Audit Committee Characteristics, Intellectual Capital Disclosure, and Firm Value

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Abstract: The purpose of this research is to analyze the effect of the audit committee characteristics on intellectual capital disclosure (ICD) and its implications on firm value (an empirical study of the banking industry on the Indonesian stock exchange for the period 2014-2019). The data used in this study are banking companies with population 43 banks. The samples obtained in this study were 156 samples using sampling purposive method. The data were processed using SPSS 25.0 for windows. The results of this study prove that size and financial expertise of audit committee have a significant positive effect on intellectual capital disclosure (ICD), while audit committee experience does not effect to intellectual capital disclosure (ICD). Intellectual capital disclosures (ICD) have a significant positive effect on firm value.

Keywords: Audit Committee Size, Financial Expertise of Audit Committee, Audit Committee Experience, Intellectual Capital Disclosure, Firm Value.

1. Introduction

Every company always strives to maintain and increase company value (Subaida et al., 2018). The company value is very important for the company, therefore it is important to explore all the factors that can affect the company value (Ramdhonah et al., 2019). Company value is at the center of corporate finance (Berzkalne et al., 2014). The purpose of this research on company value is because it is the level of achievement of a company on the success or failure of achieving company goals which can be seen from the stock price owned by the company.

Based on the phenomenon that occurs in the composite stock price index (IHSG) during the 2014-2019, showed that the composite stock price index (IHSG) fluctuated. The composite stock price index (IHSG) the lowest occurred in 2015 which amounted to IDR 4,593.01, while the highest occurred in 2017 which was IDR 6,355.65 (accessed: 11 January 2021 on www.ojk.go.id). The higher the stock price, the higher the prosperity of shareholders (Ramdhonah et al., 2019). In general the benchmark to measure a company’s value is market capitalization (Almumani, 2018). Market capitalization is the value of a company traded on the stock market, making it one of the factors investors consider when making investment decisions (Widiatmoko et al., 2020).

Subaida et al. (2018) proves that one of the company's steps to maximize company value is to have IC, disclose IC, and do good corporate finance. Even though there is no universal definition of intellectual capital, its information provides an indication about the future potential of a company (Berzkalne et al., 2014). Capital market participants are now looking for and need more relevant and reliable information related to a company's IC resources, such as objectives, customer relations, and innovation (Falah et al., 2017). Although the ICD is still in the early stages of development, it is an important issue that is being developed (Falah et al., 2017). Not all companies implement ICD, this is because IC contains more intangible assets making it difficult to manage, measure, and report (Nugroho, 2012). Given that information concerning intangibles is more valuable and difficult for stakeholders to access, the mechanisms through which disclosure influences firm value could be more accentuated in the case of IC disclosure (Salvi et al., 2020). Human Capital, Structural Capital, and Relational Capital indicators represent the ICD (Osei-Wusu et al., 2018).

Research related to ICD has been carried out in Indonesia by Suhardjanto dan Wardhani (2010) which examined 80 companies from 3 industrial sectors listed on the Indonesia Stock Exchange for the 2007 period, the results of the research obtained that the ICD rate was 34.50%. Uzliawati (2015) who researched 31 banks on the Indonesia Stock Exchange for the period 2008-2012, the results of her research obtained an ICD rate of 52.40%. Tulung et al. (2018) which examined 62 national private banks registered on the OJK for the period 2012-2016, with an ICD rate of 34.96%. Further research by Naimah et al. (2019) which examined LQ45 companies on the Indonesia
Stock Exchange for the 2013-2014 period, the results of the research obtained an ICD rate of 47.10%. Based on the research above, it can be concluded that the average value of the proportion of ICD in Indonesia is still relatively low at 42.24%. Shella et al. (2016) proved that in Indonesia, the ICD is still voluntary.

In addition to the research results above, the research conducted by Li et al. (2012) who examined 100 companies from 7 sectors in the UK, the results showed an ICD rate of 36%. Research carried out by Taliyang et al. (2014) which examined 185 companies from 5 sectors in Malaysia, the results showed an ICD rate of 12.56%. Haji (2015) who examined 51 companies from 7 sectors in Malaysia, the results showed an ICD rate of 21.16%. Ribeiro Da Silva et al. (2018) which examined 86 banks in Portugal and Spain, the results showed an ICD rate of 23.55%. Based on the research above, it can be concluded that the level of ICD is still relatively low, namely with an average of 23.32%. Kamath (2017) proves that voluntary disclosure is quite low in both developed and developing countries. This indicates that the differences in the object of research and the differences in banking policies in each country are different.

The ICD is seen as a supplement that influential to financial statements (Whiting et al., 2016). Characteristics of financial statements are transparency (Barth et al., 2008). Transparency is a set of corporate governance mechanisms used to control behavior within a company (Augustine, 2012). The characteristics of corporate governance, especially the audit committee are believed to be able to influence integrated reporting (Chariri et al., 2017).

2. Methods

The data used in this study is secondary data. The data collection method used in this study is indirect observation and library research. The population in this study is 43 banks on the Indonesia stock exchange. Dependent variable in this study is firm value (Y), while independent variable in this study is Intellectual Capital Disclosure, and for antecedent variables in this study are Size of Audit Committee, Finance Expertise of Audit Committee, audit committee experience. The data analysis used in this study is the Ordinary Least Square (OLS) approach.

