestion This study examines the quality of ICD disclosures and their components by distinguishing the period before President Jokowi’s and during the President Jokowi’s regime without differentiate between the two periods. From those tests then found several results regarding the theory used in chapter 2, which are

> **Resource based theory and** Signaling **theory. Based on the** 31

Resource based theory, then activities done by the related company to increase organization’s intellectual capital were resources that should be maximized in order to increase firm value. With the awareness that these resources are becoming more important, the quality of reporting the IC activities must also be improved. Reports that is included with statistical data (numeric and monetary) is certainly be more attractive or interesting to readers. A good quality report also gives signal to stakeholders that the company has done IC activities pleasingly well. Proven from the negative effects of RCD and ICD as a whole on firm value (Tobin’s Q) it is save to say that investors react toward disclosures done by the company. it was seen on RCD in this study was component that contain the most statistical data (numeric and monetary) compared to HCD and SCD. One of the concerns of investors in this RCD is that one of the market share prices that fluctuate quite as stated in this sample shows low-quality company performance figure. The <50% R-squared value shows that there are many factors other than the variables observed in this study are able to affect TBQ. The R-Squared in the 2 models were exceeding 30% show that this model is strong enough. Future study may consider adding other variables, such as corporate governance indicator, company age, or type of industry that might be a complementary variable for ICD components

> **in order to** influence **the value of the** company. Future **study** 9

may also consider using different methods of IC disclosure number or quality. Different measurement methods are able to enrich the empirical results regarding benefits of intellectual disclosure. Next study also may use this model or develop models on different objects. REFERENCES Medina, C. (2011). â€œLeverage the innovative performance of human capital through HRM and social capital in Spanish firmsâ€. Internatinal Journal of Human Resource Management , 22, 807-828. Serenko, A., & Bontis, N. (2013). â€œInvestigationg the current state and impact of the Intellectual Capital academic disciplineâ€. Journal of Intellectual Capital , 14, 476-500. Smriti, N., & Das, N. (2017). â€œImpact of Intellectual capital and business performance: Evidence from Indian Pharmaceutical sector of Jordanâ€. Management Decision , 48, 105-131. Jardon, C., & Dasilva, A. (2017). â€œIntellectual capital and enviromental concern in subsistence small businessesâ€. Management of Enviromental Quality , 28, 214-230. Kweh, Q., Lu, W.-M., & Wang, W. ,.-K. (2014). â€œDynamic efficiency; intellectual capital in the Chinese non-life insurance firmsâ€. Journal of Knowledge Management , 18, 937-951. Setiawan, S. R. (2018, February).

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