3. Results

Based on the results of statistical tests using SPSS 25.0 for windows (2021) can be seen the results as follows:

**Table 4.11 Result of the First Regression Equation**

<table>
<thead>
<tr>
<th>Coefficients</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>(Constant)</td>
<td>44,968</td>
<td>5,998</td>
</tr>
<tr>
<td>KA</td>
<td>2,949</td>
<td>244</td>
</tr>
<tr>
<td>ACFEXP</td>
<td>1,046</td>
<td>173</td>
</tr>
<tr>
<td>EXPER</td>
<td>-214</td>
<td>-016</td>
</tr>
<tr>
<td>DER</td>
<td>-2,016</td>
<td>35,784</td>
</tr>
</tbody>
</table>

Source: Secondary data processed with SPSS 25.0 for windows (2021)

**Table 4.14 Result of the Second Regression Equation**

<table>
<thead>
<tr>
<th>Coefficients</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>(Constant)</td>
<td>27,199</td>
<td>758</td>
</tr>
</tbody>
</table>
The Effect of Audit Committee Size on Intellectual Capital Disclosure

The results of the test of the effect of the audit committee size (KA) on intellectual capital disclosure (ICD) showed that the audit committee size had a positive and significant effect with t value greater than the t table (3.012 > 1.97591) and p value 0.003. This indicates that the more audit committees in the company, the easier the supervisory procedures and provide transparency of information, so that the final financial information is considered to be richer in information. The audit committee is a monitoring mechanism to reduce agency problems (Sultana, 2015). It is expected that the audit committee will have greater responsibility in overseeing ICD practices (Arifah, 2012). Agency theory propounds that audit committee functions provide an oversight role that can potentially improve the quality of corporate reporting (Haji, 2015). The results of this study are in line with Muttakin et al. (2015); Li et al. (2012); Haji (2015); Gan et al. (2013); Mubarik et al. (2019).

The Effect of Financial Expertise of Audit Committee on Intellectual Capital Disclosure

The results of financial expertise of audit committee (ACFEXP) test on intellectual capital disclosure (ICD) showed that the financial expertise of audit committee had a positive and significant effect with t value greater than the t table (3.307 > 1.97591) and p value 0.001. This is because the greater proportion of audit committees with financial/accounting expertise will effectively monitor management performance and ensure the quality of financial reports, so that agency costs are reduced and information asymmetry between management and shareholders will be reduced and the ICD will significantly increase. Agency theory believes that to reduce information asymmetry and align the interests of the agent with the principal, audit committee members must have accounting/finance expertise (Chariri et al., 2017). The results of this study are in line with Gan et al. (2013); Haji (2015).

The Effect of Audit Committee Experience on Intellectual Capital Disclosure

The results of audit committee experience (EXPER) test on intellectual capital disclosure (ICD) showed that the audit committee experience does not effect on intellectual capital disclosure with t value smaller than the t table (-0.903 < 1.97591) and p value 0.368. So it can be concluded that the larger or smaller the proportion of audit committee experience will not affect the company's disclosure of IC. The presence of an audit committee that has special experience such as previous audit committee experience, internal control, and auditors should be able to increase their ability to play a role in overseeing management performance and improve the quality of disclosure, especially IC. But the fact is not necessarily able to encourage management to disclose IC. Based on these results indicate that the experience of the audit committee is not a factor that can encourage ICD. The results of this study is in line with Uzliawati et al. (2014).

The Effect of Intellectual Capital Disclosure on Firm Value

The results of intellectual capital disclosure (ICD) test on firm value showed that the intellectual capital disclosure had a positive and significant effect with t value greater than the t table (5.764 > 1.97591) and p value 0.000. This condition shows that the existence of an ICD which is intended to reduce the level of information asymmetry and reduce agency costs is expected to increase the welfare of shareholders as reflected in the value of the company. This indicates that the higher the ICD level, the higher the value of the company and the potential for low agency conflict. The value of the company is used as a measure of the success of the company's management in future business prospects to build trust in the company's shareholders, because if the welfare of the shareholders is realized, it is certain that these conditions also reflect high company value (Pratama et al., 2016). According to agency theory, agency conflict will reduce the principal's trust in management, which will affect firm value (Emar et al., 2020; Pratama et al., 2020). Disclosing intellectual capital information may affect firm value (Kouki et al., 2020). The results of this study are in line with Anifowose et al. (2017); Taliyang et al. (2014); Anam et al. (2011);
Abdolmohammadi (2005); Salvi et al. (2020); Orens et al. (2009).

3. Conclusions

Based on the results of the above research and discussion, it can be concluded as follows:

1. Size of Audit Committee has a significant positive effect on Intellectual Capital Disclosure (ICD) in the banking industry on the Indonesia Stock Exchange.
2. Audit Committee's Financial Expertise has a significant positive effect on Intellectual Capital Disclosure (ICD) in the banking industry on the Indonesia Stock Exchange.
3. Audit Committee Experience has not effect on Intellectual Capital Disclosure (ICD) in the banking industry on the Indonesia Stock Exchange.
4. Intellectual Capital Disclosure (ICD) has a significant positive effect on Firm Value in the banking industry on the Indonesia Stock Exchange.

References


Website:
www.idx.co.id
www.ojk.go.id